

CITY OF ALTOONA

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2005

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CITY OF ALTOONA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Timothy J. Burget	Mayor	Jan 2008
Matt Davenport	Mayor Pro-Tem	Jan 2008
Josiah (Skip) Conkling	Council Member	Jan 2006
Stacey Warren	Council Member	Jan 2008
Charles Franklin	Council Member	Jan 2006
Joe Riding	Council Member	Jan 2006
Jeffery Mark	City Administrator	Indefinite
Randy Pierce	Clerk/Finance Officer	Jan 2006
Robert Laden	Attorney	Jan 2006
Larry J. Handley	Attorney	Jan 2006



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Altoona, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Altoona's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the aforementioned financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Altoona at June 30, 2005, and the respective changes in the cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2005 on our consideration of the City of Altoona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or 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 5 through 11 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the aforementioned financial statements that collectively comprise the City of Altoona's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Martens & Company, CPA, P.C.

West Des Moines, Iowa
August 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Altoona 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.

FINANCIAL HIGHLIGHTS

- The City's governmental funds' receipts increased 42.7%, or approximately \$5,062,000, from fiscal year 2004 (FY04). Property tax increased approximately \$523,000 due to increased tax increment financing collections.
- City program disbursements increased 51%, or approximately \$5,438,000, from FY04. Debt service expense decreased approximately \$167,000.
- The City's total cash basis net assets increased 45% or approximately \$4,823,000 from June 30, 2004 to June 30, 2005. Of this amount, the City's governmental funds' cash balance at June 30, 2005 increased 14%, or approximately \$903,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

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

The Government-wide Financial Statements consist of a statement of activities and net assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the financial statements provide additional information that is 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 nonmajor governmental funds and debt obligations.

Basic of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, 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 garbage collection. These activities are financed primarily by user charges.

Fund Financial Statements

The fund financial statements begin on page 14 and provide detailed information about individual, significant funds; not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The government 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business-type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, garbage and recycling funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, the City reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The City does not report capital assets or depreciation on those assets as would be required by GAAP.

Government Activities

The City's cash balance for governmental activities has increased from a year ago, increasing from \$6.327 million to \$7.230 million. Our analysis below focuses on this change in cash balance and changes in receipts and disbursements from the prior year.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	<u>2005</u>	<u>2004</u>
Receipts and transfers:		
Program receipts:		
Charges for service and sales	\$ 1,044	\$ 1,257
Operating grants, contributions and restricted interest	1,098	1,256
Capital grants, contributions and restricted interest	118	640
General receipts:		
Property tax	6,827	6,304
Other City taxes	527	484
Grants and contributions not restricted to specific purposes	964	818
Unrestricted investment earnings	146	64
Bond proceeds	5,695	230
Other general receipts	63	161
Transfers, net	<u>425</u>	<u>630</u>
Total receipts and transfers	<u>16,907</u>	<u>11,844</u>
Disbursements:		
Public safety	2,723	2,468
Public works	950	1,072
Culture and recreation	1,590	2,389
Community and economic development	1,687	1,208
General government	250	344
Debt service	2,385	2,552
Capital projects	<u>6,419</u>	<u>532</u>
Total disbursements	<u>16,004</u>	<u>10,565</u>

Increase (decrease) in cash balance	903	1,279
Cash basis net assets beginning of year	<u>6,327</u>	<u>5,048</u>
Cash basis net assets end of year	<u>\$ 7,230</u>	<u>\$ 6,327</u>

The City's total receipts for governmental activities increased by 43 percent (\$5,063). The total cost of all programs and services increased by approximately \$5.4 million or 51 percent due to increase in capital projects, which was mostly financed through bond proceeds of \$5,695,000.

Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$72,600 next year.

The cost of all governmental activities this year was \$16.004 million compared to \$10.565 million last year. However, as shown in the statement of activities and net assets - cash basis on page 12, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$13.744 million because some of the cost was paid by those directly benefitted from the programs (\$1.044 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1.216 million). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, decreased in 2005 from approximately \$3,152,969 to approximately \$2,083,165, principally due to a decrease in operating and capital grants, contributions and restricted interest. The City paid for the remaining public benefit portion of governmental activities with approximately \$7,353,134 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Business Type Activities

Changes in Cash Basis Net Assets of Business-Type Activities (Expressed in Thousands)

	<u>2005</u>	<u>2004</u>
Receipts:		
Program receipts:		
Charges for service and sales:		
Water	\$ 2,420	\$ 1,910
Sewer	2,317	1,791
Garbage	349	305
Recycling	98	88
General receipts:		
Water deposits	21	19
Unrestricted investment earnings	37	4
Bond proceeds	4,280	4,665
Other general receipts	218	296
Non-operating receipts	<u>15</u>	<u>16</u>
Total receipts	<u>9,755</u>	<u>9,094</u>
Disbursements:		
Water	3,298	2,475
Sewer	1,618	4,649
Garbage	382	284
Water deposits	17	14
Other	94	86
Transfers	<u>425</u>	<u>630</u>
Total disbursements and transfers	<u>5,834</u>	<u>8,138</u>

Increase in cash balance	3,921	956
Cash basis net assets beginning of year	<u>4,443</u>	<u>3,487</u>
Cash basis net assets end of year	<u>\$ 8,364</u>	<u>\$ 4,443</u>

