

**CITY OF SPIRIT LAKE  
INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
JUNE 30, 2005**

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CITY OF SPIRIT LAKE  
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Eric Nielsen	Mayor	December 31, 2005
Barb Ricke	Council Member	December 31, 2005
Duane Yager	Council Member	December 31, 2005
Jerry Harbst	Council Member	December 31, 2007
Jeff Thee	Council Member	December 31, 2007
Kevin Bice	Council Member	December 31, 2007
Peter Hegeman	Clerk/Administrator/Treasurer	December 31, 2005
Earl Maahs	Attorney	December 31, 2005

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Spirit Lake  
Spirit Lake, IA 51360

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 Spirit 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 Spirit 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 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 Spirit 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 report dated February 15, 2006 on our consideration of the City of Spirit Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 52 through 56 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 required supplementary information. 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 Spirit 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 (which are not presented herein) and expressed an unqualified opinion on the June 30, 2004 financial statements and a qualified opinion on the June 30, 2002 and 2003 financial statements due to the omission of the general fixed asset account group. Other supplementary information included in Schedules 1 through 3 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.

*Winter, Steve & Co LLP*

February 15, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Spirit 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

- Revenues of the City's governmental activities decreased 1.01%, or approximately \$50,200 from fiscal 2004 to fiscal 2005. Property tax decreased approximately \$298,900.
- Program expenditures increased by 28.42% or approximately \$2,456,600, in fiscal 2005 from fiscal 2004. Debt service, public works, and culture and recreation expenditures increased by approximately \$3,359,600, \$42,200, and \$64,400, respectively. Capital projects, public safety, community and economic development, and general government expenditures decreased by approximately \$511,300, \$127,200, \$362,000, and \$9,100, respectively.
- The City's net assets decreased 4.32%, or approximately \$848,400, from June 30, 2004 to June 30, 2005. Of this amount, the net assets of the governmental funds decreased by approximately \$1,278,900 and the net assets of the business type activities increased by approximately \$430,500.

### Using This Annual Report

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements 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 governmental funds.

## **Basis of Accounting**

The City financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The City prepares its budget and maintains its financial records on the cash basis.

## **Reporting The City's Financial Activities**

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities reports information which helps answer this question.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference 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.

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 solid waste 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. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Local Option Sales Tax and Tax Increment Financing, (c) the Debt Service Fund, and (d) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2. Proprietary funds account for the City's Enterprise and Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City. The City has two Internal Service Funds which are used to account for the City's self-insurance and to account for reserves accumulated to fund future equipment purchases.

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

### Government-Wide Financial Analysis

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.

#### Net Assets as of June 30, 2005

	Governmental Activities	Business Type Activities	Total
Current and other assets .....	\$ 4,501,435	\$ 2,332,878	\$ 6,834,313
Capital assets .....	<u>24,467,287</u>	<u>10,117,497</u>	<u>34,584,784</u>
Total assets	<u>28,968,722</u>	<u>12,450,375</u>	<u>41,419,097</u>
Long-term liabilities .....	12,557,421	3,265,431	15,822,852
Other liabilities .....	<u>6,687,020</u>	<u>111,735</u>	<u>6,798,755</u>
Total liabilities	<u>19,244,441</u>	<u>3,377,166</u>	<u>22,621,607</u>
Net assets:			
Invested in capital assets - net of related debt .....	11,957,587	6,901,404	18,858,991
Restricted .....	1,057,180		1,057,180
Unrestricted .....	<u>(3,290,486)</u>	<u>2,171,805</u>	<u>(1,118,681)</u>
Total net assets	<u>\$ 9,724,281</u>	<u>\$ 9,073,209</u>	<u>\$18,797,490</u>

#### Net Assets as of June 30, 2004

	Governmental Activities	Business Type Activities	Total
Current and other assets .....	\$ 4,196,781	\$ 2,069,621	\$ 6,266,402
Capital assets .....	<u>21,675,101</u>	<u>9,835,113</u>	<u>31,510,214</u>
Total assets	<u>25,871,882</u>	<u>11,904,734</u>	<u>37,776,616</u>
Long-term liabilities .....	11,380,186	2,894,682	14,274,868
Other liabilities .....	<u>3,488,561</u>	<u>367,323</u>	<u>3,855,884</u>
Total liabilities	<u>14,868,747</u>	<u>3,262,005</u>	<u>18,130,752</u>
Net assets:			
Invested in capital assets - net of related debt .....	10,345,101	6,982,501	17,327,602
Restricted .....	645,770		645,770
Unrestricted .....	<u>12,264</u>	<u>1,660,228</u>	<u>1,672,492</u>
Total net assets	<u>\$11,003,135</u>	<u>\$ 8,642,729</u>	<u>\$19,645,864</u>

Changes in Net Assets for the Year Ended June 30, 2005

	Governmental Activities	Business Type Activities	Total
<b>Revenues:</b>			
Program revenues:			
Charges for services .....	\$ 157,420	\$1,922,963	\$ 2,080,383
Operating grants, contributions, and restricted interest .....	478,154	4,869	483,023
Capital grants, contributions, and restricted interest .....	775,928		775,928
General revenues:			
Property and other city taxes .....	986,539		986,539
Tax increment financing .....	1,731,352		1,731,352
Local option sales tax .....	725,777		725,777
Unrestricted grants and contributions .....	8,343		8,343
Unrestricted investment earnings .....	11,601	9,046	20,647
Unrestricted miscellaneous .....	19,234		19,234
Operating transfers .....	3,600	(3,600)	
Fixed asset transfers .....	(387,135)	387,135	
<b>Total revenues</b>	<u>4,510,813</u>	<u>2,320,413</u>	<u>6,831,226</u>
<b>Program expenses:</b>			
Public safety .....	785,304		785,304
Public works .....	1,163,528		1,163,528
Culture and recreation .....	437,734		437,734
Community and economic development .....	287,054		287,054
General government .....	331,767		331,767
Debt service .....	2,784,280		2,784,280
Water .....		1,175,379	1,175,379
Sewer .....		130,971	130,971
Solid waste .....		583,583	583,583
<b>Total expenses</b>	<u>5,789,667</u>	<u>1,889,933</u>	<u>7,679,600</u>
<b>Change in net assets</b>	(1,278,854)	430,480	(848,374)
<b>Net assets - beginning of year</b>	<u>11,003,135</u>	<u>8,642,729</u>	<u>19,645,864</u>
<b>Net assets - end of year</b>	<u>\$ 9,724,281</u>	<u>\$9,073,209</u>	<u>\$18,797,490</u>

Net assets of governmental activities decreased from FY04 by approximately \$1,278,900 or 11.62%. Net assets of business type activities increased from FY04 by approximately \$430,500 or 4.98%. The largest portion of the City's net assets is the 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. Other restricted net assets are economic development loans.

Changes in Net Assets for the Year Ended June 30, 2004

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services .....	\$ 194,459	\$1,906,425	\$ 2,100,884
Operating grants, contributions, and restricted interest .....	1,013,092	30,027	1,043,119
Capital grants, contributions, and restricted interest .....	313,272		313,272
General revenues:			
Property and other city taxes .....	1,322,617		1,322,617
Tax increment financing .....	1,391,242		1,391,242
Local option sales tax .....	628,307		628,307
Unrestricted grants and contributions .....	17,573		17,573
Unrestricted investment earnings .....	31,827	11,170	42,997
Unrestricted miscellaneous .....	30,198		30,198
Operating transfers .....	4,300	(4,300)	
Fixed asset transfers .....	(214,000)	214,000	
Total revenues	<u>4,732,887</u>	<u>2,157,322</u>	<u>6,890,209</u>
Program expenses:			
Public safety .....	726,786		726,786
Public works .....	1,071,794		1,071,794
Culture and recreation .....	412,786		412,786
Community and economic development .....	649,057		649,057
General government .....	313,662		313,662
Debt service .....	489,488		489,488
Water .....		1,074,520	1,074,520
Sewer .....		157,979	157,979
Solid waste .....		510,692	510,692
Total expenses	<u>3,663,573</u>	<u>1,743,191</u>	<u>5,406,764</u>
Change in net assets	1,069,314	414,131	1,483,445
Net assets - beginning of year .....	<u>9,933,821</u>	<u>8,228,598</u>	<u>18,162,419</u>
Net assets - end of year	<u>\$11,003,135</u>	<u>\$8,642,729</u>	<u>\$19,645,864</u>

**Individual Major Governmental Fund Analysis**

Changes in Fund Balances - Governmental Funds  
For the Years Ended June 30, 2005 and 2004

	<u>2005</u> <u>All Funds</u>	<u>2004</u> <u>All Funds</u>
Revenues .....	\$ 4,917,234	\$ 4,967,403
Expenditures .....	<u>11,100,668</u>	<u>8,644,079</u>
Net	(6,183,434)	(3,676,676)
Other financing sources and changes in inventories and prepaids	<u>3,367,282</u>	<u>56,818</u>
Decrease in fund balances	(2,816,152)	(3,619,858)
Fund balance - beginning of year .....	<u>607,108</u>	<u>4,226,966</u>
Fund balance - end of year	<u><u>\$ (2,209,044)</u></u>	<u><u>\$ 607,108</u></u>

Governmental funds reported a combined fund deficit of \$2,209,044 at June 30, 2005 which was \$2,816,152 less than the fund balance at June 30, 2004.

