



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

April 2, 2004

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Auditor of State David A. Vaudt today released an audit report on the City of Iowa Falls, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2003, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included is Management's Discussion and Analysis of the City's financial statements.

The City had revenues of \$17,700,705 for the year ended June 30, 2003. The revenues included \$1,569,871 in local taxes, \$800,787 for tax increment financing revenues, \$12,556,359 from charges for service, \$1,172,813 from operating grants, contributions and restricted interest, \$418,467 from capital grants, contributions and restricted interest, \$427,700 from local option sales tax, \$120,727 from unrestricted investment earnings and \$633,981 from other general revenues.

Expenses for the year totaled \$16,675,792 and included \$1,192,338 for public safety, \$882,916 for culture and recreation, and \$814,684 for public works. Expenses for business type activities totaled \$12,787,055.

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

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CITY OF IOWA FALLS, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2003

Table of Contents

		<u>Page</u>
List of Principal Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14-17
Statement of Activities	B	18-19
Governmental Fund Financial Statements:		
Balance Sheet	C	20-23
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	25
Statement of Revenues, Expenditures and Changes in Fund Balances	E	26-27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	29
Proprietary Fund Financial Statements:		
Statement of Net Assets – Enterprise Funds	G	30-33
Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Funds	H	34-35
Statement of Cash Flows – Enterprise Funds	I	36-39
Notes to Financial Statements		40-57
Required Supplementary Information:	<u>Schedule</u>	
Budgetary Comparison Schedule of Receipts/Revenues, Disbursements/Expenses and Changes in Balances/Net Assets – Budget and Actual – All Governmental Funds, Proprietary Funds and Discretely Presented Component Unit		60-61
Budget to GAAP Reconciliation		62
Notes to Required Supplementary Information – Budgetary Reporting		63
Other Supplementary Information:		
Nonmajor Special Revenue Funds:		
Combining Balance Sheet	1	66-67
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	68-69
Bond and Note Maturities	3	70-71
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	4	72
Schedule of Expenditures of Federal Awards	5	73
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		77-78
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance		81-82
Schedule of Findings and Questioned Costs		83-89
Staff		90

City of Iowa Falls

List of Principal Officials

June 30, 2003

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rocky Lavallo	Mayor	Jan 2004
Frankie Tjarks	Mayor Pro tem	Jan 2004
Jody Anderson	Council Member	Jan 2004
Diane Meier	Council Member	Jan 2004
Judy Crawford	Council Member	Jan 2006
Mark Messa	Council Member	Jan 2006
Mike Hays	City Manager	Resigned
Brent Bury (Appointed Mar 2003)	City Manager	Jul 2003
Lisa Hamilton	City Clerk/Treasurer	Resigned
Brent Hinson	City Clerk/Finance Director	Jul 2004
Clark McNeal	Attorney	Jul 2003
Doug Strike	Police Chief	Jul 2003
Marlyn Humphrey	Fire Chief	Indefinite
Deanne Henry	Library Director	Indefinite
Brian Lorenzen	Park Superintendent	Indefinite
Merlin Clock	Street/Sanitation Superintendent	Indefinite
Elvin Van Kooten	Building and Zoning	Indefinite
Robert Wright	Water/Wastewater Superintendent	Indefinite
Jolene Liekweg	Deputy City Clerk	Indefinite
Norm Kastendick	Hospital Board of Trustees	Jan 2004
Francis Pisney	Hospital Board of Trustees	Jan 2004
Diana Ruhl	Hospital Board of Trustees, Secretary	Jan 2004
Kraig Kasischke	Hospital Board of Trustees	Jan 2006
John Swartz	Hospital Board of Trustees, Chairman	Jan 2006
John O'Brien	Hospital Administrator	Indefinite
Betty Riley	Hospital Accountant	Indefinite

City of Iowa Falls



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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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Iowa Falls, Iowa, as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Iowa Falls' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Hospital Fund, an Enterprise Fund. Those financial statements were audited by other independent auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hospital Fund, is based solely upon the report of the other independent auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Iowa Falls at June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.


As described in Note 17 to the financial statements, during the year ended June 30, 2003, the City of Iowa Falls adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated December 4, 2003 on our consideration of the City of Iowa Falls' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 60 through 63 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Iowa Falls' basic financial statements. The other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 4, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Iowa Falls' Annual Financial Report presents the Management's Discussion and Analysis of the City's financial activities during the fiscal year ended June 30, 2003. The analysis focuses on the City's financial performance as a whole. Please read it in conjunction with the City's financial statements, which immediately follow this section.

Because the City of Iowa Falls is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- The assets of the City of Iowa Falls exceeded liabilities at June 30, 2003 by \$26,414,386. Of this amount, \$5,425,001 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$1,024,913 during the year. Of this amount the assets of our governmental activities increased \$875,843 and the assets of our business type activities increased by \$149,070.

USING THIS 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 City's financial activities.

Government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

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 that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information, other than MD&A, provides information about the required budgetary comparison information.

Other Supplementary Information provides detailed information about the nonmajor special revenue funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The Government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. These two statements report the City's net assets, which is the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the City's property tax base and the condition of the City's infrastructure are also important in making this determination.

In the Statement of Net Assets and the Statement of Activities, we have divided the City into three kinds of activities:

- **Governmental Activities** - Most of the City's basic services are reported here, such as 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** - This activity includes the waterworks, the sanitary sewer system, the City's sanitation department and the hospital. These activities are financed primarily by user charges.
- **Component Unit** - This includes operations that are legally separate from the City but for which the City is financially accountable. The City's discretely presented component unit is the Iowa Falls Municipal Airport Authority.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The fund financial statements 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 control and manage money for particular purposes (such as construction or street projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The City has two kinds of funds:

Governmental Funds

The Governmental funds account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Tax Increment Financing Revenues and Economic Development Loans; the Debt Service Fund; and the Capital Projects Fund. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund 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 financial statements required for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Proprietary Funds

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

The financial statements required for proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Fund Net Assets and a Statement of Cash Flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following analysis shows the City's total net assets at June 30, 2003.

	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 6,087,584	8,162,165	14,249,749
Capital assets	11,769,563	14,044,424	25,813,987
Total assets	<u>17,857,147</u>	<u>22,206,589</u>	<u>40,063,736</u>
Long-term liabilities	4,100,040	5,683,436	9,783,476
Other liabilities	2,909,489	956,385	3,865,874
Total liabilities	<u>7,009,529</u>	<u>6,639,821</u>	<u>13,649,350</u>
Net assets:			
Invested in capital assets, net of related debt	7,865,127	8,344,084	16,209,211
Restricted	3,297,600	1,482,574	4,780,174
Unrestricted	<u>(315,109)</u>	<u>5,740,110</u>	<u>5,425,001</u>
Total net assets	<u>\$10,847,618</u>	<u>15,566,768</u>	<u>26,414,386</u>

Net assets of governmental activities increased from FY02 by approximately \$876,000 or 8.8%. Net assets of the business type activities increased from FY02 by approximately \$149,000 or .97%. The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements, is approximately \$5.4 million.

The following analysis provides the changes in the net assets for the City's governmental and business type activities.

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for service	\$ 233,155	12,323,791	12,556,946
Operating grants, contributions and restricted interest	1,141,574	31,239	1,172,813
Capital grants, contributions and restricted interest	418,467	-	418,467
General revenues:			
Property tax for general purposes	1,285,719	-	1,285,719
Property tax for debt service	284,152	-	284,152
Tax increment financing revenues	800,787	-	800,787
Local option sales tax	427,700	-	427,700
Grants and contributions not restricted to specific purpose	100,930	-	100,930
Unrestricted investment earnings	24,811	95,916	120,727
Miscellaneous	47,285	485,179	532,464
Total revenues	<u>4,764,580</u>	<u>12,936,125</u>	<u>17,700,705</u>
Program expenses:			
Public safety	1,192,338	-	1,192,338
Public works	814,684	-	814,684
Culture and recreation	882,916	-	882,916
Community and economic development	446,844	-	446,844
General government	349,905	-	349,905
Interest on long-term debt	202,050	-	202,050
Water	-	452,581	452,281
Wastewater	-	673,958	673,958
Hospital	-	11,071,204	11,071,204
Sanitation	-	589,312	589,312
Total expenses	<u>3,888,737</u>	<u>12,787,055</u>	<u>16,675,792</u>
Increase in net assets	875,843	149,070	1,024,913
Net assets July 1, 2002 (as restated)	<u>9,971,775</u>	<u>15,417,698</u>	<u>25,389,473</u>
Net assets June 30, 2003	<u>\$ 10,847,618</u>	<u>15,566,768</u>	<u>26,414,386</u>

The City of Iowa Falls increased property tax rates by \$.34 in FY03. There was a decrease in taxable property valuation \$1,453,729.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

At June 30, 2003, the City of Iowa Falls' governmental funds reported a total fund balance of \$2,962,945, which is less than the \$3,431,254 total fund balance at June 30, 2002.

The General Fund, the operating fund for the City of Iowa Falls, ended FY03 with a \$715,937 balance compared to the prior year ending fund balance of \$719,145.

The Tax Increment Financing Revenues Fund accounts for proceeds from the tax authorized by ordinance in the urban renewal district which are used to pay the principal and interest on indebtedness incurred for urban renewal redevelopment projects. This fund ended FY03 with a \$(498,211) deficit balance compared to the prior year ending deficit balance of \$(350,717). The deficit fund balance is a result of providing loans to other funds for urban renewal projects prior to collection of tax increment financing revenues.

The Economic Development Loans Fund, which accounts for economic development loans made to businesses operating in the City and to other City funds, ended FY03 with a \$1,159,832 balance compared to the prior year ending fund balance of \$1,048,394. Loans receivable from businesses decreased from June 30, 2002 by \$220,167.

The Debt Service Fund ended FY03 with a \$71,773 balance compared to the prior year ending fund balance of \$65,975. Bond principal and interest payments increased by \$85,090 in FY03.

The Capital Projects Fund ended FY03 with a \$(317,506) deficit balance compared to the prior year ending balance of \$175,032. The deficit is a result of project costs exceeding available funds. The deficit will be eliminated through future transfers from other funds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended FY03 with a \$2,718,742 net asset balance compared to the prior year ending net asset balance of \$2,675,546.

The Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended FY03 with a \$3,912,891 net asset balance compared to the prior year ending net asset balance of \$3,900,913.

The Hospital Fund, which accounts for the operation and maintenance of the Ellsworth Municipal Hospital, ended FY03 with a \$8,607,628 net asset balance compared to the prior year ending net asset balance of \$8,528,492.

