



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE March 15, 2005

Contact: Andy Nielsen
515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$11,219,842 for the year ended June 30, 2004, a 121 percent increase from 2003. The receipts included \$2,138,539 in property tax, \$319,292 from tax increment financing, \$637,784 from charges for service, \$1,041,737 from operating grants, contributions and restricted interest, \$745,884 from capital grants, contributions and restricted interest, \$439,584 from local option sales tax, \$20,197 from unrestricted interest on investments, \$5,516,843 from note proceeds and \$359,982 from other general receipts.

Disbursements for the year totaled \$7,952,381, a 59 percent increase from the prior year, and included \$3,690,442 for capital projects, \$1,212,053 for public safety and \$863,252 for public works. Also, disbursements for business type activities totaled \$308,003.

The significant increase in receipts and disbursements is due primarily to the issuance of general obligation notes and disbursements on the capital projects in progress.

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

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CITY OF DENISON

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

JUNE 30, 2004

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City of Denison

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Ken Livingston	Mayor	Jan 2004
Jean Heiden	Mayor Pro tem	Jan 2004
Earl McCollough	Council Member	Jan 2004
Garry Chapman	Council Member	Jan 2006
Keith Greder	Council Member	Jan 2006
Dan Leinen	Council Member	Jan 2006
(After January 2004)		
Ken Livingston	Mayor	Jan 2006
Joel Franken	Mayor Pro tem	Jan 2008
Garry Chapman	Council Member	Jan 2006
Keith Greder	Council Member	Jan 2006
Dan Leinen	Council Member	Jan 2006
Earl McCollough	Council Member	Jan 2008
Al Roder	City Manager	Indefinite
Marcia L. Bretey	Clerk	Indefinite
Rick Franck	Attorney	Indefinite

City of Denison



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Denison, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Denison's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us. Our opinion insofar as it relates to the condensed financial information included in Note 9 for the discretely presented component unit is based on the report of the other auditor.

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 our audit and the report of the other auditor provide a reasonable basis for our opinions.

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

As described in Note 9, the City has chosen to present condensed financial information for its discretely presented component unit since complete financial statements of the component unit have been audited by another auditor and are available from the component unit. The report of the other auditor, dated August 20, 2004, expressed an unqualified opinion on the financial statements. The condensed financial information presented herein for the discretely presented component unit is not a presentation in accordance with U.S. generally accepted accounting principles, but has been derived from audited financial statements of the component unit.

In our opinion, the condensed financial information included in Note 9 for the discretely presented component unit is fairly presented, in all material respects, in relation to the financial statements of the Denison Municipal Utilities as of and for the year ended June 30, 2004 from which the condensed financial information was derived.

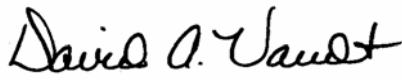
In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Denison as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.


As described in Note 12, during the year ended June 30, 2004, the City 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; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2004 on our consideration of the City of Denison’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 8 through 13 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Denison’s basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (which are not presented herein) and expressed a qualified opinion on those financial statements due to the exclusion of the financial transactions of the Denison Municipal Utilities which were on a different basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 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

November 3, 2004

City of Denison

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Denison provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City 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.

2004 FINANCIAL HIGHLIGHTS

- The City's governmental activities receipts increased 134%, or approximately \$6,307,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$281,000 and note proceeds increased approximately \$5,517,000.
- Disbursements increased 66%, or approximately \$3,030,000, from fiscal 2003 to fiscal 2004. Public safety decreased approximately \$19,000 while capital projects and public works increased approximately \$2,830,000 and \$8,000, respectively.
- The City's total cash basis net assets increased 151%, or approximately \$3,300,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$3,340,000 and the assets of the business type activities decreased by approximately \$72,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the solid waste system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Local Option Sales Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