The general fund showed a decrease in fund balance of \$353,214. The budget for fiscal year June 30, 2006 will not show any improvement in the general fund. The budget for fiscal year June 30, 2007 is anticipated to project an increase in the general fund of \$47,500.

The capital projects fund showed a decrease in fund balance of \$2,988,146. Major projects in the capital projects fund included the Hill Avenue South Phase III Project and the Highway 9 and US 71 Curb and Gutter Project. The capital projects will be funded with a new bond issue in July 2005.

**Individual Major Business Type Fund Analysis**

Changes in Net Assets - Proprietary Funds  
For the Years Ended June 30, 2005 and 2004

	Enterprise Funds		Internal Service Funds	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues .....	\$1,936,486	\$1,947,393	\$ 35,156	\$ 34,694
Expenses .....	<u>1,898,772</u>	<u>1,750,311</u>	<u>14,550</u>	<u>18,290</u>
Net	37,714	197,082	20,606	16,404
Net transfers .....	<u>329,135</u>	<u>204,994</u>	<u>54,400</u>	<u>3,706</u>
Increase in net assets	366,849	402,076	75,006	20,110
Net assets - beginning of year .....	<u>8,591,621</u>	<u>8,189,545</u>	<u>165,058</u>	<u>144,948</u>
Net assets - end of year	<u>\$8,958,470</u>	<u>\$8,591,621</u>	<u>\$240,064</u>	<u>\$165,058</u>

Proprietary funds reported combined net assets of \$9,198,534 at June 30, 2005 which was an increase of \$441,855 over the net assets at June 30, 2004.

The water fund showed a decrease in net assets of \$74,839 due to \$134,130 of depreciation and \$95,188 of interest on the water revenue note. The sewer and solid waste funds showed increases in net assets of \$269,565 and \$172,123, respectively. Internal service funds showed a combined increase in net assets of \$75,006.

**Budgetary Highlights**

Over the course of the year, the City amended the budget once. The amendment was approved on May 24, 2005. This amendment was to cover additional capital project and debt service expenditures.

## Capital Assets and Debt Administration

### Capital Assets Administration

The City's capital assets are summarized as follows:

#### June 30, 2005

	Governmental Activities	Business Type Activities	Total
Land .....	\$ 302,181	\$ 96,859	\$ 399,040
Construction in progress .....	4,921,859	5,837	4,927,696
Buildings and improvements .....	1,714,505	5,774,220	7,488,725
Water towers .....		891,356	891,356
Equipment and vehicles .....	2,403,223	1,125,908	3,529,131
Infrastructure .....	<u>19,413,460</u>	<u>5,039,519</u>	<u>24,452,979</u>
Total capital assets	28,755,228	12,933,699	41,688,927
Less accumulated depreciation .....	<u>4,287,941</u>	<u>2,816,202</u>	<u>7,104,143</u>
 Net capital assets	 <u>\$24,467,287</u>	 <u>\$10,117,497</u>	 <u>\$34,584,784</u>
 Depreciation expense .....	 <u>\$ 616,254</u>	 <u>\$ 221,782</u>	 <u>\$ 838,036</u>

#### June 30, 2004

	Governmental Activities	Business Type Activities	Total
Land .....	\$ 302,181	\$ 96,859	\$ 399,040
Construction in progress .....	3,293,307	3,635,683	6,928,990
Buildings and improvements .....	1,714,505	2,081,899	3,796,404
Water towers .....		891,356	891,356
Equipment and vehicles .....	2,401,677	1,071,352	3,473,029
Infrastructure .....	<u>17,697,996</u>	<u>4,652,384</u>	<u>22,350,380</u>
Total capital assets	25,409,666	12,429,533	37,839,199
Less accumulated depreciation .....	<u>3,734,565</u>	<u>2,594,420</u>	<u>6,328,985</u>
 Net capital assets	 <u>\$21,675,101</u>	 <u>\$ 9,835,113</u>	 <u>\$31,510,214</u>
 Depreciation expense .....	 <u>\$ 544,106</u>	 <u>\$ 210,510</u>	 <u>\$ 754,616</u>

The major additions for governmental activities included the Hill Avenue South Phase III Project and the Highway 9 and US 71 Curb and Gutter Project.

The major addition for the business type activities was the completion of the Water Plant Expansion Project.

Debt Administration

At June 30, 2005, the City had \$15,766,093 in bonds and other long-term debt, compared to \$14,182,612 last year as shown below.

	Outstanding Debt at Year-End	
	June 30, 2005	2004
General obligation bonds .....	\$12,550,000	\$11,330,000
Water revenue capital loan notes .....	<u>3,216,093</u>	<u>2,852,612</u>
<b>Total</b>	<b><u>\$15,766,093</u></b>	<b><u>\$14,182,612</u></b>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$12,550,000 is within its constitutional debt limit of \$13,680,093. The water revenue capital loan notes used to finance the water plant improvement project do not count toward the City's legal 5% debt limitations.

The City issued two new bonds during the year ended June 30, 2005 which totaled \$3,425,000. The bonds were used to pay a drainage district assessment and to refund an old bond issue.

**Economic Factors Bearing on the City's Future**

When the City began the budget process for June 30, 2006, the major concerns were the general fund and finding revenue sources for the various capital projects. The June 30, 2006 budget reflects a decrease in governmental activities expenditures as well as an overall tax asking of \$10.58514 per \$1,000 of taxable valuation, up from \$8.10 in fiscal year 2005.

The City, after completion of a rate study, raised water and sewer rates effective October 2005. The increase in rates was needed to pay the debt service on the new water revenue note as well as fund a new elevated water storage tower.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Pete Hegeman, City Clerk/Administrator/Treasurer, 1803 Hill Avenue, Spirit Lake, Iowa.

CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments .....	\$ 735,245	\$ 2,017,992	\$ 2,753,237
Receivables - net, where applicable, of allowances for uncollectibles:			
Property tax:			
Delinquent .....	8,408		8,408
Succeeding year .....	1,185,660		1,185,660
Tax increment financing:			
Delinquent .....	7,156		7,156
Succeeding year .....	1,899,417		1,899,417
Accounts and unbilled usage .....	7,212	205,428	212,640
Special assessments - current portion .....		3,181	3,181
Accrued interest .....	768	419	1,187
Economic development loans .....	451,799		451,799
Due from other governments .....	159,240		159,240
Inventories .....	23,438	25,180	48,618
Prepaid expenses .....	23,092	13,335	36,427
Restricted assets:			
Cash and pooled investments .....		20,285	20,285
Special assessments - net of current portion .....		11,927	11,927
Loan fees - net of accumulated amortization .....		35,131	35,131
Capital assets - net of accumulated depreciation ....	<u>24,467,287</u>	<u>10,117,497</u>	<u>34,584,784</u>
<b>TOTAL ASSETS</b>	<b><u>\$28,968,722</u></b>	<b><u>\$12,450,375</u></b>	<b><u>\$41,419,097</u></b>

CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS - Continued  
JUNE 30, 2005

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>LIABILITIES</b>			
Checks written in excess of available cash .....	\$ 2,376,915		\$ 2,376,915
Accounts payable .....	943,042	\$ 65,960	1,009,002
Medical claims payable .....	793	844	1,637
Retainages payable .....	115,172		115,172
Due to other governments .....	20,401	11,934	32,335
Salaries payable .....	43,154	24,957	68,111
Accrued interest payable .....	102,466	8,040	110,506
Deferred revenues:			
Succeeding year property tax .....	1,185,660		1,185,660
Succeeding year tax increment financing .....	1,899,417		1,899,417
Long-term liabilities:			
Portion due within one year:			
Customer deposits .....		20,285	20,285
Compensated absences .....	47,721	29,053	76,774
General obligation bonds .....	1,165,000		1,165,000
Revenue notes .....		149,000	149,000
Portion due after one year:			
General obligation bonds .....	11,344,700		11,344,700
Revenue notes .....		<u>3,067,093</u>	<u>3,067,093</u>
<b>TOTAL LIABILITIES</b>	<u>19,244,441</u>	<u>3,377,166</u>	<u>22,621,607</u>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt .....	11,957,587	6,901,404	18,858,991
Restricted for:			
Debt service .....	(81,702)		(81,702)
Economic development loans .....	451,799		451,799
Special revenue purposes .....	687,083		687,083
Unrestricted .....	<u>(3,290,486)</u>	<u>2,171,805</u>	<u>(1,118,681)</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 9,724,281</u>	<u>\$ 9,073,209</u>	<u>\$18,797,490</u>

See Notes to Financial Statements

CITY OF SPIRIT LAKE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005

		Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
FUNCTIONS/PROGRAMS:				
GOVERNMENTAL ACTIVITIES:				
Public safety .....	\$ 785,304	\$ 153,664	\$ 13,599	
Public works .....	1,163,528		354,814	\$471,372
Culture and recreation .....	437,734	3,756	68,054	
Community and economic development ...	287,054			304,556
General government .....	331,767			
Interest and fees on long-term debt .....	544,317		41,687	
Special assessment - Drainage District #22	2,239,963			
TOTAL GOVERNMENTAL ACTIVITIES	<u>5,789,667</u>	<u>157,420</u>	<u>478,154</u>	<u>775,928</u>
BUSINESS TYPE ACTIVITIES:				
Water .....	1,175,379	967,246	4,628	
Sewer .....	130,971	182,872	135	
Solid waste .....	583,583	772,845	106	
TOTAL BUSINESS TYPE ACTIVITIES	<u>1,889,933</u>	<u>1,922,963</u>	<u>4,869</u>	
TOTAL	<u>\$7,679,600</u>	<u>\$2,080,383</u>	<u>\$ 483,023</u>	<u>\$775,928</u>

GENERAL REVENUES:  
 Property and other city taxes levied for:  
   General purposes .....