BUDGETARY HIGHLIGHTS

During the year ended June 30, 2003, the City amended the budget twice. The first amendment was done in January 2003 and the second amendment was made in May 2003. These amendments were needed to cover unplanned disbursements and disbursements associated with projects that carried over from the prior fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure, represents the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled \$11,769,563 (net of accumulated depreciation) at June 30, 2003. Capital assets for business type activities totaled \$14,044,424 (net of accumulated depreciation) at June 30, 2003. See Note 4 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included construction of the Iowa Falls Fire and Training Center and renovation of the Carnegie-Ellsworth building. The City also reported infrastructure of \$5,831,789, which consists primarily of street construction.

For business type activities, major additions included an iron filter for the water plant and equipment for the hospital.

Construction in progress at June 30, 2003 for governmental activities consists primarily of renovation of the Carnegie-Ellsworth building and street projects.

Long-Term Debt

At June 30, 2003, the City of Iowa Falls had \$4,100,040 in total long-term debt for the governmental activities. Total long-term debt in the business type activities was \$6,004,864 at June 30, 2003. More detailed information about the City's long-term debt is provided below:

- The City had \$3,945,000.00 in total general obligation bonds/notes outstanding as of June 30, 2003.
- The City had \$5,223,265 in total revenue bonds/notes outstanding as of June 30, 2003, including \$2,539,265 in revenue notes payable by the Ellsworth Municipal Hospital.
- During the year ended June 30, 2003, the City of Iowa Falls issued a total of \$965,000 in general obligation bonds. These bonds were issued to finance the City's 2003 street program and a portion of the costs for the Iowa Falls Fire and Training Center.

ECONOMIC FACTORS

Several economic factors affected decisions made by the City in setting its FY04 budget. The City of Iowa Falls will experience a significant drop in General Fund revenues and expenditures from FY03 to FY04. The major factors that will play a role in this change are the reduction in intergovernmental revenue and decrease in property valuation for FY04.

In March 2003, the State Legislature eliminated several payments to local governments including the Bank Franchise Tax, the Personal Property Tax Replacement and the Machinery and Equipment Tax. Due to these cuts, the City will experience a reduction in revenue of approximately \$120,000 causing the City to cut operating budgets. The elimination of these payments was made by the Legislature after the FY04 budget was certified, so the original budget document does not reflect the changes. The budget was amended in October 2003 to include these changes. Other economic factors that will impact the General Fund are the reduction in overall property valuation and the Alliant Energy tax settlement, which will reduce the utility excise tax collected by the City.

The General Fund is projected to end FY04 with a fund balance of \$683,989, a 4.46% decrease from FY03.

The tax levy rates per \$1,000 of taxable valuation for FY03 are provided below:

General Levy	\$ 8.10
Aviation Levy	0.27
Debt Service Levy	2.47075
Trust and Agency Levy	5.408010
Tort Liability Levy	<u>0.94434</u>
Total	<u>\$ 17.19310</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact Administration at the City of Iowa Falls, 315 Stevens Street, P.O. Box 698, Iowa Falls, Iowa 50126 or call (641) 648-2527.

Financial Statements

City of Iowa Falls
Statement of Net Assets
June 30, 2003

	Primary Government	
	Governmental Activities	Business Type Activities
Assets		
Cash and pooled investments	\$ 3,224,449	2,885,827
Receivables:		
Property tax:		
Delinquent	26,280	-
Succeeding year	1,528,000	-
Tax increment financing:		
Delinquent	33,200	-
Succeeding year	747,000	-
Economic development loans	196,215	-
Customer accounts and unbilled usage (net of allowances for uncollectibles of \$320,000)	-	2,335,470
Accounts	9,917	30,359
Accrued interest	5,286	5,285
Due from other governments	523,280	-
Internal balances	(296,167)	296,167
Inventories	-	368,267
Prepaid expenses	90,124	131,187
Restricted assets:		
Cash and pooled investments	-	1,672,947
Accrued interest on restricted assets	-	11,100
Investment in affiliated organizations	-	401,854
Capital assets (net of accumulated depreciation)	11,769,563	14,044,424
Bond issuance costs	-	23,702
Total assets	17,857,147	22,206,589
Liabilities		
Accounts payable	463,438	303,294
Accrued interest payable	13,591	-
Salaries and benefits payable	40,533	180,313
Contracts payable	111,860	1,047
Due to other governments	5,067	12,510
Third-party payor settlements	-	108,819
Deferred revenue:		
Succeeding year property tax	1,528,000	-
Succeeding year tax increment financing	747,000	-

Total	Component Unit Airport Authority
6,110,276	-
26,280	435
1,528,000	23,000
33,200	-
747,000	-
196,215	-
2,335,470	-
40,276	167
10,571	-
523,280	-
-	-
368,267	-
221,311	-
1,672,947	-
11,100	-
401,854	-
25,813,987	977,297
23,702	-
40,063,736	1,000,899
766,732	5,117
13,591	-
220,846	-
112,907	-
17,577	-
108,819	-
1,528,000	23,000
747,000	-

City of Iowa Falls
Statement of Net Assets
June 30, 2003

	Primary Government	
	Governmental Activities	Business-Type Activities
Liabilities (continued)		
Liabilities payable from restricted assets:		
Customer deposits	-	19,602
Revenue bonds/notes payable	-	321,428
Accrued and matured interest payable	-	9,372
Long-term liabilities:		
Portion due or payable within one year:		
General obligation bonds/notes	570,000	-
Capital lease	-	107,317
Compensated absences	45,764	263,635
Portion due or payable after one year:		
General obligation bonds/notes (net of \$7,455 unamortized discount)	3,367,545	-
Revenue bonds/notes payable	-	4,901,837
Capital lease	-	369,758
Compensated absences	116,731	40,889
Total liabilities	7,009,529	6,639,821
Net Assets		
Invested in capital assets, net of related debt	7,865,127	8,344,084
Restricted for:		
Local option sales tax	1,139,912	-
Economic development loans	1,356,796	-
Carnegie library	639,495	-
Debt service	59,444	-
Road purposes	31,796	-
Revenue bond retirement	-	142,499
Wastewater replacement	-	55,735
Wastewater improvement	-	100,000
Capital improvements by donors	-	875,888
Bond indentures	-	308,452
Other purposes	70,157	-
Unrestricted	(315,109)	5,740,110
Total net assets	\$ 10,847,618	15,566,768

See notes to financial statements.

Total	Component Unit Airport Authority
19,602	-
321,428	-
9,372	-
570,000	-
107,317	-
309,399	-
3,367,545	-
4,901,837	-
369,758	-
157,620	-
13,649,350	28,117
16,209,211	977,297
1,139,912	-
1,356,796	-
639,495	-
59,444	-
31,796	-
142,499	-
55,735	-
100,000	-
875,888	-
308,452	-
70,157	-
5,425,001	(4,515)
26,414,386	972,782

City of Iowa Falls
Statement of Activities
Year ended June 30, 2003

Functions / Programs:	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Primary Government:				
Governmental activities:				
Public safety	\$ 1,192,338	66,129	46,842	134,974
Public works	814,684	11,838	424,467	145,449
Culture and recreation	882,916	141,217	98,946	-
Community and economic development	446,844	-	566,897	15,129
General government	349,905	13,971	-	122,915
Interest on long-term debt	202,050	-	4,422	-
Total governmental activities	<u>3,888,737</u>	<u>233,155</u>	<u>1,141,574</u>	<u>418,467</u>
Business type activities				
Water	452,581	472,865	15,377	-
Wastewater	673,958	666,232	1,196	-
Hospital	11,071,204	10,581,999	14,666	-
Other non-major	589,312	602,108	-	-
Total business type activities	<u>12,787,055</u>	<u>12,323,204</u>	<u>31,239</u>	<u>-</u>
Total Primary Government	<u>\$ 16,675,792</u>	<u>12,556,359</u>	<u>1,172,813</u>	<u>418,467</u>
Component unit:				
Airport Authority	\$ 133,593	3,163	-	-

General Revenues:

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

Change in net assets

Net assets beginning of year, as restated (note 17)

Net assets end of year

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets				Component Unit
Primary Government				Airport Authority
Governmental Activities	Business Type Activities	Total		
(944,393)	-	(944,393)		-
(232,930)	-	(232,930)		-
(642,753)	-	(642,753)		-
135,182	-	135,182		-
(213,019)	-	(213,019)		-
(197,628)	-	(197,628)		-
<u>(2,095,541)</u>	<u>-</u>	<u>(2,095,541)</u>		<u>-</u>
-	35,661	35,661		-
-	(6,530)	(6,530)		-
-	(474,539)	(474,539)		-
-	12,796	12,796		-
<u>-</u>	<u>(432,612)</u>	<u>(432,612)</u>		<u>-</u>
<u>(2,095,541)</u>	<u>(432,612)</u>	<u>(2,528,153)</u>		<u>-</u>
-	-	-		<u>(130,430)</u>
1,285,719	-	1,285,719		26,213
284,152	-	284,152		-
800,787	-	800,787		-
427,700	-	427,700		-
100,930	-	100,930		-
24,811	95,916	120,727		-
47,285	485,766	533,051		28,894
<u>2,971,384</u>	<u>581,682</u>	<u>3,553,066</u>		<u>55,107</u>
875,843	149,070	1,024,913		(75,323)
<u>9,971,775</u>	<u>15,417,698</u>	<u>25,389,473</u>		<u>1,048,105</u>
<u>\$ 10,847,618</u>	<u>15,566,768</u>	<u>26,414,386</u>		<u>972,782</u>

City of Iowa Falls
Balance Sheet
Governmental Funds
June 30, 2003

	General	Special Revenue	
		Tax Increment Financing Revenues	Economic Development Loans
Assets			
Cash and pooled investments	\$ 679,236	-	1,088,944
Receivables:			
Property tax:			
Delinquent	14,410	-	-
Succeeding year	785,000	-	-
Tax increment financing:			
Delinquent	-	33,200	-
Succeeding year	-	747,000	-
Economic development loans			196,215
Accounts	8,111	-	-
Accrued interest	967	-	2,298
Due from other governments	49,801	-	383,692
Interfund receivable	-	-	102,803
Advances to other funds	464	43,645	10,181
Prepaid expenditures	90,123	-	-
Total assets	\$ 1,628,112	823,845	1,784,133
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 69,013	-	383,692
Salaries and benefits payable	40,533	-	-
Contracts payable	6,335	-	-
Due to other governments	5,067	-	-
Deferred revenue:			
Succeeding year property tax	785,000	-	-
Succeeding year tax increment financing	-	747,000	-
Other	6,227	20,644	196,964
Interfund payable	-	119,267	-
Advances from other funds	-	435,145	43,645
Total liabilities	912,175	1,322,056	624,301