Total business-type activities receipts for the fiscal year were \$9.755 million compared to \$9.094 million last year. This significant increase was due primarily to the increase in service and sales receipts. The cash balance increased by approximately \$3,920,000 from the prior year. Total disbursements for the fiscal year decreased by approximately 28 percent to a total of \$5.409 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Altoona completed the year, its governmental funds reported a combined fund balance of \$6,904,597, an increase of more than \$718,000 above last year's total of \$6,186,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$763,109 from the prior year to \$3,311,127. Approximately \$116,400 of this increase was due to the increase in the assessed tax base of the City.
- The Road Use Tax Fund cash balance decreased by \$49,243 to \$134,990 during the fiscal year. This decrease was attributable to an increase of \$25,500 in roadway maintenance and an increase of \$19,700 in snow removal expense.
- The Tax Increment Financing Fund decreased by \$100,825 to \$1,848,088 during the fiscal year. The decrease is the result of several projects started last year and completed in the current year.
- The Capital Projects Funds increased by \$93,000 to \$1,085,042 from the prior year, the increase was primarily due to sewer hook up fees received.
- The Debt Service Fund cash balance increased by \$29,279 to \$352,997 during the fiscal year. This increase was due to an increase in property tax. Bond principal and interest payments increased by \$235,095 in fiscal 2005.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$3,336,150 to \$5,126,618, due primarily to an increase in the sale of water and receipt of \$4,280,000 in bond proceeds.
- The Sewer Fund cash balance increased by \$603,384 to \$3,128,838, due primarily to the increase in charges for service.
- The Water Deposit Fund increased \$3,650 to \$57,255. This is due to the increase in the number of residents living in Altoona.
- The Garbage Fund decreased \$26,330 to \$8,431. This was due to the fact that thirteen billing periods were included in the current fiscal year.
- The Recycling Fund increased \$3,533 to \$24,987. In November 2003 the rate charged was increased from \$2.00 to \$2.20. The cost to the City is \$2.02.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget once. The amendment was approved on May 16, 2005 to provide for additional expenditures in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At year-end, the City had approximately \$27,830,000 in bonds and other long-term debt compared to approximately \$19,750,000 last year shown as follows:

Outstanding Debt at Year-End (Expressed in Thousands)		
	<u>2005</u>	<u>2004</u>
General obligation bonds		
Corporate purpose and other	\$ 10,730	\$ 11,685
Urban renewal tax increment financing	<u>8,640</u>	<u>3,485</u>
	19,370	15,170
Revenue notes	<u>11,970</u>	<u>4,580</u>
Total	<u>\$ 31,340</u>	<u>\$ 19,750</u>

The City's general obligation bond rating continues to carry an A2 rating, a rating that has been assigned by national rating agencies to the City's debt. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$10,730,000 is well below the City's \$32.340 million legal debt limit.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2006 fiscal year budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's population growth since the 1990 census stands at 44%. Unemployment in the county now stands at 3.8 percent. This compares with the state unemployment rate of 4.6 percent.

The U.S. Consumer Price Index (CPI) is a measure of the changes in retail prices of a fixed market grouping of consumer goods and services. The CPI-U for July 2004 was 189.40. For the 12 month period that ended in July, the CPI-U increased 2.99 percent.

These indicators were taken into account when adopting the budget for 2006. Amounts available for appropriation in the budget are \$1.43 million, an increase of 5.0 percent over the final 2005 budget. Property tax (benefitting from increases in valuation) and proceeds from the tax increment financing revenue are expected to lead this increase. The City will use these to finance programs currently offered and to defray the costs of carrying out the City's continued economic development. Budgeted disbursements are expected to rise by approximately \$3.9 million. Increased wage and cost-of-living adjustments, increases in water and sewer construction and maintenance represent to largest increases.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$3.1 million by the close of fiscal year 2006. Most of this is from projects carried over from prior year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Randy Pierce, City Clerk/Finance Officer, 407 8th Street S.E., P.O. Box 338, Altoona, Iowa 50009.

BASIC FINANCIAL STATEMENTS

CITY OF ALTOONA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service and Sales	Operating Grants Contributions and Restricted Interest	Capital Grants and Contributions Restricted Interest	Governmental Activities	Business-type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 2,723,329	\$ 848,996	\$ 88,135	\$ -	\$(1,786,198)	\$ -	\$(1,786,198)
Public works	950,001	-	860,477	118,084	28,560	-	28,560
Culture and recreation	1,589,834	23,079	146,840	-	(1,419,915)	-	(1,419,915)
Community and economic development	1,686,510	76,923	-	-	(1,609,587)	-	(1,609,587)
General government	249,959	94,615	2,770	-	(152,574)	-	(152,574)
Debt service	2,385,084	-	-	-	(2,385,084)	-	(2,385,084)
Capital projects	6,418,797	-	-	-	(6,418,797)	-	(6,418,797)
Total governmental activities	16,003,514	1,043,613	1,098,222	118,084	(13,743,595)	-	(13,743,595)
Business-type activities:							
Water	3,178,463	2,420,050	31,529	-	-	(726,884)	(726,884)
Sewer	1,617,497	2,316,496	5,306	-	-	704,305	704,305
Garbage	382,077	348,693	-	-	-	(33,384)	(33,384)
Water deposits	17,510	-	21,160	-	-	3,650	3,650
Recycling	94,208	97,741	-	-	-	3,533	3,533
Total business-type activities	5,289,755	5,182,980	57,995	-	-	(48,780)	(48,780)
Total	\$21,293,269	\$ 6,226,593	\$ 1,156,217	\$ 118,084	(13,743,595)	(48,780)	(13,792,375)
General receipts:							
Property tax levied for:							
General purposes					2,691,491	-	2,691,491
Employee benefits					133,500	-	133,500
Tax increment financing					3,822,352	-	3,822,352
Debt service					178,972	-	178,972
Hotel/motel tax					526,819	-	526,819
Grants and contributions not restricted to specific purpose					964,075	-	964,075
Bond proceeds					5,695,000	4,280,000	9,975,000
Unrestricted investment earnings					146,248	15,271	161,519
Miscellaneous					62,610	98,924	161,534
Transfers					425,028	(425,028)	-
Total general receipts and transfers					14,646,095	3,969,167	18,615,262
Change in cash basis net assets					902,500	3,920,387	4,822,887
Cash basis net assets beginning of year					6,327,160	4,443,483	10,770,643
Cash basis net assets end of year					\$ 7,229,660	\$ 8,363,870	\$15,593,530

CITY OF ALTOONA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - CONTINUED

As of and for the year ended June 30, 2005

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for Service and Sales	Operating Grants Contributions and Restricted Interest	Capital Grants and Contributions Restricted Interest	Governmental Activities	Business-type Activities	Total
Cash Basis Net Assets						
Restricted:						
Debt service				\$ 352,997	\$ 965,618	\$ 1,318,615
Streets				134,990	-	134,990
Urban renewal purposes				1,848,088	-	1,848,088
Other purposes				1,582,458	17,741	1,600,199
Unrestricted				<u>3,311,127</u>	<u>7,380,511</u>	<u>10,691,638</u>
Total cash basis net assets				<u>\$ 7,229,660</u>	<u>\$ 8,363,870</u>	<u>\$15,593,530</u>

See notes to financial statements.