Tax increment financing .....

Local option sales tax .....

Unrestricted grants and contributions .....

Unrestricted investment earnings .....

Unrestricted miscellaneous .....

Operating transfers .....

Fixed asset transfers .....

TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS .....

NET ASSETS - BEGINNING OF YEAR .....

NET ASSETS - END OF YEAR

Exhibit B

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (618,041)		\$ (618,041)
(337,342)		(337,342)
(365,924)		(365,924)
17,502		17,502
(331,767)		(331,767)
(502,630)		(502,630)
<u>(2,239,963)</u>		<u>(2,239,963)</u>
<u>(4,378,165)</u>		<u>(4,378,165)</u>
	\$ (203,505)	(203,505)
	52,036	52,036
	<u>189,368</u>	<u>189,368</u>
	<u>37,899</u>	<u>37,899</u>
<u>(4,378,165)</u>	<u>37,899</u>	<u>(4,340,266)</u>
986,539		986,539
1,731,352		1,731,352
725,777		725,777
8,343		8,343
11,601	9,046	20,647
19,234		19,234
3,600	(3,600)	
<u>(387,135)</u>	<u>387,135</u>	
<u>3,099,311</u>	<u>392,581</u>	<u>3,491,892</u>
(1,278,854)	430,480	(848,374)
<u>11,003,135</u>	<u>8,642,729</u>	<u>19,645,864</u>
<u>\$ 9,724,281</u>	<u>\$9,073,209</u>	<u>\$18,797,490</u>

CITY OF SPIRIT LAKE  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2005

ASSETS

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>	<u>Economic Development Loans</u>
<b>ASSETS:</b>				
Cash and pooled investments .....		\$359,496	\$ 40,757	\$110,450
Receivables - net, where applicable, of allowance for uncollectibles:				
Property tax:				
Delinquent .....	\$ 8,408			
Succeeding year .....	937,523			
Tax increment financing:				
Delinquent .....			7,156	
Succeeding year .....			1,899,417	
Accounts .....	7,212			
Accrued interest .....	316		1	159
Economic development loans .....				451,799
Due from other governments .....	6,785	122,964		
Inventories .....	23,438			
Prepaid expenses .....	<u>23,092</u>			
<b>TOTAL ASSETS</b>	<b><u>\$1,006,774</u></b>	<b><u>\$482,460</u></b>	<b><u>\$1,947,331</u></b>	<b><u>\$562,408</u></b>

LIABILITIES AND FUND EQUITY

<b>LIABILITIES:</b>				
Checks written in excess of available cash ..	\$ 248,222			
Accounts payable .....	91,700			
Retainages payable .....	1,050			
Due to other governments .....				\$ 20,401
Salaries payable .....	35,275			
Deferred revenue:				
Succeeding year property tax .....	937,523			
Succeeding year tax increment financing .			\$1,899,417	
Other .....	<u>600</u>			
<b>TOTAL LIABILITIES</b>	<b><u>1,314,370</u></b>		<b><u>1,899,417</u></b>	<b><u>20,401</u></b>
<b>FUND BALANCES:</b>				
Reserved for debt service .....				
Reserved for economic development loans .				451,799
Undesignated:				
Reported in:				
General fund .....	(307,596)			
Special revenue funds .....		\$482,460	47,914	90,208
Capital projects funds .....				
<b>TOTAL FUND BALANCES</b>	<b><u>(307,596)</u></b>	<b><u>482,460</u></b>	<b><u>47,914</u></b>	<b><u>542,007</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$1,006,774</u></b>	<b><u>\$482,460</u></b>	<b><u>\$1,947,331</u></b>	<b><u>\$562,408</u></b>

See Notes to Financial Statements

EXHIBIT C

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 19,370		\$ 79,185	\$ 609,258
		248,137	8,408 1,185,660
			7,156 1,899,417
46	\$ 6	109	7,212 637
1,679		27,812	451,799 159,240
			23,438 23,092
<u>\$ 21,095</u>	<u>\$ 6</u>	<u>\$355,243</u>	<u>\$4,375,317</u>
			\$2,376,915
\$ 331	\$2,128,693	\$ 21,394	943,042
	829,617		115,172
	114,122		20,401
		7,879	43,154
		248,137	1,185,660
			1,899,417
			600
<u>331</u>	<u>3,072,432</u>	<u>277,410</u>	<u>6,584,361</u>
20,764			20,764
			451,799
			(307,596)
		77,833	698,415
	(3,072,426)		(3,072,426)
<u>20,764</u>	<u>(3,072,426)</u>	<u>77,833</u>	<u>(2,209,044)</u>
<u>\$ 21,095</u>	<u>\$ 6</u>	<u>\$355,243</u>	<u>\$4,375,317</u>

CITY OF SPIRIT LAKE  
 RECONCILIATION OF THE BALANCE SHEET -  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2005

TOTAL GOVERNMENTAL FUND BALANCES PER EXHIBIT C .....	\$ (2,209,044)
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 cost of the assets is \$28,755,228 and the accumulated depreciation is \$4,287,941. ....	24,467,287
Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds. ....	600
The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the assets and liabilities of the internal service funds is included in governmental activities in the Statement of Net Assets. ....	125,325
Long-term liabilities, including bonds, compensated absences, and accrued interest payable, are not due and payable within the current period and, therefore, are not reported as liabilities in the funds. ....	<u>(12,659,887)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A	<u>\$ 9,724,281</u>

CITY OF SPIRIT LAKE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>	<u>Economic Development Loans</u>
<b>REVENUES:</b>				
Property tax .....	\$ 843,981			
Tax increment financing .....			\$1,731,352	
Other city taxes .....	166,004	\$725,777		
Licenses and permits .....	108,201			
Use of money and property .....	3,518		3,915	\$ 1,102
Intergovernmental .....	50,875			304,556
Charges for services .....	18,413			
Miscellaneous .....	<u>51,243</u>			
<b>TOTAL REVENUES</b>	<u>1,242,235</u>	<u>725,777</u>	<u>1,735,267</u>	<u>305,658</u>
<b>EXPENDITURES:</b>				
Public safety .....	754,705	23,394		
Public works .....	306,238	3,156		
Culture and recreation .....	373,140			
Community and economic development ...	123,497			163,557
General government .....	306,201		2,051	
Debt service .....				
Capital projects .....				
<b>TOTAL EXPENDITURES</b>	<u>1,863,781</u>	<u>26,550</u>	<u>2,051</u>	<u>163,557</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(621,546)</u>	<u>699,227</u>	<u>1,733,216</u>	<u>142,101</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in .....	287,783			
Operating transfers out .....		(331,868)	(1,688,946)	
Bond proceeds .....				
Bond discount .....				
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>287,783</u>	<u>(331,868)</u>	<u>(1,688,946)</u>	
<b>NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	<u>(333,763)</u>	<u>367,359</u>	<u>44,270</u>	<u>142,101</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b> .....	45,618	115,101	3,644	399,906
<b>NET DECREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORY OF SUPPLIES</b> .....	<u>(19,451)</u>			
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ (307,596)</u>	<u>\$482,460</u>	<u>\$ 47,914</u>	<u>\$542,007</u>

EXHIBIT E

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
			\$ 843,981
			1,731,352
			891,781
			108,201
\$ 9,249	\$ 1,709	\$ 791	20,284
32,323	110,000	361,838	859,592
			18,413
<u>115</u>	<u>361,372</u>	<u>30,900</u>	<u>443,630</u>
<u>41,687</u>	<u>473,081</u>	<u>393,529</u>	<u>4,917,234</u>
			778,099
		389,756	699,150
		31,230	404,370
			287,054
			308,252
4,922,135			4,922,135
<u>4,922,135</u>	<u>3,701,608</u>	<u>420,986</u>	<u>3,701,608</u>
<u>4,922,135</u>	<u>3,701,608</u>	<u>420,986</u>	<u>11,100,668</u>
<u>(4,880,448)</u>	<u>(3,228,527)</u>	<u>(27,457)</u>	<u>(6,183,434)</u>
1,496,250	240,381		2,024,414
3,425,000			(2,020,814)
<u>(41,867)</u>			<u>3,425,000</u>
<u>4,879,383</u>	<u>240,381</u>		<u>(41,867)</u>
			<u>3,386,733</u>
(1,065)	(2,988,146)	(27,457)	(2,796,701)
21,829	(84,280)	105,290	607,108
			(19,451)
<u>\$ 20,764</u>	<u>\$(3,072,426)</u>	<u>\$ 77,833</u>	<u>\$(2,209,044)</u>

CITY OF SPIRIT LAKE  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2005

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS  
 PER EXHIBIT E ..... \$ (2,796,701)

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 expenditures exceeded depreciation expense for the year, as follows:

Expenditures for capital assets .....	\$3,795,575	
Transferred to water and sewer .....	(387,135)	
Depreciation expense .....	<u>(616,254)</u>	2,792,186

Prepaid expenses and inventory are not available to pay current period expenses and, therefore, are deferred in the funds. The change in prepaid expenses and inventory results in differences between the statements, as follows:

Inventories - end of year .....	23,438	
Prepaid expenses - end of year .....	23,092	
Inventories - beginning of year .....	(30,968)	
Prepaid expenses - beginning of year .....	<u>(35,013)</u>	(19,451)

Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds. The change in these deferred amounts results in differences between the statements, as follows:

Other receivables deferred - end of year .....	600	
Hotel/motel tax deferred - beginning of year .....	(23,446)	
Other receivables deferred - beginning of year .....	<u>(605)</u>	(23,451)

Proceeds from issuing long-term liabilities provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. 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. Current year new issues exceeded repayments, as follows:

New issues .....	(3,425,000)	
Bond discount on new issues .....	41,867	
Amortization of bond discount .....	(1,567)	
Repayments .....	<u>2,205,000</u>	(1,179,700)

CITY OF SPIRIT LAKE  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES - Continued  
 FOR THE YEAR ENDED JUNE 30, 2005

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditure in governmental funds. The change in these accrued expenses results in differences between the statements, as follows:

Compensated absences - end of year .....	\$ (47,721)	
Accrued interest payable - end of year .....	(102,466)	
Compensated absences - beginning of year .....	50,186	
Accrued interest payable - beginning of year .....	<u>36,889</u>	\$ (63,112)

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the change in net assets of the internal services funds is reported with governmental activities. ....