Debt Service	Capital Projects	Nonmajor Special Revenue	Total
67,991	440,273	948,005	3,224,449
4,948	-	6,922	26,280
275,000	-	468,000	1,528,000
-	-	-	33,200
-	-	-	747,000
-	-	-	196,215
-	1,800	6	9,917
97	596	1,328	5,286
-	15,097	74,691	523,281
-	-	113,000	215,803
-	-	690,522	744,812
-	-	-	90,123
<u>348,036</u>	<u>457,766</u>	<u>2,302,474</u>	<u>7,344,366</u>
-	9,222	1,511	463,438
-	-	-	40,533
-	105,525	-	111,860
-	-	-	5,067
275,000	-	468,000	1,528,000
-	-	-	747,000
1,263	1,800	1,843	228,741
-	170,790	-	290,057
-	487,935	-	966,725
<u>276,263</u>	<u>775,272</u>	<u>471,354</u>	<u>4,381,421</u>

City of Iowa Falls
Balance Sheet
Governmental Funds
June 30, 2003

		Special Revenue	
		Tax Increment	Economic
		Financing	Development
	General	Revenues	Loans
Liabilities and Fund Balances (continued)			
Fund balances:			
Reserved for:			
Prepaid expenditures	90,123	-	-
Debt service	-	-	-
Advances to other funds	464	43,645	10,181
Unreserved:			
Designated for library gifts and memorials	40,989	-	-
Designated for park gifts and memorials	7,406	-	-
Designated for future equipment purchases/capital improvements	100,024	-	-
Undesignated:			
Reported in:			
General fund	476,931	-	-
Special revenue funds	-	(541,856)	1,149,651
Capital projects fund	-	-	-
Total fund balances	715,937	(498,211)	1,159,832
Total liabilities and fund balances	\$ 1,628,112	823,845	1,784,133

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor Special Revenue	Total
-	-	-	90,123
71,773	-	-	71,773
-	-	690,522	744,812
-	-	-	40,989
-	-	-	7,406
-	-	-	100,024
-	-	-	476,931
-	-	1,140,598	1,748,393
-	(317,506)	-	(317,506)
71,773	(317,506)	1,831,120	2,962,945
348,036	457,766	2,302,474	7,344,366

City of Iowa Falls

City of Iowa Falls

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

June 30, 2003

Total governmental fund balances (page 23) \$ 2,962,945

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 assets is \$16,905,143 and the accumulated depreciation is \$5,135,580. 11,769,563

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 228,741

Long-term liabilities, including bonds payable, accrued interest payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. (4,113,631)

Net assets of governmental activities (page 16) \$ 10,847,618

See notes to financial statements.

City of Iowa Falls

Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)

Governmental Funds

Year ended June 30, 2003

	<u>Special Revenue</u>			
	General	Tax		Debt Service
Increment Financing Revenues		Economic Development Loans		
Revenues:				
Property tax	\$ 787,958	-	-	262,736
Tax increment financing	-	781,318	-	-
Other city tax	97,043	-	-	20,313
Licenses and permits	41,528	-	-	-
Use of money and property	12,631	-	33,206	4,422
Intergovernmental	308,849	-	383,692	-
Charges for service	146,660	-	-	-
Miscellaneous	104,653	-	78,232	185
Total revenues	<u>1,499,322</u>	<u>781,318</u>	<u>495,130</u>	<u>287,656</u>
Expenditures:				
Operating:				
Public safety	1,081,162	-	-	-
Public works	436,786	-	-	-
Culture and recreation	668,445	-	-	-
Community and economic development	868	50,000	383,692	-
General government	335,867	-	-	-
Debt service	-	30,400	-	667,191
Capital projects	-	-	-	-
Total expenditures	<u>2,523,128</u>	<u>80,400</u>	<u>383,692</u>	<u>667,191</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,023,806)</u>	<u>700,918</u>	<u>111,438</u>	<u>(379,535)</u>
Other financing sources (uses):				
Operating transfers in	1,008,938	-	-	385,333
Operating transfers out	(351)	(848,412)	-	-
General obligation bonds issued	-	-	-	-
Discount on general obligation bonds	-	-	-	-
Total other financing sources (uses)	<u>1,008,587</u>	<u>(848,412)</u>	<u>-</u>	<u>385,333</u>
Net change in fund balances	(15,219)	(147,494)	111,438	5,798
Fund balances (deficit) beginning of year, as restated (note 17)	719,145	(350,717)	1,048,394	65,975
Increase in reserve for prepaid expenditures	12,011	-	-	-
Fund balances (deficit) end of year	<u>\$ 715,937</u>	<u>(498,211)</u>	<u>1,159,832</u>	<u>71,773</u>

See notes to financial statements.

Capital Projects	Nonmajor Special Revenue	Total
-	377,704	1,428,398
-	-	781,318
-	465,106	582,462
-	-	41,528
7,868	37,024	95,151
282,902	419,279	1,394,722
-	-	146,660
156,936	8,217	348,223
447,706	1,307,330	4,818,462
-	11,119	1,092,281
-	-	436,786
-	-	668,445
-	4,173	438,733
-	-	335,867
-	-	697,591
2,586,624	-	2,586,624
2,586,624	15,292	6,256,327
(2,138,918)	1,292,038	(1,437,865)
1,513,019	-	2,907,290
(824,184)	(1,299,331)	(2,972,278)
965,000	-	965,000
(7,455)	-	(7,455)
1,646,380	(1,299,331)	892,557
(492,538)	(7,293)	(545,308)
175,032	1,773,425	3,431,254
-	-	12,011
(317,506)	1,766,132	2,897,957

City of Iowa Falls

City of Iowa Falls

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

Year ended June 30, 2003

Net change in fund balances - Total governmental funds (page 27) \$ (545,308)

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 outlays exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 2,553,986	
Depreciation expense	<u>(686,170)</u>	1,867,816

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

Property tax	25,448	
Other	<u>(79,353)</u>	(53,905)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year debt issues exceeded debt repayments as follows:

General obligation bonds issued	(965,000)	
Discount on general obligation bonds	7,455	
Principal repayments	<u>495,000</u>	(462,545)

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

Compensated absences	(7,756)	
Accrued interest on long-term debt	<u>542</u>	(7,214)

Prepaid expenditures and inventories in the governmental funds have been recorded as expenditures when paid. However, the Statement of Activities will report these items as expenses in the period the corresponding net asset is exhausted.

12,011

Change in net assets of governmental activities (page 19) \$ 810,855

See notes to financial statements.

City of Iowa Falls
Statement of Net Assets
Proprietary - Enterprise Funds
June 30, 2003

	Water	Wastewater
Assets		
Current assets:		
Cash and pooled investments	\$ 502,320	589,333
Receivables (net of allowance for uncollectibles):		
Customer accounts and unbilled usage	47,331	67,734
Accrued interest	714	1,504
Other	483	262
Interfund receivable	28,424	45,830
Inventories	25,470	-
Prepaid expenses	14,206	16,103
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments:		
Customer deposits	19,602	-
Revenue bond and interest sinking account	-	-
Revenue debt service reserve account	-	311,871
Wastewater improvement account	-	100,000
Wastewater replacement account	-	55,735
Donations restricted for specific purpose	-	-
Accrued interest on restricted assets	-	-
Investment in affiliated organizations	-	-
Advance to other funds	71,071	150,842
Capital assets:		
Land	-	3,500
Buildings	426,965	339,872
Improvements other than buildings	202,991	-
Equipment and vehicles	652,880	230,895
Infrastructure	2,204,649	7,337,211
Construction in progress	6,500	28,673
Accumulated depreciation	(1,426,908)	(2,641,431)
Bond issuance costs	-	-
Total assets	2,776,698	6,637,934

Hospital	Nonmajor - Sanitation	Total
1,676,134	118,040	2,885,827
2,174,971	45,434	2,335,470
2,899	168	5,285
25,214	4,400	30,359
-	-	74,254
342,797	-	368,267
84,964	15,914	131,187
-	-	19,602
23,727	-	23,727
284,725	-	596,596
-	-	100,000
-	-	55,735
877,287	-	877,287
11,100	-	11,100
401,854	-	401,854
-	-	221,913
679,757	-	683,257
4,234,854	-	5,001,691
-	-	202,991
8,559,970	330,192	9,773,937
-	-	9,541,860
-	-	35,173
(6,973,480)	(152,666)	(11,194,485)
23,702	-	23,702
12,430,475	361,482	22,206,589

City of Iowa Falls
Statement of Net Assets
Proprietary - Enterprise Funds
June 30, 2003

	Water	Wastewater
Liabilities		
Current liabilities:		
Accounts payable	\$ 12,488	6,065
Salaries and benefits payable	3,358	3,276
Compensated absences	6,394	6,394
Contracts payable	141	906
Due to other governments	1,766	823
Capital lease	-	-
Third-party payor settlement	-	-
Current liabilities payable from restricted assets:		
Customer deposits	19,602	-
Revenue bonds/notes payable	-	160,000
Accrued and matured interest payable	-	9,372
Noncurrent liabilities:		
Revenue bonds/notes payable	-	2,524,000
Capital lease	-	-
Compensated absences	14,207	14,207
Total liabilities	57,956	2,725,043
Net Assets		
Invested in capital assets net of related debt	2,067,077	2,614,720
Restricted for:		
Revenue bond retirement	-	142,499
Wastewater replacement	-	55,735
Wastewater improvement	-	100,000
Capital improvements by donors	-	-
Bond indentures	-	-
Unrestricted	651,665	999,937
Total net assets	\$ 2,718,742	3,912,891

See notes to financial statements.

Hospital	Nonmajor - Sanitation	Total
283,613	1,128	303,294
168,963	4,716	180,313
245,112	5,735	263,635
-	-	1,047
-	9,921	12,510
107,317	-	107,317
108,819	-	108,819
-	-	19,602
161,428	-	321,428
-	-	9,372
2,377,837	-	4,901,837
369,758	-	369,758
-	12,475	40,889
<u>3,822,847</u>	<u>33,975</u>	<u>6,639,821</u>
3,484,761	177,526	8,344,084
-	-	142,499
-	-	55,735
-	-	100,000
875,888	-	875,888
308,452	-	308,452
<u>3,938,527</u>	<u>149,981</u>	<u>5,740,110</u>
<u>8,607,628</u>	<u>327,507</u>	<u>15,566,768</u>

City of Iowa Falls
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary - Enterprise Funds
Year ended June 30, 2003

	Water	Wastewater
Operating revenues:		
Charges for service	\$ 472,865	666,232
Miscellaneous	15,377	68
Total operating revenues	488,242	666,300
Operating expenses:		
Business type activities:		
Cost of sales and services	360,060	354,800
Depreciation	92,521	199,349
Total operating expenses	452,581	554,149
Operating income	35,661	112,151
Non-operating revenues (expenses):		
Interest income	7,535	18,508
Miscellaneous revenue, primarily donations	-	-
Capital contributions	-	1,128
Interest expense	-	(119,755)
Loss on disposal of capital assets	-	(54)
Share of net gain/loss of hospital's affiliated organizations	-	-
Miscellaneous expense	-	-
Total non-operating revenues (expenses)	7,535	(100,173)
Change in net assets	43,196	11,978
Net assets beginning of year	2,675,546	3,900,913
Net assets end of year	\$ 2,718,742	3,912,891

See notes to financial statements.