CITY OF ALTOONA

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

As of and for the year ended June 30, 2005

	General	Special Revenue		Capital Projects	Debt Service	Other Nonmajor	Total
		Road Use Tax	Tax Increment Financing	A-Land/1 st Ave/945		Governmental Funds	
Receipts:							
Property taxes	\$2,691,490	\$ -	\$ -	\$ -	\$ 172,651	\$ 133,500	\$ 2,997,641
Tax increment financing collections	-	-	3,822,352	-	-	-	3,822,352
Other city tax							
Hotel/motel	526,819	-	-	-	-	-	526,819
Lottery revenue	883,267	-	-	-	-	-	883,267
Licenses and permits	618,660	-	-	-	-	-	618,660
Uses of money and property	146,248	-	-	-	-	1,579	147,827
Intergovernmental	160,097	860,477	-	-	-	41,415	1,061,989
Charges for service	464,040	-	-	-	-	-	464,040
Special assessments	-	-	-	-	6,321	-	6,321
Hook up fees	-	-	-	-	-	118,005	118,005
Miscellaneous	107,406	-	27,150	-	307	4,200	139,063
Total receipts	<u>5,598,027</u>	<u>860,477</u>	<u>3,849,502</u>	<u>-</u>	<u>179,279</u>	<u>298,699</u>	<u>10,785,984</u>
Disbursements:							
Operating:							
Public safety	2,465,400	-	-	-	-	197,469	2,662,869
Public works	-	887,973	-	-	-	-	887,973
Culture and recreation	1,456,685	-	79,650	-	-	-	1,536,335
Community and economic development	354,285	-	1,332,225	-	-	-	1,686,510
General government	249,959	-	-	-	-	-	249,959
Debt service	-	-	-	-	2,316,966	-	2,316,966
Capital projects	122,839	-	244,013	6,069,596	-	50,467	6,486,915
Total disbursements	<u>4,649,168</u>	<u>887,973</u>	<u>1,655,888</u>	<u>6,069,596</u>	<u>2,316,966</u>	<u>247,936</u>	<u>15,827,527</u>
Excess (deficiency) of receipts over (under) disbursements	948,859	(27,496)	2,193,614	(6,069,596)	(2,137,687)	50,763	(5,041,543)
Other financing sources (uses)							
Bond proceeds	-	-	-	5,695,000	-	-	5,695,000
Operating transfers in	250,000	-	-	400,000	2,166,966	-	2,816,966
Operating transfers (out)	(435,750)	(21,747)	(2,294,439)	-	-	-	(2,751,936)
Total other financing sources (uses)	<u>(185,750)</u>	<u>(21,747)</u>	<u>(2,294,439)</u>	<u>6,095,000</u>	<u>2,166,966</u>	<u>-</u>	<u>5,760,030</u>
Net change in cash balances	763,109	(49,243)	(100,825)	25,404	29,279	50,763	718,487
Cash balances beginning of year	<u>2,548,018</u>	<u>184,233</u>	<u>1,948,913</u>	<u>-</u>	<u>323,718</u>	<u>1,181,228</u>	<u>6,186,110</u>
Cash balances end of year	<u>\$3,311,127</u>	<u>\$ 134,990</u>	<u>\$1,848,088</u>	<u>\$ 25,404</u>	<u>\$ 352,997</u>	<u>\$1,231,991</u>	<u>\$6,904,597</u>

CITY OF ALTOONA

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

As of and for the year ended June 30, 2005

	General	Special Revenue		Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Tax Increment Financing	A-Land/1 st Ave/945			
Cash Basis Fund Balances							
Reserved:							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 352,997	\$ -	\$ 352,997
Unreserved:							
General fund	3,311,127	-	-	-	-	-	3,311,127
Special revenue funds	-	134,990	1,848,088	-	-	172,353	2,155,431
Capital projects funds	-	-	-	25,404	-	1,059,638	1,085,042
Total cash basis fund balances	<u>\$3,311,127</u>	<u>\$ 134,990</u>	<u>\$1,848,088</u>	<u>\$ 25,404</u>	<u>\$ 352,997</u>	<u>\$1,231,991</u>	<u>\$6,904,597</u>

See notes to financial statements.

CITY OF ALTOONA

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

As of and for the year ended June 30, 2005

Total governmental funds cash balances (page 14) \$ 6,904,597

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the City’s equipment purchases to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

325,063

Cash basis net assets of governmental activities (page 12) \$ 7,229,660

Net change in cash balances (page 14) \$ 718,487

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

The Internal Service Fund is used by management to charge the costs of equipment purchases to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

184,013

Change in cash balance of governmental activities (page 12) \$ 902,500

See notes to financial statements.

CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds					Total	Internal Service Fund Equipment Replacement
	Water	Sewer	Water Deposits	Garbage	Recycling		
Operating receipts:							
Charges for service	\$2,420,050	\$2,316,496	\$ -	\$ 348,693	\$ 97,741	\$5,182,980	\$ -
Use of money and property	31,529	5,306	-	-	-	36,835	-
Miscellaneous	153,130	58,104	21,160	7,054	-	239,448	-
Total operating receipts	2,604,709	2,379,906	21,160	355,747	97,741	5,459,263	-
Operating disbursements:							
Governmental activities:							
Public safety	-	-	-	-	-	-	60,460
Public works	-	-	-	-	-	-	62,028
Culture and recreation	-	-	-	-	-	-	53,499
Business-type activities:	2,800,880	1,384,232	17,510	382,077	94,208	4,678,907	-
Total operating disbursements	2,800,880	1,384,232	17,510	382,077	94,208	4,678,907	175,987
Excess (deficiency) of operating receipts over (under) operating disbursements	(196,171)	995,674	3,650	(26,330)	3,533	780,356	(175,987)
Non-operating receipts (disbursements):							
Investment interest	9,098	6,173	-	-	-	15,271	-
Bond proceeds	4,280,000	-	-	-	-	4,280,000	-
Debt service	(496,947)	(233,265)	-	-	-	(730,212)	-
Total non-operating receipts	3,792,151	(227,092)	-	-	-	3,565,059	-
Excess (deficiency) of receipts over (under) disbursements	3,595,980	768,582	3,650	(26,330)	3,533	4,345,415	(175,987)
Other financing sources (uses):							
Operating transfers in	496,947	233,265	-	-	-	730,212	360,000
Operating transfers (out)	(756,777)	(398,463)	-	-	-	(1,155,240)	-
Total other financing sources (uses)	(259,830)	(165,198)	-	-	-	(425,028)	360,000
Net change in cash balances	3,336,150	603,384	3,650	(26,330)	3,533	3,920,387	184,013
Cash balances beginning of year	1,790,468	2,525,454	53,605	34,761	21,454	4,425,742	158,791
Cash balances end of year	\$5,126,618	\$3,128,838	\$ 57,255	\$ 8,431	\$ 24,987	\$8,346,129	\$ 342,804

CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - CONTINUED
Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds					Internal Service Fund Equipment Replacement	
	Water	Sewer	Water Deposits	Garbage	Recycling		Total
Cash Basis Fund Balances							
Restricted for equipment replacement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 342,804
Restricted for debt service	496,067	469,551	-	-	-	965,618	-
Unrestricted	4,630,551	2,659,287	57,255	8,431	24,987	7,380,511	-
Total cash basis fund balances	\$ 5,126,618	\$ 3,128,838	\$ 57,255	\$ 8,431	\$ 24,987	\$ 8,346,129	\$ 342,804

See notes to financial statements.

CITY OF ALTOONA

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

As of and for the year ended June 30, 2005

Total enterprise funds cash balances (page 17) \$ 8,346,129

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's equipment purchases to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

17,741

Cash basis net assets of business type activities (page 12) \$ 8,363,870

Net change in cash balances (page 17) \$ 3,920,387

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the equipment purchases to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

-

Change in cash balance of business type activities (page 12) \$ 3,920,387

See notes to financial statements.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Altoona is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet 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; The Safety Coalition of Central Iowa Communities, Polk County Aviation Authority, Intergovernmental Metro Design Policy, SEP Rural Water District, HAZ-MAT Services, Sec Taylor Stadium, WRA Metropolitan Solid Waste Agreement, building inspection for the Cities of Mitchellville, Iowa and Bondurant, Iowa, Urban Standard Specifications, SEP School district, Snow Removal for various locations, Traffic Signal lights for Highway 65 and Road surfacing at various locations, Convention and Visitors Bureau, ICA, Des Moines Water Works, Fair Play Agreement, Iowa Tobacco Enforcement Compliance and WRA Facility Plan.

B. Basis of Presentation

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

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unreserved net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

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

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

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

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through enterprise funds.

The City reports the following major proprietary funds:

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

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

The Water Deposits Fund accounts for water utility deposits by residents.

The Garbage Fund accounts for the operation and maintenance of the City's residential garbage collection system.

The Recycling Fund accounts for the operation and maintenance of the City's residential garbage and yard waste recycling system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is 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 City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, all functions were within the budget guidelines.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(2) CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City had investments at June 30, 2005 are as follows:

Type	Carrying Amount	Fair Value
Certificates of deposit	<u>\$3,060,320</u>	<u>\$3,060,320</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$928,954 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Credit Risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) BONDS PAYABLE

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$1,610,000	\$ 589,721	\$ 520,000	\$315,306	\$2,130,000	\$ 905,027
2007	1,630,000	535,516	540,000	300,055	2,170,000	835,571
2008	1,980,000	561,188	560,000	283,945	2,540,000	845,133
2009	1,985,000	491,261	585,000	266,435	2,570,000	757,696
2010	2,075,000	423,393	600,000	247,480	2,675,000	670,873
2011	1,910,000	358,645	625,000	227,398	2,535,000	586,043
2012	1,090,000	288,979	625,000	206,080	1,715,000	495,059
2013	875,000	261,741	445,000	188,460	1,320,000	450,201
2014	925,000	232,361	465,000	168,510	1,390,000	400,871

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(3) BONDS PAYABLE - CONTINUED

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	985,000	200,624	495,000	147,660	1,480,000	348,284
2016	1,015,000	166,839	470,000	135,460	1,485,000	302,299
2017	720,000	139,239	500,000	114,345	1,220,000	253,584
2018	760,000	110,439	295,000	91,585	1,055,000	202,024
2019	795,000	79,174	310,000	78,900	1,105,000	158,074
2020	235,000	45,674	330,000	65,260	565,000	110,934
2021	245,000	35,451	345,000	50,410	590,000	85,861
2022	260,000	24,549	365,000	34,885	625,000	59,434
2023	275,000	12,719	385,000	18,095	660,000	30,814
	<u>\$19,370,000</u>	<u>\$4,557,513</u>	<u>\$8,460,000</u>	<u>\$2,940,269</u>	<u>\$27,830,000</u>	<u>\$7,497,782</u>

The total interest expense paid for the year ended June 30, 2005 was \$1,152,179.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- B. The City covenants to establish and maintain a Water Revenue Bond Sinking Fund in an amount equal to the maximum principal and interest coming due on all outstanding parity bonds in any succeeding fiscal year.
- C. The City covenants to establish a Water Revenue Debt Service Reserve Fund in an amount equal to the maximum principal and interest due on any one year. The amount is approximately \$360,000 at June 30, 2005.
- D. The City covenants to maintain a Water Revenue Bond Improvement Fund with an initial deposit of \$40,000. Additional funds of not less than \$750 each month will be deposited until the Fund equals or exceeds \$50,000. This account is restricted solely for the use of paying principal or interest on the Water Revenue Bonds when there is insufficient money in the Sinking Fund or Reserve Fund, and to the extent not required for the foregoing, to pay for extraordinary costs not included in the annual budget.