11,375

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES  
 PER EXHIBIT B

\$ (1,278,854)

CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2005

ASSETS	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Cash and pooled investments .....	\$ 725,220	\$ 554,172	\$ 623,017	\$ 1,902,409
Receivables - net of allowance for uncollectibles:				
Accounts and unbilled usage .....	144,556	24,720	36,152	205,428
Special assessments - current portion .....		3,181		3,181
Accrued interest .....	322	44	53	419
Inventories .....	19,406		5,774	25,180
Prepaid expenses .....	9,752	1,156	2,427	13,335
Restricted assets:				
Customer deposits - cash .....	20,285			20,285
Special assessments - net of current portion		11,927		11,927
Loan fees - net of accumulated amortization	35,131			35,131
Capital assets - net of accumulated depreciation .....	<u>7,482,537</u>	<u>2,277,304</u>	<u>357,656</u>	<u>10,117,497</u>
<b>TOTAL ASSETS</b>	<b><u>8,437,209</u></b>	<b><u>2,872,504</u></b>	<b><u>1,025,079</u></b>	<b><u>12,334,792</u></b>
<b>LIABILITIES:</b>				
Accounts payable .....	33,506	2,527	29,927	65,960
Medical claims payable .....				
Due to other governments .....	11,934			11,934
Salaries payable .....	16,687	1,902	6,368	24,957
Accrued interest payable .....	8,040			8,040
Payable from restricted assets:				
Customer deposits .....	20,285			20,285
Compensated absences .....	26,700		2,353	29,053
Revenue notes payable .....	<u>3,216,093</u>			<u>3,216,093</u>
<b>TOTAL LIABILITIES</b>	<b><u>3,333,245</u></b>	<b><u>4,429</u></b>	<b><u>38,648</u></b>	<b><u>3,376,322</u></b>
<b>NET ASSETS:</b>				
Invested in capital assets - net of related debt .....	4,266,444	2,277,304	357,656	6,901,404
Unrestricted .....	<u>837,520</u>	<u>590,771</u>	<u>628,775</u>	<u>2,057,066</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$5,103,964</u></b>	<b><u>\$2,868,075</u></b>	<b><u>\$ 986,431</u></b>	<b><u>\$ 8,958,470</u></b>

See Notes to Financial Statements

EXHIBIT G

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 68,645	\$172,925	\$241,570
	131	131
<u>68,645</u>	<u>173,056</u>	<u>241,701</u>
1,637		1,637
<u>1,637</u>	<u>      </u>	<u>1,637</u>
<u>67,008</u>	<u>173,056</u>	<u>240,064</u>
<u>\$ 67,008</u>	<u>\$173,056</u>	<u>\$240,064</u>

CITY OF SPIRIT LAKE  
 RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO  
 THE STATEMENT OF NET ASSETS  
 JUNE 30, 2005

TOTAL NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT G ..... \$8,958,470

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
 STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self  
 funding the City's health insurance benefit plan to the individual funds and to fund  
 future equipment purchases. A portion of the assets and liabilities of the internal  
 service funds is included in business type activities in the Statement of Net Assets. 114,739

TOTAL NET ASSETS - BUSINESS TYPE ACTIVITIES PER EXHIBIT A \$9,073,209

CITY OF SPIRIT LAKE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
<b>OPERATING REVENUES:</b>				
Charges for services .....	\$ 967,246	\$ 182,872	\$772,845	\$1,922,963
Reimbursements from operating funds .....				
Miscellaneous .....	4,628	135	106	4,869
<b>TOTAL OPERATING REVENUES</b>	<u>971,874</u>	<u>183,007</u>	<u>772,951</u>	<u>1,927,832</u>
<b>OPERATING EXPENSES:</b>				
Business type activities:				
Cost of sales and services .....	942,455	74,846	554,187	1,571,488
Depreciation .....	134,130	56,621	31,031	221,782
Amortization .....	1,254			1,254
Insurance charges and claims .....				
<b>TOTAL OPERATING EXPENSES</b>	<u>1,077,839</u>	<u>131,467</u>	<u>585,218</u>	<u>1,794,524</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(105,965)</u>	<u>51,540</u>	<u>187,733</u>	<u>133,308</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Interest income .....	4,311	2,953	1,390	8,654
Loan service fees .....	(9,060)			(9,060)
Interest expense:				
Revenue bond .....	(95,188)			(95,188)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>(99,937)</u>	<u>2,953</u>	<u>1,390</u>	<u>(95,594)</u>
<b>NET INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(205,902)</u>	<u>54,493</u>	<u>189,123</u>	<u>37,714</u>
Operating transfers in .....				
Operating transfers out .....	(25,000)	(16,000)	(17,000)	(58,000)
Capital assets transferred in .....	156,063	231,072		387,135
<b>TOTAL TRANSFERS - NET</b>	<u>131,063</u>	<u>215,072</u>	<u>(17,000)</u>	<u>329,135</u>
<b>CHANGE IN NET ASSETS</b>	<u>(74,839)</u>	<u>269,565</u>	<u>172,123</u>	<u>366,849</u>
<b>NET ASSETS - BEGINNING OF YEAR</b> .....	<u>5,178,803</u>	<u>2,598,510</u>	<u>814,308</u>	<u>8,591,621</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$5,103,964</u>	<u>\$2,868,075</u>	<u>\$986,431</u>	<u>\$8,958,470</u>

EXHIBIT I

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$34,200		\$ 34,200
<u>34,200</u>	<u>          </u>	<u>34,200</u>
<u>14,550</u>	<u>          </u>	<u>14,550</u>
<u>14,550</u>	<u>          </u>	<u>14,550</u>
<u>19,650</u>	<u>          </u>	<u>19,650</u>
	\$ 956	956
<u>          </u>	<u>          </u>	<u>          </u>
<u>          </u>	<u>956</u>	<u>956</u>
<u>19,650</u>	<u>956</u>	<u>20,606</u>
	54,400	54,400
<u>          </u>	<u>54,400</u>	<u>54,400</u>
19,650	55,356	75,006
<u>47,358</u>	<u>117,700</u>	<u>165,058</u>
<u>\$67,008</u>	<u>\$173,056</u>	<u>\$240,064</u>

CITY OF SPIRIT LAKE  
 RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
 NET ASSETS - PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2005

TOTAL CHANGE IN NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT I ..... \$ 366,849

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
 STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self  
 funding the City's health insurance benefit plan to the individual funds and to fund  
 future equipment purchases. A portion of the change in net assets of the internal  
 service funds is reported with business type activities..... 63,631

CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT B \$ 430,480

CITY OF SPIRIT LAKE  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers .....	\$1,038,768	\$182,400	\$768,968	\$1,990,136
Other operating receipts .....	4,628	135	106	4,869
Cash payments from operating funds .....				
Cash payments to employees for services .....	(420,667)	(48,169)	(157,341)	(626,177)
Cash payments for goods and services .....	(572,405)	(34,974)	(383,580)	(990,959)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>50,324</u>	<u>99,392</u>	<u>228,153</u>	<u>377,869</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Operating transfers in .....				
Operating transfers out .....	(25,000)	(16,000)	(17,000)	(58,000)
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES</b>	<u>(25,000)</u>	<u>(16,000)</u>	<u>(17,000)</u>	<u>(58,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition of fixed assets .....	(432,699)	(24,991)	(29,566)	(487,256)
Sales tax refund .....	105,447			105,447
Revenue notes proceeds .....	507,481			507,481
Special assessments received .....		3,662		3,662
Principal paid on revenue bond .....	(144,000)			(144,000)
Interest paid on revenue bond .....	(94,279)			(94,279)
Loan service fees .....	(9,060)			(9,060)
<b>NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(67,110)</u>	<u>(21,329)</u>	<u>(29,566)</u>	<u>(118,005)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest on investments .....	4,424	1,066	1,415	6,905
Interest on special assessments .....		1,944		1,944
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>4,424</u>	<u>3,010</u>	<u>1,415</u>	<u>8,849</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(37,362)	65,073	183,002	210,713
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>782,867</u>	<u>489,099</u>	<u>440,015</u>	<u>1,711,981</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 745,505</u>	<u>\$554,172</u>	<u>\$623,017</u>	<u>\$1,922,694</u>