Hospital	Nonmajor - Sanitation	Total
10,581,999	602,108	12,323,204
485,179	587	501,211
<u>11,067,178</u>	<u>602,695</u>	<u>12,824,415</u>
10,048,621	556,588	11,320,069
680,751	32,724	1,005,345
<u>10,729,372</u>	<u>589,312</u>	<u>12,325,414</u>
337,806	13,383	499,001
68,496	1,377	95,916
14,666	-	14,666
-	-	1,128
(154,608)	-	(274,363)
(1,792)	-	(1,846)
(101,672)	-	(101,672)
(83,760)	-	(83,760)
<u>(258,670)</u>	<u>1,377</u>	<u>(349,931)</u>
79,136	14,760	149,070
8,528,492	312,747	15,417,698
<u>8,607,628</u>	<u>327,507</u>	<u>15,566,768</u>

City of Iowa Falls
Statement of Cash Flows
Proprietary - Enterprise Funds
Year ended June 30, 2003

	Water	Wastewater
Cash flows from operating activities:		
Cash received from customers and users	\$ 489,076	689,081
Cash received from other revenues	15,377	68
Cash paid for personal services	(189,253)	(189,309)
Cash paid to suppliers	(196,133)	(190,262)
Net cash provided by operating activities	<u>119,067</u>	<u>309,578</u>
Cash flows from noncapital financing activities:		
Advances to other funds, net of advance repayments	13,025	17,792
Transfer to hospital foundation	-	-
Restricted and unrestricted contributions	-	-
Net cash provided by (used for) noncapital financing activities	<u>13,025</u>	<u>17,792</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(31,980)	(29,464)
Principal paid on revenue bonds/notes	-	(153,000)
Principal paid on capital lease	-	-
Interest paid on revenue bonds/notes	-	(120,289)
Interest paid on capital lease	-	-
Net cash used for capital and related financing activities	<u>(31,980)</u>	<u>(302,753)</u>
Cash flows from investing activities:		
Interest on investments	7,808	19,536
Decrease in investment in affiliated organizations	-	-
Proceeds from sale of investments	-	-
Net cash provided by investing activities	<u>7,808</u>	<u>19,536</u>
Net increase in cash and cash equivalents	107,920	44,153
Cash and cash equivalents beginning of year	<u>414,002</u>	<u>1,012,786</u>
Cash and cash equivalents end of year	<u>\$ 521,922</u>	<u>1,056,939</u>

Hospital	Nonmajor - Sanitation	Total
11,047,237	603,072	12,828,466
524,286	371	540,102
(6,360,559)	(233,637)	(6,972,758)
(4,398,388)	(325,452)	(5,110,235)
812,576	44,354	1,285,575
-	-	30,817
(83,794)	-	(83,794)
14,666	-	14,666
(69,128)	-	(38,311)
(189,814)	-	(251,258)
(153,571)	-	(306,571)
(125,274)	-	(125,274)
(131,154)	-	(251,443)
(22,033)	-	(22,033)
(621,846)	-	(956,579)
63,764	1,392	92,500
(31,273)	-	(31,273)
39,974	-	39,974
72,465	1,392	101,201
194,067	45,746	391,886
1,031,704	72,294	2,530,786
1,225,771	118,040	2,922,672

City of Iowa Falls
 Combined Statement of Cash Flows
 Proprietary - Enterprise Funds
 Year ended June 30, 2003

	Water	Wastewater
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	35,661	112,151
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	92,521	199,349
Forgiveness of accounts receivable from affiliated organization	-	-
Decrease in customer accounts receivable and unbilled usage and other accounts receivable	16,213	22,849
(Increase) decrease in inventories, at cost	(1,723)	-
(Increase) in prepaid expenses	(2,315)	(2,275)
Increase (decrease) in accounts payable, excluding payables for assets capitalized	22,350	(2,021)
Increase (decrease) in salaries payable	87	34
Increase in contract payables	(42,298)	(19,094)
Increase (decrease) in compensated absences	(1,600)	(1,600)
Increase in due to other governments	171	185
(Decrease) in third-party payor settlement	-	-
Net cash provided by operating activities	119,067	309,578
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:		
Current assets:		
Cash and pooled investments	\$ 502,320	589,333
Restricted assets:		
Cash and pooled investments:		
Customer deposits	19,602	-
Revenue bond and interest sinking account	-	-
Revenue debt service reserve account	-	311,871
Wastewater improvement account	-	100,000
Wastewater replacement account	-	55,735
Donations restricted for specific purpose	-	-
	521,922	1,056,939
Less items not meeting the definition of cash equivalents:		
Certificates of deposit	-	-
Cash and cash equivalents at year end	\$ 521,922	1,056,939

Non-cash investing, capital, and financing activities:

During the year ended June 30, 2003, \$1,128 of capital assets were contributed to the Enterprise, Wastewater Fund from the Enterprise, Water Fund.

See notes to financial statements.

Hospital	Nonmajor - Sanitation	Total
337,806	13,383	499,001
680,751	32,724	1,005,345
(111,866)	-	(111,866)
162,891	748	202,701
18,478	-	16,755
(41,524)	(2,173)	(48,287)
(214,693)	(189)	(194,553)
18,623	222	18,966
-	-	(61,392)
14,493	(1,116)	10,177
-	755	1,111
(52,383)	-	(52,383)
812,576	44,354	1,285,575
1,676,134	118,040	2,885,827
-	-	19,602
23,727	-	23,727
284,725	-	596,596
-	-	100,000
-	-	55,735
877,287	-	877,287
2,861,873	118,040	4,558,774
(1,636,102)	-	(1,636,102)
1,225,771	118,040	2,922,672

City of Iowa Falls

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

The City of Iowa Falls is a political subdivision of the State of Iowa located in Hardin County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Iowa Falls provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. It also operates the airport and provides water, sewer and sanitation utilities.

The financial statements of the City of Iowa Falls have been prepared in conformity with U.S. 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 City's accounting policies are described below:

A. Reporting Entity

For financial reporting purposes, the City of Iowa Falls 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.

Based on the foregoing criteria, the Ellsworth Municipal Hospital is considered to be part of the primary government and, therefore, the financial information is included in the City's financial statements. The financial activities of the Hospital are reflected in this report as an Enterprise Fund.

Discretely Presented Component Unit

These financial statements present the City of Iowa Falls (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

The Iowa Falls Municipal Airport Authority (Authority) was established pursuant to Chapter 330A of the Code of Iowa to operate the City's airport facility. The Authority is governed by a five member board appointed by the Iowa Falls City Council. The board members serve at the pleasure of the City. The City annually provides significant operating subsidies to the Authority. In accordance with criteria set by the Governmental Accounting Standards Board, the Authority meets the definition of a component unit which should be discretely presented. The Authority is accounted for as a Proprietary Fund in these financial statements.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hardin County Assessor's Conference Board, Region Six Planning Commission, Region Six Housing Authority, Hardin County Sanitary Solid Waste Disposal Commission, Hardin County Emergency Management Commission, Hardin County E911 Service Board, Mid Iowa Drug Task Force and the NE Iowa Hazardous Materials Response Group.

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 and its component unit. For the most part, the effect of interfund activity has been removed from these statements. 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.

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 that are attributed 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.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but 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 that are 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 that are 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 major individual Enterprise Funds are reported as separate columns in the fund financial statements. All remaining Governmental and Enterprise Funds are aggregated and reported as other nonmajor 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 that are 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 that are not paid from other funds.

Special Revenue:

The Tax Increment Financing Revenues Fund is used to account for proceeds 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 Economic Development Loans Fund is used to account for economic development loans made to businesses operating in the City and to other City funds.

The Debt Service Fund is utilized 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 Enterprise Funds:

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

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

The Hospital Fund is used to account for the operation and maintenance of Ellsworth Municipal Hospital.

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 judgements 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 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 is 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 in interest-bearing cash accounts or certificates of deposit. Interest on the pooled cash investments is recognized as revenue when earned and allocated to the funds on a systematic basis, or as provided by law. Cash investments are separately held by the Hospital Fund, for which interest is also recognized as revenue when earned. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2003 included certificates of deposits of \$1,636,102 with maturity dates longer than three months.

Property Tax Receivable - Property tax 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 and tax increment financing revenue receivable represent taxes collected by the County but not remitted to the City at June 30, 2003 and unpaid taxes. The succeeding year property tax and tax increment financing revenues receivable 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 and tax increment financing revenues receivable have been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax and tax increment financing 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, 2001 assessed property valuations; is for the tax accrual period July 1, 2002 through June 30, 2003 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2002.

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

Interfund Receivables/Payables - Short-term interfund loans are classified as interfund receivables/payables.

Advances to/from Other Funds - Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account for Governmental Funds which indicates they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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

Inventories - Proprietary Fund inventories of materials and supplies are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue bonds/notes are classified as restricted assets since their use is restricted by applicable bond/note indentures. Other restricted assets include donations restricted for specific purposes and 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 the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land, buildings and improvements	\$ 250
Equipment and vehicles	250
Infrastructure	25,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	40-50 years
Improvements other than buildings	20-50 years
Vehicles	10-15 years
Equipment	5-30 years
Infrastructure	15-20 years

Bond Issuance Costs - Bond issuance costs associated with revenue bonds are deferred and amortized over the term of the bonds using the bond outstanding method which approximates the interest method.

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

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax and tax increment financing revenues receivable that will not be recognized as revenue until the year for which it is 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 on rates of pay in effect at June 30, 2003. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities - In the government-wide financial statements and the 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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Per the Code of Iowa, disbursements may not legally exceed amounts budgeted by function. During the year ended June 30, 2003, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2003 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standard Board Statement No. 3.