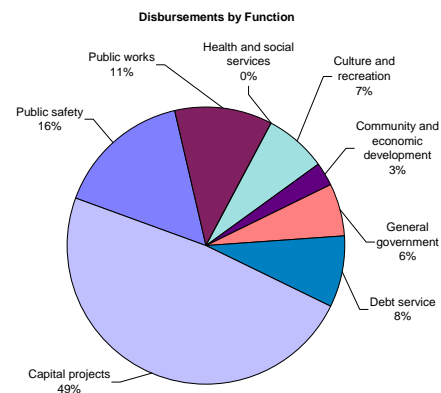
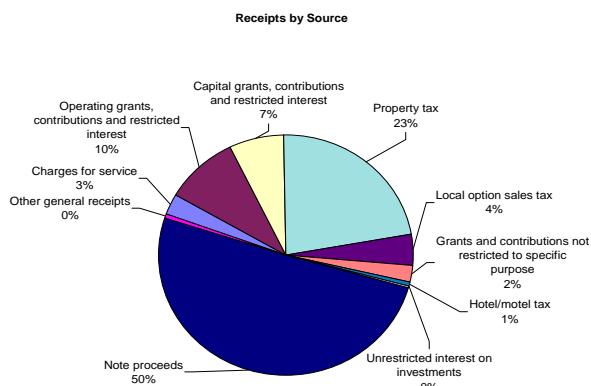
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide separate information for the solid waste fund which is considered to be a major fund of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing \$3.3 million to \$5.39 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$	300
Operating grants, contributions and restricted interest		1,042
Capital grants, contributions and restricted interest		746
General receipts:		
Property tax		2,458
Local option sales tax		439
Grants and contributions not restricted to specific purpose		246
Hotel/motel tax		64
Unrestricted interest on investments		20
Note proceeds		5,517
Other general receipts		50
Transfers, net		101
Total receipts and transfers		<u>10,983</u>
Disbursements:		
Public safety		1,212
Public works		863
Health and social services		10
Culture and recreation		543
Community and economic development		209
General government		479
Debt service		638
Capital projects		3,690
Total disbursements		<u>7,644</u>
Increase in cash basis net assets		3,339
Cash basis net assets beginning of year		<u>2,052</u>
Cash basis net assets end of year	\$	<u>5,391</u>



The City's total receipts for governmental activities increased by 134%, or \$6,292,160. The total cost of all programs and services increased by approximately \$2,218,000, or 48%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation notes and road use tax revenue notes.

The City decreased property tax rates for 2004 by an average of .4% while property valuations increased approximately 13.7%. This increase raised the City's property tax receipts by approximately \$281,000 in 2004. Based on decreases in the total assessed valuation for fiscal year 2005, property tax receipts are budgeted to decrease by \$64,563 next year.

The cost of all governmental activities this year was \$6.83 million compared to \$4.6 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$4.7 million because some of the cost was paid by those directly benefited from the programs (\$300,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,788,000).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Solid waste	\$ 338
Disbursements and transfers:	
Solid waste	308
Transfers	101
Total disbursements and transfers	<u>409</u>
Decrease in cash balance	(71)
Cash basis net assets beginning of year	<u>118</u>
Cash basis net assets end of year	<u>\$ 47</u>

Total business type activities receipts for the fiscal year were \$338,000 compared to \$392,000 last year. This decrease was due primarily to moving Aquatic Center Concessions to the governmental activities.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Denison completed the year, its governmental funds reported a combined fund balance of \$5,391,600, an increase of \$3,339,183 above last year's total of \$2,052,417. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$80,958 from the prior year to \$444,755. Approximately \$25,000 of this increase was due to sale of the 10th Street alleys and moving the aquatic concessions to the General Fund from the Enterprise Fund.
- The Employee Benefits Fund cash balance increased by \$96,602 to \$636,643 during the fiscal year. This increase was attributable to the decrease in the cost of health insurance.

- The Local Option Sales Tax Fund cash balance increased by \$269,402 to \$897,551. The increase is due in part to increased sales tax collections and a reduction in disbursements.
- The Urban Renewal Tax Increment Fund cash balance was \$1,045,177, an increase of \$27,818 from the previous year. The increase was the result of not yet transferring funds to the Capital Projects Fund for costs incurred.
- The Capital Projects Fund cash balance increased by \$2,590,625 to \$1,530,193 during the fiscal year. This increase was due to the issuance of four notes during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Solid Waste Fund cash balance decreased by \$15,300 to \$46,561, due primarily to an increase in transfers to the General Fund to reimburse salaries paid.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on April 29, 2004 and was due to the receipt of grant monies and donations available for disbursement.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$7,220,008 in notes outstanding, compared to \$2,788,807 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30, 2004
General obligation notes	\$ 6,495
Revenue notes	725
Total	<u>\$ 7,220</u>

Debt increased as a result of issuing general obligation notes for streetscape, storm sewer, street and utility improvements and equipment for various departments.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$6,495,008 is within its constitutional debt limit of \$6.88 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City of Denison’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various city activities. The county’s unemployment rate at the end of July was 2.9%. This is much lower than the State’s 4.5%

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$15.9 million, an increase of 1.62% over the 2004 budget. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out a major urban renewal project of the City. Budgeted disbursements are expected to rise by \$1,263,504, or 8.5%. Increased wages, increases in street construction and maintenance and the urban renewal project represent the largest increases. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marcia Bretey, City Clerk, 101 Main Street, City of Denison, Iowa, 51442.