EXHIBIT K

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 34,200		\$ 34,200
<u>(14,305)</u>	<u>          </u>	<u>(14,305)</u>
<u>19,895</u>	<u>          </u>	<u>19,895</u>
<u>          </u>	\$ 54,400	54,400
<u>          </u>	<u>54,400</u>	<u>54,400</u>
<u>          </u>	<u>          </u>	<u>          </u>
<u>          </u>	<u>          </u>	<u>          </u>
<u>          </u>	865	865
<u>          </u>	<u>865</u>	<u>865</u>
19,895	55,265	75,160
<u>48,750</u>	<u>117,660</u>	<u>166,410</u>
<u>\$ 68,645</u>	<u>\$172,925</u>	<u>\$241,570</u>

CITY OF SPIRIT LAKE  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued  
FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
OPERATING INCOME (LOSS) .....	\$ (105,965)	\$ 51,540	\$187,733	\$ 133,308
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation .....	134,130	56,621	31,031	221,782
Amortization .....	1,254			1,254
Changes in assets and liabilities:				
(Increase) in accounts receivable and unbilled usage .....	(3,709)	(472)	(3,877)	(8,058)
Decrease in inventories .....	6,974		3,240	10,214
(Increase) decrease in prepaid expenses .....	1,267	(114)	2,893	4,046
Increase (decrease) in accounts payable .....	(5,573)	(9,740)	3,310	(12,003)
Increase in medical claims payable .....				
(Decrease) in due to other governments .....	(103)			(103)
Increase in salaries payable .....	13,305	1,557	5,299	20,161
Increase in customer deposits .....	1,000			1,000
Increase (decrease) in compensated absences .....	7,744		(1,476)	6,268
TOTAL ADJUSTMENTS .....	<u>156,289</u>	<u>47,852</u>	<u>40,420</u>	<u>244,561</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 50,324</u>	<u>\$ 99,392</u>	<u>\$228,153</u>	<u>\$ 377,869</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS				
Cash and pooled investments .....	\$ 725,220	\$554,172	\$623,017	\$1,902,409
Restricted assets - cash:				
Customer deposits .....	<u>20,285</u>	<u>          </u>	<u>          </u>	<u>20,285</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 745,505</u>	<u>\$554,172</u>	<u>\$623,017</u>	<u>\$1,922,694</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Two water and sewer projects were paid by a governmental fund type and transferred to the enterprise funds.				
Cost transferred in. ....	<u>\$ 156,063</u>	<u>\$231,072</u>	<u>          </u>	<u>\$ 387,135</u>

EXHIBIT K

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
<u>\$19,650</u>	_____	<u>\$ 19,650</u>
245		245
<u>245</u>	_____	<u>245</u>
<u>\$19,895</u>	<u>\$ _____</u>	<u>\$ 19,895</u>
\$68,645	\$172,925	\$241,570
_____	_____	_____
<u>\$68,645</u>	<u>\$172,925</u>	<u>\$241,570</u>
<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>

CITY OF SPIRIT LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Spirit Lake, Iowa is a political subdivision of the State of Iowa located in Dickinson County. It was first incorporated in 1879 and operates under the Home Rule provisions of the constitution of Iowa. The City operates under the Mayor-Council-Clerk/Administrator form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Spirit Lake provides numerous services to citizens, including general government, public safety, streets, sanitation and health, cultural and park facilities and social services. It also operates the water, sewer, and solid waste utilities.

The financial statements of the City of Spirit Lake have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

**A. Reporting Entity**

For financial reporting purposes, the City has included all funds, organizations, account groups, 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. It was determined that the City has no component units.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Drainage District #22, Spirit Lake Community Fire Department, Dickinson County Airport Authority, Dickinson County Emergency Management Commission, Dickinson County E911 Service Board, Dickinson County Assessor's Conference Board, and various other organizations.

**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.

*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. Additionally, the City has reported economic development loans as restricted net assets.

*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 and contributions 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 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 capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

*The Local Option Sales Tax Fund* - is used to account for the revenues from the tax authorized by referendum and used for property tax relief and capital improvements.

*The Economic Development Loans Fund* is used to account for monies loaned to businesses for economic development purposes. The City has elected to treat this fund as a major fund.

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

*The Solid Waste Fund* is used to account for the operation and maintenance of the City's solid waste collection activities.

Additionally, the City reports the following funds:

*Proprietary Funds* - The Internal Service Funds are utilized to account for the financing of goods or 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.

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.

#### **D. Assets, Liabilities and Fund Equity**

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

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of interest-bearing cash accounts and certificates of deposit.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents.

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 receivables represent taxes collected by the County but not remitted to the City at June 30, 2005 and unpaid taxes. The succeeding year property tax receivables represent 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 receivables have 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.

Accounts and Unbilled Usage Receivable - 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.

Special Assessments Receivable - Special assessments receivable represents the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other tax.

Due From Other Governments - Due from other governments represents various shared revenues, grants, and reimbursements due from other governments. Shared revenues are recognized during the period received by the collecting authority, the State of Iowa.

Inventories - Proprietary Fund inventories of materials and supplies are valued at cost, using the first-in, first-out (FIFO) method. Inventories in the governmental funds are stated at cost and are recorded as an expenditure at the time of purchase. Reported inventories in the governmental funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

Prepaid Expenses - Prepaid expenses have been recorded for governmental and proprietary funds. Prepaid expenses in the governmental funds have been offset by a fund balance reserve to indicate they are unavailable for appropriation.

Restricted Assets - 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. 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 that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of four years.

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	40 - 60 years
Improvements other than buildings	10 - 40 years
Vehicles	5 - 10 years
Equipment	5 - 20 years
Infrastructure	15 - 40 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible 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 delinquent property tax receivables, special assessments 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 receivables 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 and Road Use Funds.

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.

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.

## **2. CASH AND INVESTMENTS**

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2005 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool 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.

### 3. CHECKS WRITTEN IN EXCESS OF AVAILABLE CASH

During the year, the general fund and the capital projects fund had disbursements which exceeded receipts and the funds' beginning cash balances. In effect, the City borrowed the cash from the other funds. A summary of the City's and pooled investments at June 30, 2005 is as follows:

	Governmental Funds	Proprietary Funds	Total
Funds with positive cash/investment balances	\$ 609,258	\$2,143,979	\$2,753,237
Checks written in excess of available cash:			
General fund .....	248,222		248,222
Capital projects fund .....	<u>2,128,693</u>		<u>2,128,693</u>
Total checks written in excess of available cash	<u>2,376,915</u>		<u>2,376,915</u>
Net unrestricted cash .....	(1,767,657)	2,143,979	376,322
Restricted cash .....		<u>20,285</u>	<u>20,285</u>
Total cash and pooled investments at June 30, 2005	<u>\$(1,767,657)</u>	<u>\$2,164,264</u>	<u>\$ 396,607</u>

### 4. ALLOWANCES FOR COLLECTION LOSSES

Allowances have been made for estimated collection losses on the following receivable amounts:

	Gross Receivables	Allowance for Collection Losses	Net Receivables
Accounts and unbilled usage:			
General Fund .....	\$ 7,212		\$ 7,212
Enterprise Funds:			
Water .....	146,756	\$ 2,200	144,556
Sewer .....	24,720		24,720
Solid waste .....	<u>39,052</u>	<u>2,900</u>	<u>36,152</u>
TOTAL	<u>\$217,740</u>	<u>\$ 5,100</u>	<u>\$212,640</u>

## 5. CAPITAL ASSETS

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

	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
GOVERNMENTAL ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress .....	\$ 3,293,307	\$1,628,552			\$ 4,921,859
Land .....	302,181				302,181
Total capital assets not being depreciated	<u>3,595,488</u>	<u>1,628,552</u>			<u>5,224,040</u>
Capital assets being depreciated					
Buildings .....	1,310,287				1,310,287
Improvements .....	404,218				404,218
Equipment and vehicles .....	2,401,677	64,424	\$(62,878)		2,403,223
Infrastructure .....	17,697,996	2,102,599		\$(387,135)	19,413,460
Total capital assets being depreciated	<u>21,814,178</u>	<u>2,167,023</u>	<u>(62,878)</u>	<u>(387,135)</u>	<u>23,531,188</u>
TOTAL COST OF CAPITAL ASSETS	<u>25,409,666</u>	<u>3,795,575</u>	<u>(62,878)</u>	<u>(387,135)</u>	<u>28,755,228</u>
ACCUMULATED DEPRECIATION:					
Buildings .....	339,251	26,901			366,152
Improvements .....	246,877	9,875			256,752
Equipment and vehicles .....	898,724	204,304	(62,878)		1,040,150
Infrastructure .....	2,249,713	375,174			2,624,887
TOTAL ACCUMULATED DEPRECIATION	<u>3,734,565</u>	<u>616,254</u>	<u>(62,878)</u>		<u>4,287,941</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	<u>\$21,675,101</u>	<u>\$3,179,321</u>	<u>\$</u>	<u>\$(387,135)</u>	<u>\$24,467,287</u>