(3) 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
Customer accounts, Hospital Fund	\$ 2,494,971	320,000	2,174,971

(4) Capital Assets

Capital assets activity for the year ended June 30, 2003 was as follows:

	Balance Beginning of Year (as restated, note 17)	Increases	Decreases	Balance End of Year
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 855,963	-	(20,043)	835,920
Construction in progress - infrastructure	543,425	523,738	(890,983)	176,180
Construction in progress - other	418,419	622,362	(103,791)	936,990
Total capital assets not being depreciated	1,817,807	1,146,100	(1,014,817)	1,949,090
Capital assets being depreciated:				
Buildings	2,582,866	1,359,332	-	3,942,198
Improvements other than buildings	2,950,064	41,205	-	2,991,269
Equipment and vehicles	2,069,959	131,183	(10,345)	2,190,797
Infrastructure, street network	4,940,806	890,983	-	5,831,789
Total capital assets being depreciated	12,543,695	2,422,703	(10,345)	14,956,053
Less accumulated depreciation for:				
Buildings	321,991	77,145	-	399,136
Improvements other than buildings	467,013	142,768	-	609,781
Equipment and vehicles	1,124,676	179,716	(10,345)	1,294,047
Infrastructure, street network	2,546,075	286,541	-	2,832,616
Total accumulated depreciation	4,459,755	686,170	(10,345)	5,135,580
Total capital assets being depreciated, net	8,083,940	1,736,533	-	9,820,473
Governmental activities capital assets, net	\$ 9,901,747	2,882,633	(1,014,817)	11,769,563

	Balance Beginning of Year (as restated, note 17)	Increases	Decreases	Balance End of Year
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 683,257	-	-	683,257
Construction in progress	456,429	35,173	(456,429)	35,173
Total capital assets not being depreciated	<u>1,139,686</u>	<u>35,173</u>	<u>(456,429)</u>	<u>718,430</u>
Capital assets being depreciated:				
Buildings	5,006,509	-	(4,818)	5,001,691
Improvements other than buildings	201,054	1,937	-	202,991
Equipment and vehicles	9,058,058	1,225,192	(509,313)	9,773,937
Infrastructure, water and sewer network	9,541,852	8	-	9,541,860
Total capital assets being depreciated	<u>23,807,473</u>	<u>1,227,137</u>	<u>(514,131)</u>	<u>24,520,479</u>
Less accumulated depreciation for:				
Buildings	1,987,124	45,140	(4,810)	2,027,454
Improvements other than buildings	330,315	139,554	-	469,869
Equipment and vehicles	5,389,517	609,679	(507,470)	5,491,726
Infrastructure, water and sewer network	2,994,462	210,974	-	3,205,436
Total accumulated depreciation	<u>10,701,418</u>	<u>1,005,347</u>	<u>(512,280)</u>	<u>11,194,485</u>
Total capital assets being depreciated, net	<u>13,106,055</u>	<u>221,790</u>	<u>(1,851)</u>	<u>13,325,994</u>
Business type activities capital assets, net	<u>\$ 14,245,741</u>	<u>256,963</u>	<u>(458,280)</u>	<u>14,044,424</u>

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

Governmental activities:	
Public safety	\$ 112,658
Public works	333,982
Cultures and recreation	229,594
General government	<u>9,936</u>
Total depreciation expense - governmental activities	<u>\$ 686,170</u>
Business type activities:	
Water	\$ 92,521
Wastewater	199,351
Hospital	680,751
Nonmajor-Sanitation	<u>32,724</u>
Total depreciation expense - business type activities	<u>\$ 1,005,347</u>

	Balance Beginning of Year (as restated, note 17)	Increases	Decreases	Balance End of Year
Discretely presented component unit:				
Capital assets not being depreciated:				
Land	\$ 55,875	-	-	55,875
Capital assets being depreciated:				
Buildings	148,524	-	-	148,524
Improvements other than buildings	25,388	-	-	25,388
Equipment and vehicles	133,746	-	-	133,746
Infrastructure, runway network	1,387,290	-	-	1,387,290
Total capital assets being depreciated	1,694,948	-	-	1,694,948
Less accumulated depreciation for:				
Buildings	126,702	2,181	-	128,883
Improvements other than buildings	18,769	1,406	-	20,175
Equipment and vehicles	47,317	8,135	-	55,452
Infrastructure, runway network	508,999	60,017	-	569,016
Total accumulated depreciation	701,787	71,739	-	773,526
Total capital assets being depreciated, net	993,161	(71,739)	-	921,422
Airport Authority capital assets, net	\$ 1,049,036	(71,739)	-	977,297
Total depreciation expense - discretely presented component unit				\$ 71,740

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2003 is as follows:

	Balance Beginning of Year (as restated, note 17)	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds/notes:					
General and corporate purpose	\$ 3,475,000	957,545	495,000	3,937,545	(1) 570,000
Compensated absences	165,165	43,055	45,725	162,495	45,764
Total	\$ 3,640,165	1,000,600	540,725	4,100,040	615,764

(1) Bonds were sold at a discount; unamortized discount at June 30, 2003 totaled \$7,455.

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Business type activities:					
Revenue bonds/notes:					
Wastewater	\$ 2,837,000	-	153,000	2,684,000	160,000
Hospital	2,692,836	-	153,571	2,539,265	161,428
Capital lease	26,756	575,593	125,274	477,075	107,317
Compensated absences	294,348	25,675	15,499	304,524	263,635
Total	\$ 5,850,940	601,268	447,344	6,004,864	692,380

The government-wide Statement of Activities includes \$321,428 of the long-term liabilities due within one year for business type activities in "liabilities payable from restricted assets."

Bonded Debt

General obligation bonds/notes:

Eight issues of unmatured general obligation bonds/notes, totaling \$3,945,000, are outstanding at June 30, 2003. General obligation bonds/notes bear interest with rates ranging from 1.65% to 5.40% and mature in varying annual amounts ranging from \$45,000 to \$215,000, with the final maturities due in the year ending June 30, 2014.

Revenue bonds/notes:

Two issues of unmatured revenue bonds/notes, totaling \$5,223,265, are outstanding at June 30, 2003. These bonds/notes bear interest at rates of 4.19% to 5.00% and mature in varying annual amounts ranging from \$160,000 to \$265,873, with the final maturities due in the year ending June 30, 2016.

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

- (a) The bonds/notes will only be redeemed from the future earnings of the enterprise activity and the bond/note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate wastewater and hospital bond and interest sinking accounts for the purpose of making the bond/note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to separate wastewater and hospital debt service reserve accounts until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying bond/note principal and interest payments due when insufficient money is available in the sinking accounts.
- (d) Additional monthly transfers of \$2,000 to the wastewater improvement and replacement accounts shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- (e) 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 bonds/notes falling due in the same year.

During the year ended June 30, 2003, the City was in compliance with the revenue bond/note provisions.

Details of bonds/notes payable at June 30, 2003 are as follows:

Governmental activities:	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2003
General obligation bonds/notes:						
General and essential corporate purpose	Aug 1, 1993	4.40-4.75%	Jun 1, 2004	\$ 35,000-50,000	430,000	50,000
Capital loan notes	Jul 1, 1998	4.05-4.125	Jun 1, 2004	55,000-65,000	300,000	65,000
Capital loan notes	Jul 1, 1999	4.25-4.65	Jun 1, 2005	50,000-60,000	270,000	115,000
Corporate purpose	Jul 1, 1999	4.80-5.00	Jun 1, 2014	120,000-215,000	2,400,000	1,905,000
Capital loan notes	Jul 1, 2000	5.15-5.40	Jun 1, 2006	40,000-50,000	230,000	145,000
Capital loan notes	Oct 15, 2001	2.45-4.00	Jun 1, 2009	100,000-130,000	800,000	700,000
Essential corporate purpose	Oct 15, 2002	1.65-2.85	Jun 1, 2008	50,000-55,000	265,000	265,000
Essential corporate purpose	Dec 15, 2002	2.40-4.00	Jun 1, 2013	60,000-80,000	700,000	<u>700,000</u>
Total governmental activities						<u>3,945,000</u>

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2003
Business type activities:						
Revenue bonds/notes:						
Wastewater revenue capital loan notes, series 1996	Feb 16, 1996	4.19%	Jun 1, 2016	156,000-261,000	4,745,000	2,684,000
Hospital revenue bond, series 1998	Nov 1, 1998	5.00	Jun 1, 2015	10,810-264,770	3,000,000	<u>2,539,265</u>
Total business type activities						<u>5,223,265</u>
Total						<u>\$ 9,168,265</u>

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

Year Ending June 30,	General Obligation		
	Principal	Interest	Total
2004	\$ 570,000	163,100	733,100
2005	475,000	141,254	616,254
2006	435,000	123,059	558,059
2007	395,000	106,511	501,511
2008	410,000	91,654	501,654
2009-2013	1,445,000	245,198	1,690,198
2014	<u>215,000</u>	<u>10,750</u>	<u>225,750</u>
Total	<u>\$ 3,945,000</u>	<u>881,526</u>	<u>4,826,526</u>

Year Ending June 30,	Revenue			Total
	Principal	Interest	Total	
2004	\$ 321,428	235,757	557,185	1,290,285
2005	335,687	220,794	556,481	1,172,735
2006	351,368	205,157	556,525	1,114,584
2007	367,494	188,782	556,276	1,057,787
2008	385,087	171,648	556,735	1,058,389
2009-2013	2,212,405	571,281	2,783,686	4,473,884
2014-2016	<u>1,249,796</u>	<u>88,098</u>	<u>1,337,894</u>	<u>1,563,644</u>
Total	<u>\$ 5,223,265</u>	<u>1,681,517</u>	<u>6,904,782</u>	<u>11,731,308</u>

As of June 30, 2003, the general obligation debt issued by the City did not exceed its legal debt margin computed as follows:

Actual valuation	<u>\$ 179,113,789</u>
Debt limit – 5% of total actual valuation	\$ 8,955,689
Debt applicable to debt limit:	
General obligation bonded debt outstanding	<u>3,945,000</u>
Legal debt margin	<u>\$ 5,010,689</u>

Other Than Bonded Debt

As of June 30, 2003, this debt consisted of the following:

During the year ended June 30, 2003, the City entered into a lease-purchase agreement on behalf of Ellsworth Municipal Hospital for equipment. The lease is for five years, has an effective interest rate of 5.18% and requires monthly payments of \$10,871.