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- B. The City covenants to establish and maintain a Sewer Revenue Bond Sinking Fund in an amount equal to the maximum amount of principal and interest coming due on all outstanding parity bonds in any succeeding fiscal year.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(3) BONDS PAYABLE - CONTINUED

C. The City covenants to establish a Sewer Revenue Debt Service Reserve Fund. The reserve is to be partially funded from bond proceeds in an amount not to exceed 10% of the bond purchase price and funds on hand. The balance in the Reserve Fund shall equal the lesser of the maximum debt service or ten percent of the net bond proceeds on outstanding bonds and is approximated at \$235,000.

(4) WASTEWATER RECLAMATION AUTHORITY (WRA)

The WRA group was established for the primary purpose of planning, constructing, operating and managing sewer related facilities in order to solve the adjoining municipalities' waste water problems.

The WRA, as an autonomous entity, was developed as the result of a joint venture agreement between the City of Des Moines and surrounding municipalities. The City of Des Moines was designated as the operating agency for the WRA and, as such, is responsible for accounting for all disbursements relating to these projects.

On April 29, 2004 the City approved a new amended and restated agreement to be effective July 1, 2004. This agreement transfers certain facilities from the City of Des Moines to the WRA and establishes a pro rata ownership interest in the facilities by the City. New bonds were issued for the purpose of acquiring the foregoing rights and interests to the transferred assets.

The WRA issues long-term debt. The City of Altoona annually pays a portion of the bonds and interest due based on a calculated percentage. The WRA plans to issue more bonds in the future. The City of Altoona's percentage share of the outstanding bonds is adjusted annually by the WRA as new members begin to participate and projects are completed.

On June 1, 2005, the WRA issued Sewer Revenue Bonds, Series 2004B to be used for expansion of the WRA system. The City's portion of this bond issue was \$3,530,372. However, the amounts due under the issue for each city will vary in the future based on flow usage of all the members through 2034.

A summary of the City's estimated share of the bond principal and interest maturities is as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ 168,027	\$ 168,027
2007	54,346	168,027	222,373
2008	56,145	166,400	222,545
2009	57,786	164,719	222,505
2010	59,584	162,952	222,536
Post 2010	3,302,511	2,533,186	5,835,697
Total	<u>\$3,530,372</u>	<u>\$3,363,311</u>	<u>\$6,893,683</u>

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(4) WASTEWATER RECLAMATION AUTHORITY (WRA) - CONTINUED

During the year ended June 30, 2005, the City paid no principal and interest. Payments are to commence in the year ended June 30, 2006. The City is also obligated to remit a share of operating and administration costs. During the year ended June 30, 2005 those costs totaled \$82,080.

Complete financial statements for WRA can be obtained from the operating agency, the City of Des Moines.

(5) PENSION AND RETIREMENT BENEFITS

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

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 8.907%, 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 \$226,361, \$206,152 and \$167,871, respectively, equal to the required contributions for each year.

(6) COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and compensation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned vacation and sick leave termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$178,852
Compensation	<u>44,428</u>
Total	<u>\$223,280</u>

This liability has been computed based on rates of pay as of June 30, 2005.

(7) INTERFUND TRANSFERS

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

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(7) INTERFUND TRANSFERS - CONTINUED

Transfer to	Transfer from	Amount
General	Special Revenue: Tax Increment Financing	\$ 250,000
Special Revenue: Tax Increment Financing	Capital Projects	400,000
Enterprise: Water Sinking Fund	Enterprise: Water	496,947
Sewer Sinking Fund	Sewer	233,265
Internal Service Fund: Equipment Replacement Fund	General Fund	300,000
	Enterprise: Water Fund	25,000
	Sewer Fund	35,000
Debt Service	General Fund	135,750
	Special Revenue: Road Use Fund	21,747
	Tax Increment Financing	1,644,440
	Enterprise: Water Fund	234,830
	Sewer Fund	<u>130,199</u>
Total		<u>\$ 3,907,178</u>

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

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(8) RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$3,046 during the year ended June 30, 2005.

(9) 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 member's 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 disbursements 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 \$136,254.

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.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(9) RISK MANAGEMENT - CONTINUED

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 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 is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows City employees to defer a portion of their current salary until future years. These funds are held in trust for participating employees by a third party investor.

(11) CONSTRUCTION CONTRACTS

At June 30, 2005, the City had entered into construction contracts of approximately \$3,701,985 for various projects. At June 30, 2005 these projects will require future payments of approximately \$566,120 upon completion.

(12) IOWA EVENTS CENTER

The City has agreed to commit City funding for the financing of the construction of the Iowa Events Center Project located on and around the area adjacent to Veteran's Memorial Auditorium in Des Moines.

The City will provide a grant of \$291,774, to be used by the county for the project. The City grant is made to assist the county in project financing. The project is determined to benefit the residents of the City and the county.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

(12) IOWA EVENTS CENTER - CONTINUED

The first grant installment was disbursed by the City September 16, 2004 in the amount of \$36,471.75. Identical amounts will be paid through fiscal year 2012.