	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
BUSINESS TYPE ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress ....	\$ 3,635,683	\$(3,629,846)			\$ 5,837
Land .....	96,859				96,859
Total capital assets not being depreciated	<u>3,732,542</u>	<u>(3,629,846)</u>			<u>102,696</u>
Capital assets being depreciated:					
Buildings .....	1,968,248	3,692,321			5,660,569
Improvements .....	113,651				113,651
Water towers .....	891,356				891,356
Equipment and vehicles .....	1,071,352	54,556			1,125,908
Infrastructure .....	<u>4,652,384</u>			<u>\$387,135</u>	<u>5,039,519</u>
Total capital assets being depreciated	<u>8,696,991</u>	<u>3,746,877</u>		<u>387,135</u>	<u>12,831,003</u>
TOTAL COST OF CAPITAL ASSETS	<u>12,429,533</u>	<u>117,031</u>		<u>387,135</u>	<u>12,933,699</u>
ACCUMULATED DEPRECIATION:					
Buildings .....	988,163	43,568			1,031,731
Improvements .....	92,182	1,696			93,878
Water towers .....	304,864	17,827			322,691
Equipment and vehicles .....	494,249	62,679			556,928
Infrastructure .....	<u>714,962</u>	<u>96,012</u>			<u>810,974</u>
TOTAL ACCUMULATED DEPRECIATION	<u>2,594,420</u>	<u>221,782</u>			<u>2,816,202</u>
BUSINESS TYPE CAPITAL ASSETS - NET					
	<u>\$ 9,835,113</u>	<u>\$ (104,751)</u>		<u>\$387,135</u>	<u>\$10,117,497</u>
COST OF LOAN FEES .....	\$ 37,640				\$ 37,640
LESS: Accumulated amortization	<u>1,255</u>	<u>\$ 1,254</u>			<u>2,509</u>
LOAN FEES - NET	<u>\$ 36,385</u>	<u>\$ (1,254)</u>			<u>\$ 35,131</u>

Depreciation was charged to functions of the government as follows:

Governmental Activities:

Public safety .....	\$ 40,381
Public works .....	469,005
Culture and recreation .....	101,979
General government .....	<u>4,889</u>
Total Governmental Activities	<u>\$ 616,254</u>

Business Type Activities:

Water .....	\$ 134,130
Sewer .....	56,621
Solid waste .....	<u>31,031</u>
Total Business Type Activities	<u>\$ 221,782</u>

## 6. ECONOMIC DEVELOPMENT LOANS

The City has loaned money for economic development purposes. Following is a summary of these loans:

Forgivable loan to a local business. The loan is interest free and is forgivable ratably over 10 years if certain conditions are met. During the year ended June 30, 2003, the City forgave \$40,000 of this loan. ....	\$160,000
Iowa Nonentitlement Community Development Block Grant. Economic Development set-aside loan to a local business. Quarterly payments of \$625, no interest, due April 1, 2006. ....	2,500
Iowa Nonentitlement Community Development Block Grant. Economic Development set-aside loan to a local business. Quarterly payments of \$5,139 including interest at 2%, due April 1, 2006. The City must repay the State of Iowa \$20,299 under the same terms. ....	20,299
Forgivable loan to a local business. The loan is interest-free and forgivable ratably over five years if certain conditions are met. During the year, the City forgave \$6,000 of this loan. ....	19,000
Iowa Nonentitlement Community Development Block Grant. Economic Development set aside loan to a local business. The loan is interest-free and is payable in quarterly installments of \$12,500 over a five-year period. ....	<u>250,000</u>
TOTAL	<u>\$451,799</u>

## 7. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Final Due Date</u>
<b>GOVERNMENTAL ACTIVITIES:</b>				
<b>GENERAL OBLIGATION BONDS/NOTES:</b>				
Fire station building .....	10-1-95	5.00%	\$ 400,000	6-1-2006
Essential corporate purpose .....	6-1-98		2,190,000	
Taxable issue .....	9-1-99	7.00 - 7.50%	400,000	6-1-2011
General obligation urban renewal				
Series 2001A .....	10-1-01	3.65 - 4.00%	4,000,000	6-1-2012
General obligation bonds, Series 2001B	10-1-01	3.50 - 4.40%	470,000	6-1-2012
General obligation refunding bonds ...	6-1-02	3.25 - 4.35%	3,060,000	6-1-2012
Essential corporate purpose .....	6-1-03	3.55 - 4.00%	4,200,000	6-1-2023
General obligation capital loan notes .	10-1-04	2.50 - 4.45%	2,280,000	6-1-2024
General obligation refunding bonds ...	4-1-05	2.40 - 3.35%	1,145,000	6-1-2012
<b>TOTAL</b>				
Less unamortized bond discount .....				
<b>NET GENERAL OBLIGATION BONDS/NOTE</b>				
<b>COMPENSATED ABSENCES .....</b>				
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>				
<b>BUSINESS TYPE ACTIVITIES:</b>				
<b>REVENUE NOTES:</b>				
Water revenue capital loan notes,				
Series 2003 .....	5-20-03	3.00%	3,500,093	6-1-2023
<b>COMPENSATED ABSENCES .....</b>				
<b>TOTAL BUSINESS TYPE ACTIVITIES</b>				

<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
\$ 60,000		\$ 30,000	\$ 30,000	\$ 30,000
1,280,000		1,280,000		
300,000		35,000	265,000	40,000
3,100,000		350,000	2,750,000	575,000
300,000		35,000	265,000	35,000
2,090,000		475,000	1,615,000	275,000
4,200,000			4,200,000	
	\$2,280,000		2,280,000	35,000
	<u>1,145,000</u>		<u>1,145,000</u>	<u>175,000</u>
11,330,000	3,425,000	2,205,000	12,550,000	1,165,000
	(41,867)	(1,567)	(40,300)	
11,330,000	3,383,133	2,203,433	12,509,700	1,165,000
50,186		2,465	47,721	47,721
<u>\$11,380,186</u>	<u>\$3,383,133</u>	<u>\$2,205,898</u>	<u>\$12,557,421</u>	<u>\$1,212,721</u>
\$ 2,852,612	\$ 507,481	\$ 144,000	\$ 3,216,093	\$ 149,000
<u>22,785</u>	<u>6,268</u>		<u>29,053</u>	<u>29,053</u>
<u>\$ 2,875,397</u>	<u>\$ 513,749</u>	<u>\$ 144,000</u>	<u>\$ 3,245,146</u>	<u>\$ 178,053</u>

**General Obligation Bonds/Notes**

General obligation bonds/notes to be serviced by the Debt Service Fund totaled \$12,550,000 at June 30, 2005.

A majority of the general obligation bonds are anticipated to be repaid from township reimbursements, tax increment financing revenues, and local option sales tax funds. In compliance with statutory requirements, any payments from other funds are recorded as reimbursements to the Debt Service Fund in the City's accounting records. General obligation bonds/notes bear interest with rates ranging from 2.40% to 7.5%.

**Revenue Notes**

The City has water revenue capital loan notes issued under a loan agreement between the City of Spirit Lake, the Iowa Finance Authority, the Iowa Department of Natural Resources, and Wells Fargo Bank Iowa, N.A. The notes bear interest at 3%.

The resolution providing for the issuance of the water revenue capital loan notes include 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 into a separate water revenue sinking account for the purpose of making the 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 note falling due in the same year.

During the year ended June 30, 2005, the City did not establish the sinking fund and the net revenues of the water fund did not meet the 110% test as required by the resolution.

**Drainage District Assessment**

During the year, the City paid a special assessment from Drainage District #22. The assessment was paid from the debt service fund and was funded by the October 1, 2004 bond issue. A summary of the payment is as follows:

Total City assessment .....	\$2,427,448
Less amount paid by a developer .....	<u>(187,485)</u>
Net assessment paid	<u>\$2,239,963</u>

The City has expensed this assessment in both the fund and government-wide financial statements.

A summary of the City's long-term debt maturities is as follows:

Governmental Activities

Year Ending June 30,	General Obligation Bonds/Notes		
	Principal	Interest	Total
2006	\$ 1,165,000	\$ 533,536	\$ 1,698,536
2007	1,240,000	429,733	1,669,733
2008	1,085,000	386,370	1,471,370
2009	1,075,000	347,090	1,422,090
2010	1,100,000	307,085	1,407,085
2011	1,110,000	265,110	1,375,110
2012	1,050,000	221,350	1,271,350
2013	390,000	181,158	571,158
2014	395,000	167,257	562,257
2015	400,000	153,178	553,178
2016	405,000	138,857	543,857
2017	405,000	124,105	529,105
2018	410,000	109,227	519,227
2019	420,000	93,808	513,808
2020	425,000	77,707	502,707
2021	430,000	60,978	490,978
2022	435,000	43,607	478,607
2023	440,000	25,805	465,805
2024	<u>170,000</u>	<u>7,565</u>	<u>177,565</u>
Total	<u>\$12,550,000</u>	<u>\$3,673,526</u>	<u>\$16,223,526</u>

Business Type Activities

Year Ending June 30,	Water Revenue Capital Loan Notes		
	Principal	Interest	Total
2006	\$ 149,000	\$ 96,483	\$ 245,483
2007	153,000	92,013	245,013
2008	158,000	87,423	245,423
2009	162,000	82,683	244,683
2010	167,000	77,823	244,823
2011	172,000	72,812	244,812
2012	177,000	67,653	244,653
2013	183,000	62,343	245,343
2014	188,000	56,853	244,853
2015	194,000	51,212	245,212
2016	200,000	45,393	245,393
2017	206,000	39,393	245,393
2018	212,000	33,213	245,213
2019	218,000	26,852	244,852
2020	225,000	20,313	245,313
2021	232,000	13,563	245,563
2022	<u>220,093</u>	<u>6,602</u>	<u>226,695</u>
Total	<u>\$ 3,216,093</u>	<u>\$ 932,627</u>	<u>\$4,148,720</u>

## 8. INTERFUND TRANSFERS

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local option sales tax	\$ 284,183
	Proprietary:	
	Enterprise:	
	Water	1,800
	Sewer	645
	Solid waste	<u>1,155</u>
		<u>287,783</u>
Debt Service	Special Revenue: Local option sales tax	47,685
	Tax increment financing	<u>1,448,565</u>
		<u>1,496,250</u>
Capital Projects	Special Revenue: Tax increment financing	<u>240,381</u>
		<u>240,381</u>
Proprietary: Internal service: Equipment revolving	Proprietary: Enterprise:	
	Water	23,200
	Sewer	15,355
	Solid waste	<u>15,845</u>
		<u>54,400</u>
<b>TOTAL OPERATING TRANSFERS</b>		<b><u>\$2,078,814</u></b>

## 9. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$99,435, \$95,005, and \$87,179, respectively, equal to the required contributions for each year.