The above lease is payable solely from net revenues of the Hospital and does not constitute a liability of the City. The following is a schedule of future minimum lease payments and the present value of net minimum lease payments under the agreement:

<u>Year Ending June 30,</u>	<u>Amount</u>
2004	\$ 130,452
2005	130,452
2006	130,452
2007	130,452
2008	<u>10,871</u>
Total minimum lease payments	532,679
Less amounts representing interest	<u>(55,604)</u>
 Present value of net minimum lease payments	 <u>\$ 477,075</u>

Payments under the above agreement during the year ended June 30, 2003 totaled \$119,577.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2003 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 422,779
	Payroll Tax Levy	483,755
	Local Option Sales Tax	98,655
	Capital Projects	<u>3,749</u>
		<u>1,008,938</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	229,154
	Tax Increment Financing Revenues	<u>156,179</u>
		<u>385,333</u>
Capital Projects	General	351
	Special Revenue:	
	Tax Increment Financing Revenues	692,233
	Capital Projects	<u>820,435</u>
		<u>1,513,019</u>
Total		<u>\$ 2,907,290</u>

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

(7) Interfund Assets/Liabilities

Interfund Receivable/Payable:

Receivable Fund	Payable Fund	Amount
Special Revenue:		
Economic Development Loans	Special Revenue: Tax Increment Financing Revenues	\$ 51,267
	Capital Projects	51,536
Local Option Sales Tax	Capital Projects	45,000
Carnegie-Ellsworth Endowment	Special Revenue: Tax Increment Financing Revenues	55,000
Carnegie-Ellsworth Maintenance	Special Revenue: Tax Increment Financing Revenues	13,000
Enterprise:		
Water	Capital Projects	28,424
Wastewater	Capital Projects	<u>45,830</u>
Total		<u>\$ 290,057</u>

Advances From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	\$ 464
Special Revenue:		
Tax Increment Financing Revenues	Special Revenue: Economic Development Loans	43,645
Economic Development Loans	Special Revenue: Tax Increment Financing Revenues	10,181
Local Option Sales Tax	Capital Projects	265,558
Carnegie - Ellsworth Endowment	Special Revenue: Tax Increment Financing Revenues	397,964
Carnegie - Ellsworth Maintenance	Special Revenue: Tax Increment Financing Revenues	27,000
Enterprise:		
Water	Capital Projects	71,071
Wastewater	Capital Projects	<u>150,842</u>
Total		<u>\$ 966,725</u>

(8) Economic Development Loans Receivable

The City has various long-term loans receivable totaling \$196,215 as of June 30, 2003 due from businesses located in Iowa Falls. The loans were financed with the proceeds of two U.S. Department of Housing and Urban Development Action Grants and one Community Development Block Grant.

The first loan of \$50,827 as of June 30, 2003 requires monthly payments of \$736, including interest at 3% until November 1, 2004, at which time a balloon payment is due. This loan is collateralized by a second mortgage on all real estate of the business.

A second loan of \$2,210 as of June 30, 2003 requires monthly payments of \$183, including interest at 3%, until June 1, 2004. This loan is collateralized by a second mortgage on all real estate of the business.

A third loan of \$2,147 as of June 30, 2003 requires monthly payments of \$719, including interest at 3%, until September 3, 2003. This loan is collateralized by a second mortgage on all real estate of the business.

A fourth loan of \$7,845 as of June 30, 2003 requires monthly payments of \$174, including interest at 3%, until May 1, 2007. This loan is secured by a second security interest in the equipment, machinery and general business assets of the business.

A fifth loan of \$13,280 as of June 30, 2003 requires monthly payments of \$309, including interest at 3%, until May 1, 2007. This loan is secured by a second security interest in the equipment, machinery and general business assets of the business.

A sixth loan of \$36,148 as of June 30, 2003 requires monthly payments of \$483, including interest of 3%, until June 1, 2006, at which time a balloon payment is due. This loan is secured by a first mortgage agreement on all land and buildings on all real estate of the business.

A seventh loan of \$40,000 as of June 30, 2003 requires annual payments of \$10,000, plus interest of 3%, until March 1, 2006. The loan is secured by assignment contract and mortgage.

An eighth loan of \$43,758 as of June 30, 2003 requires monthly payments of \$898, including interest at 3%, until July 1, 2007. This loan is collateralized by a lien on the building and a subordinate security interest in the equipment and machinery of the business.

(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, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 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, 2003, 2002, and 2001 were \$411,927, \$410,298, and \$391,314, respectively, equal to the required contributions for each year.

(10) Industrial Development Revenue Bonds

The City has issued a total of \$16,325,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$8,247,020 is outstanding at June 30, 2003. 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.

(11) Deficit Balances

As of June 30, 2003, funds with deficit balances were as follows:

Special Revenue, Tax Increment Financing Revenues Fund	\$498,211
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This deficit balance is a result of transferring funds to the Debt Service Fund and the Capital Projects, Tax Increment Financing Capital Projects Fund in excess of available funds. This deficit will be eliminated upon collection of tax increment financing revenues.

Capital Projects Funds	\$317,506
------------------------	-----------

This deficit balance is the result of project costs in excess of available funds. This deficit will be eliminated upon collection of tax increment financing revenues and the subsequent transfer of these revenues into the Capital Projects Fund.

(12) Joint Financing Agreement

The City is a member of the Hardin County Solid Waste Disposal Commission. The Hardin County Solid Waste Disposal Commission entered into a 28E agreement with the Butler County Solid Waste Commission and the Wright County Area Landfill Authority which established the Rural Iowa Waste Management Association (Association). During the year ended June 30, 1996, the Rural Iowa Waste Management Association issued \$830,000 of Solid Waste Revenue Bonds pursuant to Chapter 28F.9 of the Code of Iowa. The principal and interest on the bonds are payable solely from and secured by the net revenues of the facilities operated by the Association. The balance outstanding at June 30, 2003 is \$605,000.

(13) Risk Management

The City of Iowa Falls and the Ellsworth Municipal Hospital are 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.

(14) Hospital Affiliated Organizations

Iowa Falls Clinic

During 1998, the Ellsworth Municipal Hospital entered into a joint venture agreement with North Iowa Mercy Health Center for the formation of Iowa Falls Clinic (the Clinic). The Clinic provides, develops, and coordinates all clinical medical services to residents, visitors and employees of Hardin County and the surrounding area.

The Hospital is a 50% owner of this Clinic and shares 50% of income or losses from the Clinic operations. The Hospital recognized its share of the venture's loss of \$125,156 for the year ended June 30, 2003 in non-operating revenues (expenses).

The Hospital provides space and contracted services for the daily operations of the Clinic. Total receipts for rent revenue and contracted services for the year ended June 30, 2003 were approximately \$987,000. During the year, the Hospital forgave accounts receivable from the Clinic totaling \$111,866. As of June 30, 2003, the Hospital recorded a receivable from the clinic of \$74,967 relating to these services.

Summarized financial information from the financial statements of Iowa Falls Clinic as of and for the year ended June 30, 2003 is as follows:

Assets	\$ 690,426
Liabilities	<u>193,957</u>
Net Assets	<u>\$ 496,469</u>
Net Revenues	<u>\$ 2,533,993</u>
Net Loss	<u>\$ (250,313)</u>

Greenbelt Home Care

During 1999, the Ellsworth Municipal Hospital entered into a joint venture of Greenbelt Home Care as a 16.16% partner, and shares income or loss in this percentage. During the year ended June 30, 2001, the ownership share of one of the partners was dissolved and assumed by the remaining partners. As a result, the Hospital's ownership in Greenbelt Home Care was 20% at June 30, 2003. The Hospital recognized \$23,484 as its 20% share of the joint venture's gain for the year ended June 30, 2003 in non-operating revenues (expenses).

Ellsworth Municipal Hospital Foundation

During 2003, the Ellsworth Municipal Hospital Foundation, a related organization, was organized under the provisions of Internal Revenue Code Section 501(c)(3). The Foundation is organized and operated exclusively to benefit Ellsworth Municipal Hospital and the Hospital is the sole corporate member of the Foundation. During the year ended June 30, 2003, the Hospital transferred assets totaling \$83,794 to the Foundation. As of June 30, 2003, the Foundation had a payable to the Hospital in the amount of \$1,220, which is recorded with other receivables on the balance sheet of the Hospital. As of June 30, 2003, the Foundation had total assets of \$175,201, net assets of \$173,981, and received contributions totaling \$100,613.

(15) Commitments

The City has entered into construction contracts totaling \$813,307 and \$377,517 for renovation of the Carnegie/Ellsworth Library and a street construction project, respectively. As of June 30, 2003, costs of \$748,702 and \$117,774 have been incurred on the projects, respectively. The remaining \$64,605 and \$259,743 will be paid as work on the projects progresses.

(16) Subsequent Events

Construction Contract

In July 2003, the City entered into a contract for \$570,000 for the construction of a garage for the street department. The project will be funded with general obligation bonds issued in September 2003.

General Obligation Bonds

In September 2003, the City issued \$260,000 and \$700,000 of general obligation bonds to pay the costs of certain street improvements and a street garage. The bonds are payable from a continuing annual levy of taxes against all taxable property of the City.

(17) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2003. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - Management's Discussion and Analysis - for State and local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented during fiscal year 2003. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor special revenue funds are presented in total in one column.

The government-wide financial statements report the City's governmental and business type activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2002 resulting from the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$9,240,804 were restated to \$9,901,747, net of accumulated depreciation of \$4,459,755. The restatement resulted from adding infrastructure assets and transferring certain capital assets to the Airport Authority.

Primary Government:

	Total
Governmental activities:	
Net assets, June 30, 2002, as previously reported	\$ 3,334,701
Prepaid insurance in General Fund	78,112
GASB Interpretation 6 adjustments	18,441
Net assets, July 1, 2002, as restated for governmental funds	3,431,254
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$4,459,755	9,901,747
Long-term liabilities	(3,629,739)
Deferral of long-term assets	282,646
Interest payable	(14,133)
Net assets, July 1, 2002, as restated	\$ 9,971,775

Business type activities:

Beginning capital assets were restated by reclassifying \$9,541,852 of assets previously reported as "Improvements Other than Buildings" to "Infrastructure." This reclassification had no effect on the business type activities beginning net assets.

Discretely Presented Component Unit:

The beginning net assets of the Discretely Presented Component Unit, Airport Authority, at July 1, 2002 has been restated to include the capital assets owned by the Authority.