City of Denison

Basic Financial Statements

City of Denison

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 1,212,053	80,653	54,036	2,125
Public works	863,252	-	631,319	-
Health and social services	9,489	-	-	-
Culture and recreation	543,157	143,751	44,670	-
Community and economic development	209,126	-	274,251	-
General government	478,426	75,677	9,200	-
Debt service	638,433	-	28,261	-
Capital projects	2,878,060	-	-	743,759
Total governmental activities	6,831,996	300,081	1,041,737	745,884
Business type activities:				
Solid waste	308,003	337,703	-	-
Total	\$ 7,139,999	637,784	1,041,737	745,884

General Receipts:

Property tax levied for:	
General purposes	
Tax increment financing	
Debt service	
Local option sales tax	
Hotel/motel tax	
Grants and contributions not restricted to specific purpose	
Unrestricted interest on investments	
Bond proceeds	
Payments to bond escrow agent	
Miscellaneous	
Transfers	

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Streets	
Urban renewal purposes	
Debt service	
Other purposes	

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,075,239)	-	(1,075,239)
(231,933)	-	(231,933)
(9,489)	-	(9,489)
(354,736)	-	(354,736)
65,125	-	65,125
(393,549)	-	(393,549)
(610,172)	-	(610,172)
(2,134,301)	-	(2,134,301)
(4,744,294)	-	(4,744,294)
-	29,700	29,700
(4,744,294)	29,700	(4,714,594)
1,863,957	-	1,863,957
319,292	-	319,292
271,171	-	271,171
439,584	-	439,584
63,774	-	63,774
246,491	-	246,491
20,197	-	20,197
5,516,843	-	5,516,843
(812,382)	-	(812,382)
53,128	-	53,128
101,422	(101,422)	-
8,083,477	(101,422)	7,982,055
3,339,183	(71,722)	3,267,461
2,052,417	118,283	2,170,700
\$ 5,391,600	46,561	5,438,161
\$ 480,655	-	480,655
1,045,177	-	1,045,177
23,392	-	23,392
1,867,428	-	1,867,428
1,974,948	46,561	2,021,509
\$ 5,391,600	46,561	5,438,161

City of Denison

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue			
	General	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 1,274,627	554,457	-	-
Tax increment financing	-	-	-	319,292
Other city tax	27,427	888	439,584	-
Licenses and permits	31,199	-	-	-
Use of money and property	45,352	-	-	-
Intergovernmental	309,946	-	-	-
Charges for service	235,334	-	-	-
Special assessments	-	-	-	-
Miscellaneous	82,388	-	-	-
Total receipts	2,006,273	555,345	439,584	319,292
Disbursements:				
Operating:				
Public safety	975,259	217,909	18,885	-
Public works	210,180	115,698	2,977	-
Health and social services	8,930	559	-	-
Culture and recreation	447,456	82,826	-	-
Community and economic development	7,855	-	-	58,867
General government	400,153	41,751	29,992	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	2,049,833	458,743	51,854	58,867
Excess (deficiency) of receipts over (under) disbursements	(43,560)	96,602	387,730	260,425
Other financing sources (uses):				
Note proceeds, net of \$88,157 discount	-	-	-	-
Payment to bond escrow agent	-	-	-	-
Operating transfers in	138,540	-	8,899	-
Operating transfers out	(14,022)	-	(127,227)	(232,607)
Total other financing sources (uses)	124,518	-	(118,328)	(232,607)
Net change in cash balances	80,958	96,602	269,402	27,818
Cash balances beginning of year	363,797	540,041	628,149	1,017,359
Cash balances end of year	\$ 444,755	636,643	897,551	1,045,177
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	444,755	-	-	-
Special revenue funds	-	636,643	897,551	1,045,177
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ 444,755	636,643	897,551	1,045,177

See notes to financial statements.