**10. OTHER EMPLOYEE BENEFITS**

All full-time City employees accumulate sick leave hours for subsequent use. Except for a portion that is paid annually, the accumulation of sick leave hours did not vest as of June 30, 2005, and therefore is not recognized as a liability until used by the employee or upon retirement or death. The City's approximate contingent liability for the unvested sick leave as of June 30, 2005 is as follows:

Governmental activities .....	\$211,145
Business type activities .....	<u>130,511</u>
<b>TOTAL</b>	<b><u>\$341,656</u></b>

**11. INDUSTRIAL DEVELOPMENT REVENUE BONDS**

The City has issued a total of \$1,000,000 of industrial development revenue bonds, of which \$786,573 is outstanding at June 30, 2005. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

**12. DEFICIT BALANCES**

At June 30, 2005, the general fund had a deficit balance of \$307,596. The City is in the process of finding a solution to the problem. A large portion of tax increment financing is scheduled to revert to normal property tax in the fiscal year ending June 30, 2007 which will add over \$250,000 to the general fund. The City believes this action in addition to controlling expenditures and a general increase in property valuations will eliminate the deficit.

The capital projects fund had a deficit balance of \$3,072,426 at June 30, 2005. the deficit will be eliminated from the proceeds of a bond issue.

**13. RELATED PARTY TRANSACTIONS**

The City has business transactions between the City and City officials, totaling \$531 during the year ended June 30, 2005. See item II-E-05 in the Schedule of Findings.

**14. COMMITMENTS**

The City has entered into several contracts for a shelter house, street lighting projects, and other infrastructure projects. A summary of the uncompleted projects is as follows:

Contract total .....	\$469,602
Completed at June 30, 2005 .....	<u>246,743</u>
<b>Uncompleted</b>	<b><u>\$222,859</u></b>

The City has committed funds to several nonprofit organizations, including \$100,000 per year for ten years for a new YMCA. No contracts have been signed. The City will report the expenditures in the year payments are made.

## **15. SUBSEQUENT EVENTS**

Subsequent to June 30, 2005, the City entered into several construction contracts for roadway grading, a pedestrian underpass, paving improvements, and a new water tower. These contracts totaled \$4,153,116. In addition, the City entered into a materials only contract for utility improvements totaling \$275,825.

The City also issued \$5,000,000 of general obligation annual appropriation bonds on August 9, 2005.

## **16. SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK**

In the course of selling water and sewer services, the City grants credit to customers, all of whom are local residents.

## **17. RISK MANAGEMENT**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each members' annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2005 were \$72,854.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City has established a partial self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City has agreed to pay a portion of the employees' deductible.

The claims liability of \$1,637 reported in the fund at June 30, 2005 is based on claims reported but unpaid and estimated claims incurred but not reported as of June 30, 2005. Changes in the balances of claims liability during the year are as follows:

Unpaid claims - June 30, 2004 .....	\$ 1,392
Incurred claims .....	14,550
Less claims paid .....	<u>(14,305)</u>
Unpaid claims - June 30, 2005	<u>\$ 1,637</u>

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**18. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF SPIRIT LAKE  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -  
 GOVERNMENTAL AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
<b>RECEIPTS:</b>			
Property taxes .....	\$ 847,510		\$ 847,510
Other city taxes .....	875,799		875,799
Tax increment financing revenues .....	1,727,722		1,727,722
Licenses and permits .....	105,396		105,396
Use of money and property .....	48,973	\$ 7,770	56,743
Intergovernmental .....	901,908		901,908
Charges for services .....	18,413	2,019,886	2,038,299
Special assessments .....		5,606	5,606
Miscellaneous .....	<u>473,719</u>	<u>114,766</u>	<u>588,485</u>
<b>TOTAL RECEIPTS</b>	<u><b>4,999,440</b></u>	<u><b>2,148,028</b></u>	<u><b>7,147,468</b></u>
<b>DISBURSEMENTS:</b>			
Program:			
Public safety .....	789,072		789,072
Public works .....	714,350		714,350
Culture and recreation .....	366,025		366,025
Community and economic development .....	325,110		325,110
General government .....	420,871		420,871
Debt service .....	4,921,804		4,921,804
Capital projects .....	3,436,656		3,436,656
Business type .....		2,351,731	2,351,731
Non-program .....		<u>14,305</u>	<u>14,305</u>
<b>TOTAL DISBURSEMENTS</b>	<u><b>10,973,888</b></u>	<u><b>2,366,036</b></u>	<u><b>13,339,924</b></u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<u><b>(5,974,448)</b></u>	<u><b>(218,008)</b></u>	<u><b>(6,192,456)</b></u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfer in .....	2,024,414	54,400	2,078,814
Operating transfer out .....	(2,020,814)	(58,000)	(2,078,814)
Bond proceeds - net .....	3,383,133		3,383,133
Loan proceeds .....		<u>507,481</u>	<u>507,481</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u><b>3,386,733</b></u>	<u><b>503,881</b></u>	<u><b>3,890,614</b></u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS</b>	<b>(2,587,715)</b>	285,873	<b>(2,301,842)</b>
<b>BALANCE - BEGINNING OF YEAR</b> .....	<u><b>820,058</b></u>	<u><b>1,878,391</b></u>	<u><b>2,698,449</b></u>
<b>BALANCE - END OF YEAR</b>	<u><b>\$ (1,767,657)</b></u>	<u><b>\$2,164,264</b></u>	<u><b>\$ 396,607</b></u>

Less Funds Not Required to be <u>Budgeted</u>	<u>Net Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final to Actual Variance</u>
	\$ 847,510	\$ 846,717	\$ 846,717	\$ 793
	875,799	796,331	796,331	79,468
	1,727,722	1,690,919	1,690,919	36,803
	105,396	117,800	117,800	(12,404)
\$ 865	55,878	32,500	32,500	23,378
	901,908	815,591	945,591	(43,683)
34,200	2,004,099	2,250,520	2,250,520	(246,421)
	5,606	10,000	10,000	(4,394)
	<u>588,485</u>	<u>131,303</u>	<u>131,303</u>	<u>457,182</u>
<u>35,065</u>	<u>7,112,403</u>	<u>6,691,681</u>	<u>6,821,681</u>	<u>290,722</u>
	789,072	758,952	846,952	57,880
	714,350	598,439	719,439	5,089
	366,025	421,345	421,345	55,320
	325,110	250,000	380,000	54,890
	420,871	483,330	496,330	75,459
	4,921,804	1,531,277	4,956,277	34,473
	3,436,656	3,170,526	4,622,126	1,185,470
	2,351,731	2,110,275	2,625,275	273,544
<u>14,305</u>				
<u>14,305</u>	<u>13,325,619</u>	<u>9,324,144</u>	<u>15,067,744</u>	<u>1,742,125</u>
<u>20,760</u>	<u>(6,213,216)</u>	<u>(2,632,463)</u>	<u>(8,246,063)</u>	<u>2,032,847</u>
54,400	2,024,414	3,201,971	3,201,971	(1,177,557)
	(2,078,814)	(3,201,971)	(3,201,971)	1,123,157
	3,383,133		3,425,000	(41,867)
	<u>507,481</u>			<u>507,481</u>
<u>54,400</u>	<u>3,836,214</u>		<u>3,425,000</u>	<u>411,214</u>
75,160	(2,377,002)	(2,632,463)	(4,821,063)	2,444,061
<u>166,410</u>	<u>2,532,039</u>	<u>3,016,092</u>	<u>3,016,092</u>	<u>(484,053)</u>
<u>\$241,570</u>	<u>\$ 155,037</u>	<u>\$ 383,629</u>	<u>\$ (1,804,971)</u>	<u>\$1,960,008</u>

See Accompanying Independent Auditors' Report

CITY OF SPIRIT LAKE  
 BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2005

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
REVENUES .....	\$ 4,999,440	\$ (82,206)	\$ 4,917,234
EXPENDITURES/EXPENSES .....	<u>10,973,888</u>	<u>126,780</u>	<u>11,100,668</u>
NET	(5,974,448)	(208,986)	(6,183,434)
OTHER FINANCING SOURCES (USES) - NET ...	3,386,733		3,386,733
BEGINNING FUND BALANCES/NET ASSETS ....	820,058	(212,950)	607,108
NET INCREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORIES .....	_____	<u>(19,451)</u>	<u>(19,451)</u>
ENDING FUND BALANCES/NET ASSETS	<u>\$ (1,767,657)</u>	<u>\$ (441,387)</u>	<u>\$ (2,209,044)</u>

See Accompanying Independent Auditors' Report

Proprietary Funds

<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
\$2,148,028	\$ (176,386)	\$1,971,642
<u>2,366,036</u>	<u>(452,714)</u>	<u>1,913,322</u>
(218,008)	276,328	58,320
503,881	(120,346)	383,535
1,878,391	6,878,288	8,756,679
<u>\$2,164,264</u>	<u>\$7,034,270</u>	<u>\$9,198,534</u>

CITY OF SPIRIT LAKE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
FOR THE YEAR ENDED JUNE 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board 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 nine major classes of disbursements known as functions, not by fund or fund type. These nine 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 funds, 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, one budget amendment increased budgeted disbursements by \$5,743,600. This budget amendment is reflected in the final budgeted amounts.