(13) REVENUE RESERVE BALANCES

Revenue reserve balances are not available for general operating use. They are included with their respective water or sewer cash balances on Exhibit C. Cash balances at end of year are summarized as follows:

	Water	Sewer	Garbage	Water Deposits	Recycling	Total
General operation	\$4,630,551	\$2,659,287	\$ 8,431	\$ 57,255	\$ 24,987	\$7,380,511
Sinking fund	31,375	5,673	-	-	-	37,048
Revenue reserve fund	464,692	463,878	-	-	-	928,570
	<u>\$5,126,618</u>	<u>\$3,128,838</u>	<u>\$ 8,431</u>	<u>\$ 57,255</u>	<u>\$ 24,987</u>	<u>\$8,346,129</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ALTOONA

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

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Less Funds not Required to Be Budgeted	Net	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
					Original	Final	
Receipts:							
Property tax	\$2,997,641	\$ -	\$ -	\$ 2,997,641	\$2,931,053	\$2,931,053	\$ 66,588
Tax increment financing collections	3,822,352	-	-	3,822,352	3,761,294	3,861,294	(38,942)
Other city tax	1,410,086	-	-	1,410,086	562,512	606,512	803,574
Licenses and permits	618,660	-	-	618,660	313,700	413,700	204,960
Uses of money and property	147,827	36,835	-	184,662	124,433	124,433	60,229
Intergovernmental	1,061,989	-	-	1,061,989	1,056,416	1,056,416	5,573
Charges for service	464,040	5,155,461	-	5,619,501	5,075,801	5,455,301	164,200
Special assessments	6,321	-	-	6,321	-	-	6,321
Miscellaneous	257,068	266,969	-	524,037	1,176,299	1,276,299	(752,262)
Total receipts	10,785,984	5,459,265	-	16,245,249	15,001,508	15,725,008	520,241
Disbursements:							
Public safety	2,662,869	60,460	60,460	2,662,869	2,906,775	2,950,000	287,131
Public works	887,973	62,028	62,028	887,973	959,029	1,100,000	212,027
Culture and recreation	1,536,335	53,499	53,499	1,536,335	1,481,701	1,700,000	163,665
Community and economic development	1,686,510	-	-	1,686,510	1,350,376	2,200,000	513,490
General government	249,959	-	-	249,959	577,049	602,000	352,041
Debt service	2,316,966	-	-	2,316,966	2,488,562	2,488,562	171,596
Capital projects	6,486,915	-	-	6,486,915	7,310,000	7,600,000	1,113,085
Business-type	-	5,409,119	-	5,409,119	8,349,608	7,349,608	1,940,489
Total disbursements	15,827,527	5,585,106	175,987	21,236,646	25,423,100	25,990,170	4,753,524
Excess (deficiency) of receipts over disbursements	(5,041,543)	(125,841)	(175,987)	(4,991,397)	(10,421,592)	(10,265,162)	5,273,765
Other financing sources							
Investment interest	-	15,271	-	15,271	-	-	15,271
Bond proceeds	5,695,000	4,280,000	-	9,975,000	13,608,985	14,001,000	(4,026,000)
Other	65,030	(65,030)	-	-	(3,182,985)	(3,575,000)	3,575,000
Total other financing sources	5,760,030	4,230,241	-	9,990,271	10,426,000	10,426,000	(435,729)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	718,487	4,104,400	(175,987)	4,998,874	4,408	160,838	4,838,036
Balances beginning of year	6,186,110	4,584,533	(332,230)	11,102,873	7,518,745	7,518,745	3,584,128
Balances end of year	\$ 6,904,597	\$8,688,933	\$ (508,217)	\$ 16,101,747	\$ 7,523,153	\$ 7,679,583	\$ 8,422,164

See accompanying independent auditor's report.

CITY OF ALTOONA

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental 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, except blended component units, internal service, non-expendable trust, and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital project funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, a budget amendment increased budgeted disbursements by \$883,046. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, no disbursements exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

CITY OF ALTOONA

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

As of and for the year ended June 30, 2005

	Special Revenue		Capital Projects				Total
	Employee Benefits	Drug Enforcement Agency	Westside Sewer	Sewer Plant Expansion	WRA Sewer Project	Other	
Receipts:							
Property tax	\$133,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133,500
Uses of money and property:							
Interest on investments	-	1,500	-	-	-	79	1,579
Intergovernmental:							
DEA funds	-	41,415	-	-	-	-	41,415
Hook up fees	-	-	118,005	-	-	-	118,005
Miscellaneous	-	4,200	-	-	-	-	4,200
Total receipts	133,500	47,115	118,005	-	-	79	298,699
Disbursements:							
Operating:							
Public safety	133,500	63,969	-	-	-	-	197,469
Capital projects	-	-	-	12,486	-	37,981	50,467
Total disbursements	133,500	63,969	-	12,486	-	37,981	247,936
Excess (deficiency) of receipts over (under) disbursements	-	(16,854)	118,005	(12,486)	-	(37,902)	50,763
Cash balances beginning of year	-	189,207	124,940	346,109	202,057	318,915	1,181,228
Cash balances end of year	\$ -	\$172,353	\$ 242,945	\$ 333,623	\$ 202,057	\$ 281,013	\$1,231,991
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	\$ -	\$ 172,353	\$ -	\$ -	\$ -	\$ -	\$ 172,353
Capital project funds	-	-	242,945	333,623	202,057	281,013	1,059,638
Total cash basis fund balances	\$ -	\$172,353	\$ 242,945	\$ 333,623	\$ 202,057	\$ 281,013	\$1,231,991

See accompanying independent auditor's report.