Capital Projects	Nonmajor Governmental Funds	Total
-	306,044	2,135,128
-	-	319,292
-	64,265	532,164
-	-	31,199
22,540	769	68,661
428,522	611,247	1,349,715
-	-	235,334
156,734	-	156,734
135,962	318,719	537,069
743,758	1,301,044	5,365,296
-	-	1,212,053
-	534,397	863,252
-	-	9,489
-	12,875	543,157
-	142,404	209,126
-	6,530	478,426
-	638,433	638,433
2,878,060	-	2,878,060
2,878,060	1,334,639	6,831,996
(2,134,302)	(33,595)	(1,466,700)
5,516,843	-	5,516,843
(812,382)	-	(812,382)
20,476	361,366	529,281
-	(54,003)	(427,859)
4,724,937	307,363	4,805,883
2,590,635	273,768	3,339,183
(1,060,442)	563,513	2,052,417
1,530,193	837,281	5,391,600
-	23,392	23,392
-	-	444,755
-	813,889	3,393,260
1,530,193	-	1,530,193
1,530,193	837,281	5,391,600

City of Denison

City of Denison
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds		
	Solid Waste	Nonmajor - Aquatic Concessions	Total
Operating receipts:			
Charges for service	\$ 337,703	-	337,703
Operating disbursements:			
Business type activities	308,003	-	308,003
Excess of operating receipts over operating disbursements	29,700	-	29,700
Operating transfers out	(45,000)	(56,422)	(101,422)
Net change in cash balances	(15,300)	(56,422)	(71,722)
Cash balances beginning of year	61,861	56,422	118,283
Cash balances end of year	\$ 46,561	-	46,561
Cash Basis Fund Balances			
Unreserved	\$ 46,561	-	46,561

See notes to financial statements.

City of Denison

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Denison is a political subdivision of the State of Iowa located in Crawford County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Denison 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.

Blended Component Unit

The Denison Foundation has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate for charitable purposes and economic development in the City of Denison. The Foundation is governed by a seven-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City.

Discretely Presented Component Unit

The Denison Municipal Utilities was established under Chapter 388 of the Code of Iowa to operate the City's municipal utilities. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set by the Governmental Accounting Standards Board, the Municipal Utilities meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 9 was prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Complete financial statements can be obtained from the Denison Municipal Utilities, W. Broadway & 7th St., P.O. Box 518, Denison, Iowa 51442.

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: Crawford County Assessor's Conference Board, Crawford County Emergency Management Commission, Crawford County Joint E911 Service Board and Crawford County Area Solid Waste Commission.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Employee Benefits Fund is used to account for pension and retirement funds.

The Local Option Sales Tax Fund is utilized to account for the collection and use of the local option sales tax.

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

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

The City also reports the following major proprietary fund:

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage operations.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City 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 investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$939,438 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 559,804	238,019	30,000	35,565	589,804	273,584
2006	585,807	219,250	35,000	33,229	620,807	252,479
2007	601,860	200,289	35,000	31,961	636,860	232,250
2008	642,967	179,177	35,000	30,604	677,967	209,781
2009	499,129	155,269	40,000	29,172	539,129	184,441
2010 - 2014	2,390,441	510,826	220,000	118,603	2,610,441	629,429
2015 - 2019	1,215,000	147,528	285,000	55,577	1,500,000	203,105
2020 - 2024	-	-	45,000	3,061	45,000	3,061
Total	\$ 6,495,008	1,650,358	725,000	337,772	7,220,008	1,988,130

During the year ended June 30, 2004, \$373,799 of general obligation notes and \$10,000 of revenue notes were retired. In addition, \$790,000 of general obligation notes were advance refunded.

General Obligation Economic Development Note

On August 5, 1996, the City entered into a loan agreement with the Crawford County Trust and Savings Bank in Denison for a bank loan up to \$600,000 to carry out a project in the Denison Urban Renewal Area for an economic development grant to the Crawford County Development Corporation for a Speculation Building. Interest is currently five percent per annum on the unpaid balance. The interest rate will be adjusted on June 1, 2008 to two percentage points below the highest prime rate published on January 1, 2008. During the year ended June 30, 2004, the City paid loan principal of \$18,799 and interest of \$11,708. The balance outstanding on the loan at June 30, 2004 was \$220,008.