City of Iowa Falls

Required Supplementary Information

City of Iowa Falls
 Budgetary Comparison Schedule of
 Receipts/Revenues, Disbursements/Expenses and Changes in Balances/Net Assets -
 Budget and Actual
 All Governmental and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2003

	Funds Budgeted on Cash Basis - Actual			
	Governmental Fund Types	Proprietary Fund Type - Enterprise (excluding Hospital)	Component Unit - Airport Authority	Total
Receipts/Revenues:				
Property tax	\$ 1,427,407	-	23,739	1,451,146
Tax increment financing	778,629	-	-	778,629
Other city tax	575,563	-	2,352	577,915
Licenses and permits	38,913	-	-	38,913
Use of money and property	69,643	28,736	11,905	110,284
Intergovernmental	968,043	-	-	968,043
Charges for service	142,577	1,781,243	-	1,923,820
Special assessments	-	-	-	-
Miscellaneous	362,960	16,033	20,134	399,127
Total receipts/revenues	<u>4,363,735</u>	<u>1,826,012</u>	<u>58,130</u>	<u>6,247,877</u>
Disbursements/Expenses:				
Public safety	1,086,960	-	-	1,086,960
Public works	438,668	-	58,130	496,798
Culture and recreation	651,293	-	-	651,293
Community and economic development	6,030	-	-	6,030
General government	337,703	-	-	337,703
Debt service	667,190	-	-	667,190
Capital projects	2,708,508	-	-	2,708,508
Business type activities	-	1,659,010	-	1,659,010
Total disbursements/expenses	<u>5,896,352</u>	<u>1,659,010</u>	<u>58,130</u>	<u>7,613,492</u>
Excess (deficiency) of receipts/revenues over (under) disbursements/expenses	(1,532,617)	167,002	-	(1,365,615)
Other financing sources, net	926,914	30,817	-	957,731
Excess (deficiency) of receipts/revenues and other financing sources over (under) disbursements/expenses and other financing uses	(605,703)	197,819	-	(407,884)
Balances/net assets beginning of year	<u>3,830,152</u>	<u>1,499,082</u>	<u>-</u>	<u>5,329,234</u>
Balances/net assets end of year	<u>\$ 3,224,449</u>	<u>1,696,901</u>	<u>-</u>	<u>4,921,350</u>

See accompanying independent auditor's report.

Funds Budgeted on GAAP Basis - Actual				
Proprietary Fund Type	Total Actual	Budgeted Amounts		Final to Actual Variance
Hospital		Original	Final	
-	1,451,146	1,424,342	1,424,342	26,804
-	778,629	750,000	750,000	28,629
-	577,915	540,739	540,739	37,176
-	38,913	43,740	43,740	(4,827)
68,496	178,780	114,463	114,463	64,317
-	968,043	1,900,580	2,030,580	(1,062,537)
10,581,999	12,505,819	13,506,367	13,506,367	(1,000,548)
-	-	13,000	13,000	(13,000)
499,845	898,972	581,648	597,648	301,324
11,150,340	17,398,217	18,874,879	19,020,879	(1,622,662)
-	1,086,960	1,070,264	1,090,264	3,304
-	496,798	492,350	509,010	12,212
-	651,293	631,833	668,133	16,840
-	6,030	1,074,400	1,077,900	1,071,870
-	337,703	383,334	412,034	74,331
-	667,190	652,561	652,561	(14,629)
-	2,708,508	3,142,600	3,778,620	1,070,112
11,071,204	12,730,214	13,379,224	13,399,224	669,010
11,071,204	18,684,696	20,826,566	21,587,746	2,903,050
79,136	(1,286,479)	(1,951,687)	(2,566,867)	1,280,388
-	957,731	1,400,000	1,704,130	(746,399)
79,136	(328,748)	(551,687)	(862,737)	533,989
8,528,492	13,857,726	10,827,528	11,991,060	1,866,666
8,607,628	13,528,978	10,275,841	11,128,323	2,400,655

City of Iowa Falls

Budgetary Comparison Schedule-Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2003

	Governmental Funds			Proprietary Funds Enterprise(Excluding Hospital)		
	Cash	Accrual	Modified	Cash	Accrual	Accrual
	Basis	Adjust- ments	Accrual Basis	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 4,363,735	454,727	4,818,462	1,826,012	(40,227)	1,785,785
Expenditures	5,896,352	359,975	6,256,327	1,659,010	56,841	1,715,851
Net	(1,532,617)	94,752	(1,437,865)	167,002	(97,068)	69,934
Other financing sources (uses)	926,914	30,631	957,545	30,817	(30,817)	-
Beginning fund balances, as restated (note 17)	3,830,152	(398,898)	3,431,254	1,499,082	5,390,124	6,889,206
Increase in reserve for prepaid expenses	-	12,011	12,011	-	-	-
Ending fund balances	\$ 3,224,449	(261,504)	2,962,945	1,696,901	5,262,239	6,959,140

	Discretely Presented Component Unit		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 58,130	140	58,270
Expenses	58,130	75,463	133,593
Net	-	(75,323)	(75,323)
Beginning fund balance, as restated (note 17)	-	1,048,105	1,048,105
Ending fund balance	\$ -	972,782	972,782

See accompanying independent auditor's report.

City of Iowa Falls

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2003

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise 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, two budget amendments increased budgeted disbursements by \$761,180. These budget amendments are reflected in the final budgeted amounts.

The City of Iowa Falls prepares its budget on the cash basis except for hospital operations which are budgeted in accordance with U.S. generally accepted accounting principles. The Budgetary Comparison Schedule is a comparison of the cash basis receipts and disbursements and revenues and expenses of the Hospital Fund with the budget adopted and amended by the City Council.

During the year ended June 30, 2003, disbursements/expenses exceeded the amount budgeted in the debt service function.

City of Iowa Falls

Other Supplementary Information

City of Iowa Falls
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2003

	Road Use Tax	Payroll Tax Levy	Local Option Sales Tax
Assets			
Cash and pooled investments	\$ -	-	785,341
Receivables:			
Property tax:			
Delinquent	-	6,922	-
Succeeding year	-	468,000	-
Accounts	-	-	-
Accrued interest	-	-	1,117
Due from other governments	31,796	-	42,895
Interfund receivable	-	-	45,000
Advance to other funds	-	-	265,558
	\$ 31,796	474,922	1,139,911
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ -	-	-
Deferred revenue:			
Succeeding year property tax	-	468,000	-
Other	-	1,843	-
Total liabilities	-	469,843	-
Fund equity:			
Fund balances:			
Reserved for advance to other funds	-	-	265,558
Unreserved, undesignated	31,796	5,079	874,353
Total fund equity	31,796	5,079	1,139,911
	\$ 31,796	474,922	1,139,911

See accompanying independent auditor's report.

Carnegie- Ellsworth Endowment	Carnegie- Ellsworth Maintenance	Volunteer Fire Department	Total
106,576	41,249	14,839	948,005
-	-	-	6,922
-	-	-	468,000
-	6	-	6
-	211	-	1,328
-	-	-	74,691
55,000	13,000	-	113,000
397,964	27,000	-	690,522
559,540	81,466	14,839	2,302,474
-	1,511	-	1,511
-	-	-	468,000
-	-	-	1,843
-	1,511	-	471,354
397,964	27,000	-	690,522
161,576	52,955	14,839	1,140,598
559,540	79,955	14,839	1,831,120
559,540	81,466	14,839	2,302,474

City of Iowa Falls
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2003

	Road Use Tax	Payroll Tax Levy
Revenues:		
Property tax	\$ -	377,704
Other city tax	-	37,406
Use of money and property	-	-
Intergovernmental	419,279	-
Miscellaneous	-	-
Total revenues	419,279	415,110
Expenditures:		
Operating:		
Public safety	-	-
Community and economic development	-	-
Total expenditures	-	-
Excess (deficiency) of revenues over (under) expenditures	419,279	415,110
Other financing uses:		
Operating transfers out:		
General	(422,779)	(483,755)
Debt Service	-	-
Total other financing uses	(422,779)	(483,755)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(3,500)	(68,645)
Fund balances beginning of year	35,296	73,724
Fund balances end of year	\$ 31,796	5,079

See accompanying independent auditor's report.

Local Option Sales Tax	Carnegie- Ellsworth Endowment	Carnegie- Ellsworth Maintance	Volunteer Fire Department	Total
-	-	-	-	377,704
427,700	-	-	-	465,106
13,881	-	22,910	233	37,024
-	-	-	-	419,279
-	-	6	8,211	8,217
<u>441,581</u>	<u>-</u>	<u>22,916</u>	<u>8,444</u>	<u>1,307,330</u>
-	-	-	11,119	11,119
-	-	4,173	-	4,173
-	-	4,173	11,119	15,292
<u>441,581</u>	<u>-</u>	<u>18,743</u>	<u>(2,675)</u>	<u>1,292,038</u>
(98,655)	-	-	-	(1,005,189)
(229,154)	-	-	-	(229,154)
(327,809)	-	-	-	(1,234,343)
113,772	-	18,743	(2,675)	57,695
1,026,139	559,540	61,212	17,514	1,773,425
<u>1,139,911</u>	<u>559,540</u>	<u>79,955</u>	<u>14,839</u>	<u>1,831,120</u>

City of Iowa Falls
Bond and Note Maturities
June 30, 2003

Year Ending June 30,	General and Essential								General Obligation	
	Corporate Purpose		Capital Loan Notes		Capital Loan Notes		Corporate Purpose			
	Issued Aug 1, 1993		Issued July 1, 1998		Issued July 1, 1999		Issued July 1, 1999			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2004	4.75%	\$ 50,000	4.125%	\$ 65,000	4.55%	\$ 55,000	4.800%	\$ 140,000		
2005		-		-	4.65	60,000	4.800	145,000		
2006		-		-		-	4.800	150,000		
2007		-		-		-	4.800	155,000		
2008		-		-		-	4.800	165,000		
2009		-		-		-	4.800	170,000		
2010		-		-		-	4.800	180,000		
2011		-		-		-	4.875	185,000		
2012		-		-		-	4.900	195,000		
2013		-		-		-	5.000	205,000		
2014		-		-		-	5.000	215,000		
Total		<u>\$ 50,000</u>		<u>\$ 65,000</u>		<u>\$ 115,000</u>		<u>\$ 1,905,000</u>		

Year Ending June 30,	Revenue Bonds/Notes					
	Wastewater Revenue		Hospital Revenue			
	Capital Loan Notes		Bond Series 1998			
	Series 1996		Issued Nov 1, 1998			
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total	
2004	4.19%	\$ 160,000	5.00%	\$ 161,428	321,428	
2005	4.19	166,000	5.00	169,687	335,687	
2006	4.19	173,000	5.00	178,368	351,368	
2007	4.19	180,000	5.00	187,494	367,494	
2008	4.19	188,000	5.00	197,086	385,086	
2009	4.19	196,000	5.00	207,170	403,170	
2010	4.19	204,000	5.00	217,769	421,769	
2011	4.19	213,000	5.00	228,911	441,911	
2012	4.19	221,000	5.00	240,622	461,622	
2013	4.19	231,000	5.00	252,933	483,933	
2014	4.19	240,000	5.00	265,873	505,873	
2015	4.19	251,000	5.00	231,924	482,924	
2016	4.19	<u>261,000</u>		<u>-</u>	<u>261,000</u>	
Total		<u>\$ 2,684,000</u>		<u>\$ 2,539,265</u>	<u>5,223,265</u>	

See accompanying independent auditor's report.