During the year, disbursements did not exceed budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPIRIT LAKE  
COMBINING BALANCE SHEET  
ALL NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2005

	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Friends of the Library</u>	<u>Total</u>
<b>ASSETS:</b>				
Cash and pooled investments .....	\$ 9,272	\$ 7,294	\$ 62,619	\$ 79,185
Receivables:				
Succeeding year property taxes .....		248,137		248,137
Accrued interest .....			109	109
Due from other governments .....	<u>27,812</u>	<u>          </u>	<u>          </u>	<u>27,812</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 37,084</u></b>	<b><u>\$255,431</u></b>	<b><u>\$ 62,728</u></b>	<b><u>\$355,243</u></b>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable .....	\$13,116		\$ 8,278	\$ 21,394
Salaries payable .....	7,879			7,879
Deferred revenue:				
Succeeding year property tax .....		<u>\$248,137</u>		<u>248,137</u>
<b>TOTAL LIABILITIES</b>	<u>20,995</u>	<u>248,137</u>	<u>8,278</u>	<u>277,410</u>
 <b>FUND BALANCES:</b>				
Undesignated:				
Reported in special revenue funds .....	<u>16,089</u>	<u>7,294</u>	<u>54,450</u>	<u>77,833</u>
<b>TOTAL FUND BALANCES</b>	<u>16,089</u>	<u>7,294</u>	<u>54,450</u>	<u>77,833</u>
 <b>TOTAL LIABILITIES AND FUND EQUITY</b>	 <b><u>\$ 37,084</u></b>	 <b><u>\$255,431</u></b>	 <b><u>\$ 62,728</u></b>	 <b><u>\$355,243</u></b>

CITY OF SPIRIT LAKE  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 ALL NONMAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2005

	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Friends of the Library</u>	<u>Total</u>
REVENUES:				
Use of money and property .....			\$ 791	\$ 791
Intergovernmental .....	\$354,814		7,024	361,838
Miscellaneous .....			<u>30,900</u>	<u>30,900</u>
TOTAL REVENUES	<u>354,814</u>	<u>          </u>	<u>38,715</u>	<u>393,529</u>
EXPENDITURES:				
Public works .....	389,756			389,756
Culture and recreation .....			<u>31,230</u>	<u>31,230</u>
TOTAL EXPENDITURES	<u>389,756</u>	<u>          </u>	<u>31,230</u>	<u>420,986</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(34,942)		7,485	(27,457)
FUND BALANCES - BEGINNING OF YEAR	<u>51,031</u>	<u>\$ 7,294</u>	<u>46,965</u>	<u>105,290</u>
FUND BALANCES - END OF YEAR	<u>\$ 16,089</u>	<u>\$ 7,294</u>	<u>\$ 54,450</u>	<u>\$ 77,833</u>

See Accompanying Independent Auditors' Report

CITY OF SPIRIT LAKE  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>REVENUES:</b>				
Property tax .....	\$ 843,981	\$1,142,851	\$1,121,172	\$1,072,877
Tax increment financing .....	1,731,352	1,391,242	1,263,945	1,064,061
Other city taxes .....	891,781	805,299	832,532	750,916
Licenses and permits .....	108,201	97,195	96,478	46,013
Use of money and property .....	20,284	31,565	34,047	97,054
Intergovernmental .....	859,592	1,223,829	1,243,783	564,604
Charges for services .....	18,413	17,015	9,877	5,811
Miscellaneous .....	<u>443,630</u>	<u>258,407</u>	<u>169,736</u>	<u>276,667</u>
<b>TOTAL REVENUES</b>	<b><u>\$ 4,917,234</u></b>	<b><u>\$4,967,403</u></b>	<b><u>\$4,771,570</u></b>	<b><u>\$3,878,003</u></b>
<b>EXPENDITURES:</b>				
Public safety .....	\$ 778,099	\$ 905,311	\$ 746,943	\$ 607,871
Public works .....	699,150	656,959	803,296	938,642
Culture and recreation .....	404,370	340,008	383,586	369,972
Community and economic development .....	287,054	649,057	347,419	384,695
General government .....	308,252	317,372	268,030	294,003
Debt service .....	4,922,135	1,562,485	1,413,144	1,618,858
Capital projects .....	<u>3,701,608</u>	<u>4,212,887</u>	<u>3,161,707</u>	<u>2,418,022</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$11,100,668</u></b>	<b><u>\$8,644,079</u></b>	<b><u>\$7,124,125</u></b>	<b><u>\$6,632,063</u></b>

See Accompanying Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and  
Members of the City Council  
City of Spirit Lake  
Spirit Lake, IA 51360

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 Spirit 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 February 15, 2006. 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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial

reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-05 is a material weakness.

### Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Spirit Lake, and other parties to whom the City 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 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.

A handwritten signature in black ink that reads "Winter, Howard G. L.P." The signature is written in a cursive, flowing style.

February 15, 2006

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2005

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

I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted, because of the limited number of employees, there are times when employees are performing duties which are not compatible.

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

Response - The City will continue to review its control procedures.

Conclusion - Response accepted.

I-B-05 Fire Department - We noted that the City is a member of the Spirit Lake Community Fire Department which is Chapter 28E organization. It appears that the Fire Department has not been audited in accordance with Chapter 11.6 of the code of Iowa for the last three fiscal years.

Recommendation - We recommend the City insure that the required audits of the Spirit Lake Community Fire Department be completed in accordance with Chapter 11.6 of the Code of Iowa.

Response - The City will follow this recommendation.

Conclusion - Response accepted.

I-C-05 IRC Section 457 Plans - The City has three 457 plans. It appears that the plan documents have not been updated for recent Internal Revenue Code changes.

Recommendation - We recommend the City hire a consultant familiar with 457 plans to review and update the plan documents, if required.

Response - The City will follow this recommendation.

Conclusion - Response accepted.

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2005

**Part I: Findings Related to the General Purpose Financial Statements** - Continued

I-D-05 Stamped Warrants - Under an agreement with a developer, the City received numerous stamped warrants issued by Drainage District #22, payable to the developer. The stamped warrants were redeemed to pay a portion of the City's drainage district assessment and to help fund capital projects. We noted that the City did not retain documentation of the stamped warrants redeemed or a computation of the interest received when they were redeemed.

Recommendation - We realize this situation is unlikely to happen again, but detailed records should be kept on the warrants including the stamped warrant number, face value, date received, date redeemed, and interest received.

Response - We will provide the requested documentation.

Conclusion - Response accepted.

CITY OF SPIRIT LAKE  
 SCHEDULE OF FINDINGS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2005

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

II-A-05 Official Depositories - A resolution naming official depositories has been adopted by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 did not exceed the final budgeted amounts. However, we noted that disbursements in the community and economic development, debt service, and capital projects functions exceeded the original budgeted amounts before the budget was amended. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under continuing appropriation.

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

Response - In the future, we will amend the budget prior to allowing disbursements to exceed budgeted amounts, if applicable.

Conclusion - Response accepted.

II-C-05 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

II-E-05 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jerry Harbst, Council Member, owner of Communication Innovators	Supplies	\$ 531

The transactions with Mr. Harbst do not appear to represent a conflict of interest since the total paid was less than \$1,500.

II-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 that the coverage is adequate for current operations.

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2005

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

II-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-H-05 Revenue Bonds/Notes - The City has not established the sinking fund and the net revenues of the water fund were less than 110% of the principal and interest due in the year as required by the water revenue note resolution.

Recommendation - We recommend the City establish the sinking fund and make the required transfers. In addition, the City should make changes in rates or expenditures to insure that the net revenues meet the 110% test required by the resolution.

Response - The City will establish and fund the sinking fund as required. The City increased water rates effective October 2005.

Conclusion - Response accepted.

II-I-05 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-J-05 Financial Condition - The general fund had a deficit balance of \$307,596 at June 30, 2005.

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

Response - The City is in the process of finding a solution to the problem. A large portion of tax increment financing is scheduled to revert to normal property tax in the fiscal year ending June 30, 2007 which will add over \$250,000 to the general fund. The City believes this action in addition to controlling expenditures and a general increase in property valuations will eliminate the deficit.

Conclusion - Response accepted.