CITY OF ALTOONA

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds:									
Library Bonds Series 1996A	Nov. 1, 1996	5.00 - 5.30%	\$ 3,700,000	\$ 3,000,000	\$ -	\$ 150,000	\$ 2,850,000	\$ 155,850	\$ -
Refunding Bonds Series 1996B	Nov. 1, 1996	5.00 - 5.20	2,370,000	1,705,000	-	285,000	1,420,000	86,105	-
Water Bonds Series 1997	Nov. 1, 1997	4.50 - 4.85	1,700,000	1,265,000	-	110,000	1,155,000	59,210	-
Corporate Purpose Series 2000	Oct. 1, 2000	4.50 - 4.75	2,800,000	1,940,000	-	240,000	1,700,000	89,430	-
Urban Renewal Series 2001	Apr. 1, 2001	3.60 - 4.10	4,700,000	3,485,000	-	440,000	3,045,000	133,758	-
Corporate Purpose Series 2003A	Oct. 20, 2003	2.50 - 4.625	3,940,000	3,775,000	-	170,000	3,605,000	140,524	-
Urban Renewal/Corporate Purpose Series 2004C	Sept. 1, 2004	3.00 - 4.20	5,695,000	-	5,695,000	100,000	5,595,000	157,089	-
				15,170,000	5,695,000	1,495,000	19,370,000	821,966	-
Revenue bonds:									
Water	Nov. 1, 1997	4.875 - 5.00	2,275,000	2,060,000	-	90,000	1,970,000	101,999	-
Sewer	Feb. 1, 2002	4.00 - 4.20	1,730,000	1,565,000	-	170,000	1,395,000	63,265	-
Water Refunding Series 2004	Mar. 3, 2004	1.80 - 3.15	955,000	955,000	-	140,000	815,000	28,141	-
Water Series 2004B	Sept. 1, 2004	4.00 - 4.70	4,280,000	-	4,280,000	-	4,280,000	136,808	-
				4,580,000	4,280,000	400,000	8,460,000	330,213	-
Wastewater Reclamation Authority Series 2004B (See Note 4)	Jun. 1, 2005	3.00-5.00	3,510,372	-	3,510,372	-	3,510,372	-	-
				4,580,000	7,790,372	400,000	11,970,372	330,213	-
Total				\$19,750,000	\$13,485,372	\$1,895,000	\$31,340,372	\$1,152,179	\$ -

See accompanying independent auditor's report.

CITY OF ALTOONA

BOND MATURITIES

June 30, 2005

General Obligation Bonds

Year Ending June 30,	Library Bonds Series 1996A Issued November 1, 1996		Refunding Bonds Series 1996B Issued November 1, 1996		Water Bonds Series 1997 Issued November 1, 1997		Corporate Purpose Series 2000 Issued October 1, 2000		Urban Renewal Corporate Purpose Series 2001 Issued April 1, 2001		Corporate Purpose Series 2003A Issued October 20, 2003		Urban Renewal Corporate Purpose Series 2004C Issued September 1, 2004		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2006	5.00%	\$ 200,000	5.00%	\$ 280,000	4.50%	\$ 115,000	4.50%	\$ 250,000	3.60%	\$ 455,000	2.50%	\$ 210,000	3.00%	\$ 100,000	\$ 1,610,000
2007	5.00	200,000	5.00	275,000	4.50	115,000	4.55	260,000	3.75	475,000	3.00	205,000	3.00	100,000	1,630,000
2008	5.00	225,000	5.00	295,000	4.60	130,000	4.60	275,000	3.85	495,000	3.00	210,000	3.25	350,000	1,980,000
2009	5.10	225,000	5.10	285,000	4.70	160,000	4.65	290,000	3.95	515,000	3.00	145,000	3.25	365,000	1,985,000
2010	5.20	250,000	5.20	285,000	4.75	165,000	4.70	305,000	4.00	540,000	3.00	150,000	3.25	380,000	2,075,000
2011	5.25	250,000	-	-	4.80	225,000	4.75	320,000	4.10	565,000	3.25	155,000	3.30	395,000	1,910,000
2012	5.30	275,000	-	-	4.85	245,000	-	-	-	-	3.50	160,000	3.50	410,000	1,090,000
2013	5.30	275,000	-	-	-	-	-	-	-	-	3.50	170,000	3.60	430,000	875,000
2014	5.30	300,000	-	-	-	-	-	-	-	-	3.70	175,000	3.70	450,000	925,000
2015	5.30	325,000	-	-	-	-	-	-	-	-	3.85	185,000	3.80	475,000	985,000
2016	5.30	325,000	-	-	-	-	-	-	-	-	4.00	195,000	4.00	495,000	1,015,000
2017	-	-	-	-	-	-	-	-	-	-	4.00	200,000	4.00	520,000	720,000
2018	-	-	-	-	-	-	-	-	-	-	4.15	210,000	4.10	550,000	760,000
2019	-	-	-	-	-	-	-	-	-	-	4.25	220,000	4.20	575,000	795,000
2020	-	-	-	-	-	-	-	-	-	-	4.35	235,000	-	-	235,000
2021	-	-	-	-	-	-	-	-	-	-	4.45	245,000	-	-	245,000
2022	-	-	-	-	-	-	-	-	-	-	4.55	260,000	-	-	260,000
2023	-	-	-	-	-	-	-	-	-	-	4.625	275,000	-	-	275,000
Total		<u>\$2,850,000</u>		<u>\$1,420,000</u>		<u>\$1,155,000</u>		<u>\$1,700,000</u>		<u>\$3,045,000</u>		<u>\$3,605,000</u>		<u>\$5,595,000</u>	<u>\$19,370,000</u>

See accompanying independent auditor's report.