<u>Bonds/Notes</u>									
<u>Capital Loan Notes</u>		<u>Capital Loan Notes</u>		<u>Essential Corporate Purpose</u>		<u>Essential Corporate Purpose</u>			
<u>Issued July 1, 2000</u>		<u>Issued Oct 15, 2001</u>		<u>Issued Oct. 15, 2002</u>		<u>Issued Dec. 15, 2002</u>			
Interest		Interest		Interest		Interest			
Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Total	
5.25%	\$ 45,000	2.80%	\$ 105,000	1.65%	\$ 50,000	2.40%	\$ 60,000	570,000	
5.30	50,000	3.05	110,000	2.00	50,000	2.40	60,000	475,000	
5.40	50,000	3.30	115,000	2.35	55,000	2.40	65,000	435,000	
	-	3.50	120,000	2.60	55,000	2.75	65,000	395,000	
	-	3.75	120,000	2.85	55,000	3.00	70,000	410,000	
	-	4.00	130,000		-	3.25	70,000	370,000	
	-		-		-	3.50	75,000	255,000	
	-		-		-	3.75	75,000	260,000	
	-		-		-	3.85	80,000	275,000	
	-		-		-	4.00	80,000	285,000	
	-		-		-		-	215,000	
	<u>\$ 145,000</u>		<u>\$ 700,000</u>		<u>\$ 265,000</u>		<u>\$ 700,000</u>	<u>3,945,000</u>	

Schedule 4

City of Iowa Falls

Schedule of Revenues by Source and Expenditures by Function-
All Governmental Funds

Year ended June 30, 2003

	<u>Modified</u> <u>Accrual Basis</u> <u>2003</u>
Revenues:	
Property tax	\$ 1,428,398
Tax increment financing revenue	781,318
Other city tax	582,462
Licenses and permits	41,528
Use of money and property	95,151
Intergovernmental	1,394,722
Charges for service	146,660
Miscellaneous	<u>348,223</u>
Total	<u>\$ 4,818,462</u>
Expenditures:	
Operating:	
Public safety	\$ 1,092,281
Public works	436,786
Culture and recreation	668,445
Community and economic development	438,733
General government	335,867
Debt service	697,591
Capital projects	<u>2,586,624</u>
Total	<u>\$ 6,256,327</u>

See accompanying independent auditor's report.

City of Iowa Falls
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2003

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		\$ 2,705
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant	14.228	00-ED-016	383,692
Federal Highway Administration:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-65-6(39)-2C-42	2,400
Highway Planning and Construction	20.205	STP-E-3720(4)-8V-42	98,332
			<u>100,732</u>
Federal Emergency Management Agency:			
Iowa Department of Public Defense:			
Emergency Management Division:			
Hazard Mitigation Grant	83.548	F094-42-07	1,262
U.S. Department of Education:			
State Library of Iowa:			
Public Library Services	84.034	02-PAR-01-005	5,551
Total indirect			<u>491,237</u>
Total			<u>\$ 493,942</u>

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

See accompanying independent auditor's report.

City of Iowa Falls

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

City of Iowa Falls



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Iowa Falls, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 4, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Iowa Falls' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 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, 2003 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 IV-B-03.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Iowa Falls' 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 of Iowa Falls' 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Iowa Falls and other parties to whom the City of Iowa Falls 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 Iowa Falls 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 4, 2003

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

City of Iowa Falls



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Iowa Falls with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. The City of Iowa Falls' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Iowa Falls' management. Our responsibility is to express an opinion on the City of Iowa Falls' compliance based on our audit.

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

In our opinion, the City of Iowa Falls complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

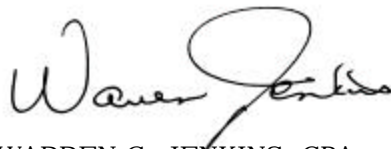
The management of the City of Iowa Falls is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Iowa Falls'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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 4, 2003

City of Iowa Falls
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 - Community Development Block Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Iowa Falls did not qualify as a low-risk auditee.

City of Iowa Falls

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-03 Fire Department Disbursements - Certain disbursements were not properly authorized and were not supported by proper documentation.

Recommendation - All disbursements should be properly approved by either including them in the Fire Department minutes record or in a listing approved and signed by the Council. All disbursements should be supported by original invoices or other supporting documentation.

Response - We will correct this in the future.

Conclusion - Response accepted.

II-B-03 Information Systems - The following weaknesses in the City's computer based systems were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Requiring independent review of payroll and utility rates.
- Computer usage and Internet usage.

Also, the computer system does not lock out a user if the user has entered the wrong password a specified number of times.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over computer based systems. Passwords should be periodically changed, independent review should be performed on utility and payroll rates, and the computer should lock out users that input their password incorrectly a specified number of times.

Response - The City will review current policies and procedures and adjust accordingly.

Conclusion - Response accepted.

City of Iowa Falls

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major program were noted.

City of Iowa Falls

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-03 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, 2003.

IV-B-03 Certified Budget - Disbursements during the year ended June 30, 2003 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response - Two bond issues took place in the fall of 2002, requiring interest payments in June 2003 that were not anticipated during the 2002-2003 budget process. The FY2003-2004 debt service levy was adjusted to allow the City to recoup the shortfall.

Conclusion - Response acknowledged. However, the budget should have been amended prior to allowing disbursements to exceed the budget.

IV-C-03 Questionable Expenditures - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-03 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-03 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>
Marlyn Humphrey, Fire Chief, owner of Iowa Falls Fire Extinguisher Company	First aid kits and smoke alarms	<u>\$ 111</u>
Steve Henry, Fire Secretary/ Treasurer, owner of Iowa Falls Glass	Room shades, per bid Windows, keys, door strikes for fire station	1,150 <u>624</u> <u>1,774</u>
Diane Meyer, Council Member, husband owner of Midwest Animal Health	Vet services and supplies	<u>808</u>

These transactions do not appear to represent conflicts of interest since they were entered into through competitive bidding or, in accordance with Chapter 362.5(10) of the Code of Iowa, other transactions with each individual were less than \$1,500 during the fiscal year.

City of Iowa Falls

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-F-03 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-G-03 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-03 Revenue Bonds and Notes - The City has complied with the revenue bond and note provisions.

IV-I-03 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-J-03 Fire Department Activities - The Iowa Falls Volunteer Fire Department maintains a separate checking account for donations and fund raising activities. Certain expenditures from this account may not meet the requirements of a public purpose.

Recommendation - The City and the Volunteer Fire Department should determine and document the public purpose served by these expenditures before authorizing further payments and should consider initiating steps to legally segregate the donation and fund raising activities of the Association from the City.

Response - We will contact the City Attorney to set this up.

Conclusion - Response accepted.

IV-K-03 Other Information Required by Bond Resolution

Insurance - The following insurance policies were in force at June 30, 2003:

Insurer	Description	Amount	Expiration Date
Employer's Mutual	Property coverage	\$ 18,418,226	Apr 1, 2004
Employer's Mutual	Liability coverage:		
	General aggregate	2,000,000	Apr 1, 2004
	Products aggregate	2,000,000	Apr 1, 2004
	Personal injury	1,000,000	Apr 1, 2004
	Each occurrence	1,000,000	Apr 1, 2004
	Fire damage	100,000	Apr 1, 2004
	Medical expense	5,000	Apr 1, 2004
Employer's Mutual	Inland Marine:		
	Contractor's equipment	533,426	Apr 1, 2004
	Data processing	208,738	Apr 1, 2004
	Valuable papers:		
	Location 2	50,000	Apr 1, 2004

City of Iowa Falls

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Insurer	Description	Amount	Expiration Date
Employer's Mutual	Inland marine:		
	Location 3	100,000	Apr 1, 2004
	Location 4	500,000	Apr 1, 2004
	Miscellaneous property	46,028	Apr 1, 2004
Employer's Mutual	Automobile coverage:		
	Liability	1,000,000	Apr 1, 2004
	Auto medical	5,000	Apr 1, 2004
	Uninsured motorist	50,000	Apr 1, 2004
	Underinsured motorist	50,000	Apr 1, 2004
	Comprehensive/collision	Lesser of cash value or cost of repair	Apr 1, 2004
Employer's Mutual	Worker's compensation:		
	Bodily injury by accident	500,000	Apr 1, 2004
	Bodily injury by disease	500,000	Apr 1, 2004
	Policy limit	500,000	Apr 1, 2004
Employer's Mutual	Umbrella:		
	Retained limit	10,000	Apr 1, 2004
	Occurrence limit	3,000,000	Apr 1, 2004
	Aggregate limit	3,000,000	Apr 1, 2004
Employer's Mutual	Linebacker:		
	Each loss	1,000,000	Apr 1, 2004
	Aggregate	1,000,000	Apr 1, 2004
Old Republic Insurance Company	Airport liability:		
	Combined single:		
	Each occurrence	1,000,000	Jul 1, 2003
	Malpractice aggregate	1,000,000	Jul 1, 2003
	Fire damage	50,000	Jul 1, 2003
	Medical expense	1,000	Jul 1, 2003
	Hangarkeepers-per aircraft	200,000	Jul 1, 2003
	Hangarkeepers-per occurrence	200,000	Jul 1, 2003
	Personal injury and advertising injury aggregate limit	1,000,000	Jul 1, 2003
Northfield Insurance Company	Airport public officials and employees' liability	1,000,000	Jul 1, 2003
Allied Mutual Insurance Company	Public employees blanket bond	100,000	Continuous until canceled

City of Iowa Falls

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Statistical Information:

Description	Amount
Customers served at June 30, 2003 - water	2,235
Customers served at June 30, 2003 - sewer	2,219

Water rates in effect at June 30, 2003:

Per month:

- First 1,000 gallons - \$2.87 minimum charge
- 1,000 to 20,000 gallons - \$2.15 per 1,000 gallons
- Over 20,000 gallons - \$1.76 per 1,000 gallons

Sewer rates in effect at June 30, 2003:

Minimum charge per month of \$5.00 plus \$3.10 per 1,000 gallons of water used

Users who contribute wastewater, the strength of which is greater than normal domestic wastewater, and users who contribute more than an average of fifty thousand gallons per day during the entire current billing period, are charged the following rates for the excess concentration:

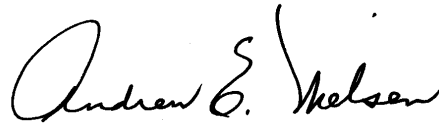
Flow in excess of fifty thousand gallons per day	\$0.34 per 1000 gallons
Biochemical oxygen demand	\$0.19 per pound
Suspended solids	\$0.13 per pound
NH ₃ -N	\$0.48 per pound

City of Iowa Falls

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Katherine L. Rupp, CPA, Senior Auditor II
Tammy L. Mason, CPA, Senior Auditor
Heather B. Allen, Staff Auditor
Sarah M. Wright, Staff Auditor
Ryan J. Johnson, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A'.

Andrew E. Nielsen, CPA
Deputy Auditor of State