Childhood Center Revenue Notes

On July 1, 2001, the City entered into a loan agreement with United Bank of Iowa in Ida Grove for a loan of \$350,000 to construct a building to be leased to the Crawford County Early Childhood Center. The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the revenues received by the City from the Crawford County Early Childhood Center (Childhood Center) and the note holder holds a lien on the future earnings of the Childhood Center.
- (b) Sufficient amounts shall be set aside in a separate revenue note sinking account for the purpose of making the note principal and interest payments when due.

Road Use Tax Revenue Notes

On May 1, 2004, the City entered into an agreement with Ruan Securities Corporation for a loan of \$395,000 to purchase equipment for the street department and street improvement projects. The resolution providing for the issuance of the revenue notes includes the following provisions:

- (1) The notes will only be redeemed from the road use tax funds received from the State of Iowa.
- (2) At the time of the delivery of the notes, a separate reserve account of \$39,275 shall be established.
- (3) Sufficient monthly transfers shall be made to a separate road use tax revenue sinking account for the purpose of making note principal and interest payments when due.
- (4) All funds remaining in the road use tax fund after payment of road related improvements and services authorized by state law and required transfers shall be placed in a surplus revenue account. This account is restricted to payments to the sinking and reserve accounts if these accounts are in default. If the sinking and reserve accounts are fully funded the surplus may be used for road related improvements and services authorized by state law.

The City has not established the sinking, reserve and surplus revenue accounts required by the revenue note resolution.

Refunding of General Obligation Notes

On August 1, 2003, the City issued \$820,000 of general obligation refunding notes. The City entered into an escrow agreement with Bankers Trust Company, N.A. and deposited the proceeds from the refunding notes. The proceeds were used to advance refund \$790,000 of 1993 general obligation notes on the call date of June 1, 2004.

The City, in effect, reduced its total general obligation debt service payments by approximately \$33,200 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$31,300.

Crawford County Fair Association Loan Guarantee

On May 6, 2002, the City entered into an agreement with Wells Fargo Bank Iowa, N.A. (the lender) to guarantee a \$150,900 loan from the lender to the Crawford County Fair Association. The loan is to be paid by the Association to the lender under the conditions of a promissory note with an interest rate of 7.75% per annum and a final maturity of December 31, 2007. In the event the Association is unable to pay the lender, the City guarantees payment from incremental property taxes generated from the Denison Urban Renewal Area. On September 9, 2002, the City further agreed that when the loan reaches a principal amount of \$70,000, the City would be dismissed of any liability.

During the year ended June 30, 2004, the City appropriated \$5,000 to be applied to the note. The amount would be used for interest and principal on the note.

(4) 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 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$81,098, \$78,316 and \$75,618, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory and sick leave hours for subsequent use or for payment upon termination, retirement or death. Employees who have accumulated at least 90 days sick leave may elect to convert earned sick leave above 90 days to cash at one-half of their rate of pay or may elect to convert sick leave to additional vacation time at a rate of one-half day of vacation time for each day of sick leave converted.

These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory leave and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 61,000
Compensatory leave	19,000
Sick leave	<u>15,000</u>
Total	<u>\$ 95,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 449
	Tourism - Hotel/Motel	1,983
	Emergency	34,686
	Enterprise:	
	Solid Waste	45,000
	Aquatic Concessions	56,422
		<u>138,540</u>
Special Revenue:	Special Revenue:	
Local Option Sales Tax	Tourism - Hotel/Motel	<u>8,899</u>
Debt Service	General	4,808
	Special Revenue:	
	Road Use Tax	8,435
	Local Option Sales Tax	122,924
	Urban Renewal Tax Increment	225,199
		<u>361,366</u>
Capital Projects	General	9,214
	Special Revenue:	
	Local Option Sales Tax	3,854
	Urban Renewal Tax Increment	7,408
		<u>20,476</u>
Total		<u>\$ 529,281</u>

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

(7) Construction Commitments

The City entered into construction contracts for building, street and storm sewer projects during the year ended June 30, 2004. The unpaid contract balances at June 30, 2004 totaled approximately \$1,918,995.