CITY OF ALTOONA

BOND MATURITIES

June 30, 2005

Revenue Bonds									
Ending June 30,	Water Year Issued November 1, 1997		Sewer Issued February 1, 2002		Water Refunding Issued March 3, 2004		Water Series 2004 B Issued September 1, 2004		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2006	4.875%	\$ 95,000	4.00%	\$ 175,000	1.80%	\$ 140,000	4.00%	\$ 110,000	520,000
2007	4.90	100,000	4.00	185,000	2.20	155,000	4.00	100,000	540,000
2008	4.90	115,000	4.00	190,000	2.50	155,000	4.00	100,000	560,000
2009	4.90	120,000	4.00	200,000	2.70	125,000	4.00	140,000	585,000
2010	4.90	125,000	4.00	205,000	3.00	125,000	4.00	145,000	600,000
2011	4.90	130,000	4.10	215,000	3.15	115,000	4.00	165,000	625,000
2012	4.90	180,000	4.20	225,000	-	-	4.00	220,000	625,000
2013	5.00	215,000	-	-	-	-	4.00	230,000	445,000
2014	5.00	225,000	-	-	-	-	4.00	240,000	465,000
2015	5.00	240,000	-	-	-	-	4.00	255,000	495,000
2016	5.00	205,000	-	-	-	-	4.10	265,000	470,000
2017	5.00	220,000	-	-	-	-	4.20	280,000	500,000
2018	-	-	-	-	-	-	4.30	295,000	295,000
2019	-	-	-	-	-	-	4.40	310,000	310,000
2020	-	-	-	-	-	-	4.50	330,000	330,000
2021	-	-	-	-	-	-	4.50	345,000	345,000
2022	-	-	-	-	-	-	4.60	365,000	365,000
2023	-	-	-	-	-	-	4.70	385,000	385,000
		<u>\$1,970,000</u>		<u>\$1,395,000</u>		<u>\$ 815,000</u>		<u>\$4,280,000</u>	<u>\$8,460,000</u>

See accompanying independent auditor's report.

CITY OF ALTOONA

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

	Years ended June 30,			
	2005	2004	2003	2002
Receipts:				
Property tax	\$2,997,641	\$ 2,865,547	\$ 2,678,720	\$ 2,638,964
Other city tax				
Hotel/motel	526,819	484,003	447,529	371,667
Lottery	883,267	-	-	-
Total property and other city tax	<u>4,407,727</u>	<u>3,349,550</u>	<u>3,126,249</u>	<u>3,010,631</u>
Tax increment financing collections	3,822,352	3,438,325	2,733,657	2,063,652
Licenses and permits	618,660	601,370	358,481	320,128
Use of money and property	147,827	65,037	129,639	341,603
Intergovernmental:				
Road use tax	860,477	861,943	842,356	828,610
Library	129,285	134,060	103,188	95,596
State allocation	17,555	15,198	100,022	105,488
Grants	602	537,972	417,608	56,621
Bank franchise tax	2,262	15,198	23,426	5,569
Drug enforcement	41,415	164,451	34,557	21,131
Miscellaneous	10,393	20,803	2,156	2,365
Total intergovernmental	<u>1,061,989</u>	<u>1,749,625</u>	<u>1,523,313</u>	<u>1,115,380</u>
Charges for service	5,647,020	5,351,291	4,371,909	3,532,950
Special assessments	6,321	-	-	4,205
Miscellaneous	10,523,622	5,753,320	854,790	1,347,754
Total	<u>26,235,518</u>	<u>20,308,518</u>	<u>13,098,038</u>	<u>11,736,303</u>
Disbursements:				
Operating:				
Public safety	2,723,329	2,467,932	2,287,810	
Public works	950,001	1,072,167	1,681,339	
Culture and recreation	1,589,834	2,389,236	1,278,648	
Community and economic development	1,686,510	1,208,469	776,225	
General government	249,959	344,160	390,571	
Debt service	2,385,084	2,552,061	1,937,512	
Capital projects	6,418,797	531,572	3,193,364	
Business-type activities	5,289,755	7,507,277	3,222,362	
Total	<u>\$21,293,269</u>	<u>\$18,072,874</u>	<u>\$14,767,831</u>	<u>\$17,019,085</u>

*

*This year was recorded using a chart of accounts based on the four programs of community protection, human development, home and community environment, and policy and administration.

See accompanying independent auditor's report.



MARTENS & COMPANY, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
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**Independent Auditor's 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**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Altoona, Iowa as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 22, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item II-A-05.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Altoona'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 II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-05.

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 Altoona and other parties to whom the City of Altoona may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Altoona 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.

Martens & Company, CPA, P.C.

West Des Moines, Iowa
August 22, 2005

CITY OF ALTOONA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepting accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF ALTOONA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-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 that the following functions are not entirely segregated: cash receipts, general ledger posting, reconciliations and investment control and custody.

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

Response - We will consider this.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-05 Computer System Control - The design and controls established over the computer system process is very important in providing assurance and financial integrity of the City's financial records. We noted some weaknesses in the policies and controls.

Recommendation - Controls should be established to prevent after hour computer usage. There should be a written disaster recovery plan.

Response - We will consider this.

Conclusion - Response acknowledged. Once established, the recommended policies and procedures will add a measure of assurance to the City's financial records.

CITY OF ALTOONA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2005

REPORTABLE CONDITIONS:

II-C-05 Bank Reconciliations - It was noted on the June 30, 2005 outstanding check list that some outstanding checks were dated as early as July 1, 2002. This could result in understating the correct fund balances.

Recommendation - All checks over one year old should be investigated and cleared from the outstanding list if so warranted.

Response - We will clean up the outstanding check list.

Conclusion - Response acknowledged.

CITY OF ALTOONA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting:

- III-A-05 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- III-B-05 Certified Budget - Disbursements during the year ended June 30, 2005, did not exceed the amounts budgeted.
- III-C-05 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-05 Travel Expenses - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-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>
Timothy J. Burget, Mayor	Conference, cell phone expense	\$ 493
Josiah (Skip) Conkling, Council member	Washington D.C. conference	\$ 1,793
Matt Davenport	Cell phone expense, computer	\$ 260
Charles Franklin	Computer	\$ 500

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Mayor and the Council Members do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transaction with Josiah (Skip) Conkling does not appear to represent a conflict of interest since it was in conjunction with The Greater Des Moines Partnership trip.

CITY OF ALTOONA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting :

- III-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 ensure that the coverage is adequate for current operations.
- III-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council Minutes but were not.
- III-H-05 Revenue Bonds - All provisions of the revenue bond requirements have been met.
- III-I-05 Deposits and Investments - We noted 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.