(8) Conduit Debt

As required by Chapter 147(f) of the Internal Revenue Code, in a prior year the City held a public hearing for the issuance of up to \$9,500,000 of Colorado Health Facilities Authority Revenue Bonds. The bond proceeds were used to finance and refinance health care related facilities owned by the Martin Luther Home Society, Inc. The bonds and related interest are payable solely from the revenues derived from the loan agreement, and the bond principal and interest do not constitute liabilities of the City.

(9) Denison Municipal Utilities

The Denison Municipal Utilities provides electric, sewer, water and joint treatment for industrial waste services to the City of Denison, Iowa. As permitted by GASB Statement 34, the City has chosen to present condensed financial information for its discretely presented component unit. Such condensed financial information is not a presentation in conformity with U.S. generally accepted accounting principles. Following is the condensed financial information for the Municipal Utilities for the year ended June 30, 2004.

Condensed Statement of Net Assets	
Assets:	
Current and other assets	\$ 9,292,674
Capital assets	24,732,201
Total assets	<u>34,024,875</u>
Liabilities:	
Long-term debt	5,509,100
Other liabilities	1,639,213
Total liabilities	<u>7,148,313</u>
Municipal equity:	
Invested in capital assets, net of related debt	18,858,101
Unrestricted	8,018,461
Total municipal equity	<u>\$ 26,876,562</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets	
Operating revenues:	
Sales to customers	\$ 9,035,866
Other	27,398
Total operating revenue	<u>9,063,264</u>
Operating expenses:	
Electric	\$ 5,052,747
Water	1,059,107
Sewer	538,221
Joint treatment	603,472
Miscellaneous	1,167,504
	<u>8,421,051</u>
Operating income	642,213
Non-operating revenues (expenses):	
Miscellaneous	103,282
Interest income	136,983
Interest expense	(230,700)
Economic development	(134,973)
Total non-operating revenues (expenses)	<u>(125,408)</u>
Net income	516,805
Municipal equity beginning of year	<u>26,359,757</u>
Municipal equity end of year	<u>\$ 26,876,562</u>

(10) Risk Management

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

(11) Deficit Balance

The Special Revenue, Payroll Section 125 and Trees Forever Funds had deficit balances totaling \$6,530 and \$14,525, respectively. The deficits will be eliminated through transfers and future grant proceeds.

(12) Accounting Change

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, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 2,135,128	-
Tax increment financing	319,292	-
Other city tax	532,164	-
Licenses and permits	31,199	-
Use of money and property	68,661	-
Intergovernmental	1,349,715	-
Charges for service	235,334	337,703
Special assessments	156,734	-
Miscellaneous	537,069	-
Total receipts	5,365,296	337,703
Disbursements:		
Public safety	1,212,053	-
Public works	863,252	-
Health and social services	9,489	-
Culture and recreation	543,157	-
Community and economic development	209,126	-
General government	478,426	-
Debt service	638,433	-
Capital projects	2,878,060	-
Business type activities	-	308,003
Total disbursements	6,831,996	308,003
Excess (deficiency) of receipts over (under) disbursements	(1,466,700)	29,700
Other financing sources, net	4,805,883	(101,422)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,339,183	(71,722)
Balances beginning of year	2,052,417	118,283
Balances end of year	\$ 5,391,600	46,561

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
2,135,128	2,152,257	2,152,257	(17,129)
319,292	1,000,000	1,000,000	(680,708)
532,164	443,620	443,620	88,544
31,199	15,760	15,760	15,439
68,661	43,680	43,680	24,981
1,349,715	6,585,175	6,585,175	(5,235,460)
573,037	549,800	549,800	23,237
156,734	-	-	156,734
537,069	208,930	208,930	328,139
<u>5,702,999</u>	<u>10,999,222</u>	<u>10,999,222</u>	<u>(5,296,223)</u>
1,212,053	1,283,912	1,359,412	147,359
863,252	993,002	993,002	129,750
9,489	13,333	13,333	3,844
543,157	811,649	811,649	268,492
209,126	11,000	366,785	157,659
478,426	568,447	599,322	120,896
638,433	572,134	572,134	(66,299)
2,878,060	9,138,200	9,138,200	6,260,140
308,003	376,113	376,113	68,110
<u>7,139,999</u>	<u>13,767,790</u>	<u>14,229,950</u>	<u>7,089,951</u>
(1,437,000)	(2,768,568)	(3,230,728)	1,793,728
<u>4,704,461</u>	<u>3,808,200</u>	<u>4,270,360</u>	<u>434,101</u>
3,267,461	1,039,632	1,039,632	2,227,829
2,170,700	2,170,700	2,170,700	-
<u>5,438,161</u>	<u>3,210,332</u>	<u>3,210,332</u>	<u>2,227,829</u>

City of Denison

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the discretely presented component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$462,160. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service function.

Other Supplementary Information

City of Denison

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Road Use Tax	Payroll Section 125	Tourism - Hotel/ Motel	Emergency	Special Denison Foundation
Receipts:					
Property tax	\$ -	-	-	34,873	-
Other city tax	-	-	63,774	56	-
Use of money and property	-	-	-	-	509
Intergovernmental	611,247	-	-	-	-
Miscellaneous	-	-	-	-	241,041
Total receipts	<u>611,247</u>	<u>-</u>	<u>63,774</u>	<u>34,929</u>	<u>241,550</u>
Disbursements:					
Operating:					
Public works	534,397	-	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	42,701	-	25,661
General government	-	6,530	-	-	-
Debt service	-	-	-	-	-
Total disbursements	<u>534,397</u>	<u>6,530</u>	<u>42,701</u>	<u>-</u>	<u>25,661</u>
Excess (deficiency) of receipts over (under) disbursements	<u>76,850</u>	<u>(6,530)</u>	<u>21,073</u>	<u>34,929</u>	<u>215,889</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(8,435)	-	(10,882)	(34,686)	-
Total other financing sources (uses)	<u>(8,435)</u>	<u>-</u>	<u>(10,882)</u>	<u>(34,686)</u>	<u>-</u>
Net change in cash balances	68,415	(6,530)	10,191	243	215,889
Cash balances beginning of year	412,240	-	13,140	79	-
Cash balances end of year	<u>\$ 480,655</u>	<u>(6,530)</u>	<u>23,331</u>	<u>322</u>	<u>215,889</u>
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 480,655	(6,530)	23,331	322	215,889
Debt service fund	-	-	-	-	-
Total cash basis fund balances	<u>\$ 480,655</u>	<u>(6,530)</u>	<u>-</u>	<u>322</u>	<u>215,889</u>

See accompanying independent auditor's report.

Revenue								
Trees Forever	Food Pantry	Library Trust	Aquatic Trust	Northside Recreational Trust	Child Care Trust	Debt Service		Total
-	-	-	-	-	-	271,171		306,044
-	-	-	-	-	-	435		64,265
-	-	260	-	-	-	-		769
-	-	-	-	-	-	-		611,247
5,000	5,685	232	1,100	4,700	32,700	28,261		318,719
5,000	5,685	492	1,100	4,700	32,700	299,867	-	1,301,044
-	-	-	-	-	-	-		534,397
-	5,525	1,965	685	4,700	-	-		12,875
19,525	-	-	-	-	54,517	-		142,404
-	-	-	-	-	-	-		6,530
-	-	-	-	-	-	638,433		638,433
19,525	5,525	1,965	685	4,700	54,517	638,433		1,334,639
(14,525)	160	(1,473)	415	-	(21,817)	(338,566)		(33,595)
-	-	-	-	-	-	361,366		361,366
-	-	-	-	-	-	-		(54,003)
-	-	-	-	-	-	361,366		307,363
(14,525)	160	(1,473)	415	-	(21,817)	22,800		273,768
-	-	99,110	3,953	12,582	21,817	592		563,513
(14,525)	160	97,637	4,368	12,582	-	23,392		837,281
(14,525)	160	97,637	4,368	12,582	-	-		813,889
-	-	-	-	-	-	23,392		23,392
(14,525)	160	97,637	4,368	12,582	-	23,392		837,281

City of Denison
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	Dec. 1, 1993	4.15-5.80%	\$ 1,545,000
Corporate purpose - refunding	May 1, 1996	4.75-5.20	535,000
Economic development	Aug 5, 1996	5.00	Up to 600,000
Corporate purpose	Dec 1, 1997	4.20-4.80	830,000
Corporate purpose	May 1, 2000	5.00-5.60	1,020,000
Corporate purpose	Aug 1, 2003	1.70-4.30	3,740,000
Corporate purpose - refunding	Aug 1, 2003	1.90-3.00	820,000
Street Improvement	May 1, 2004	1.65-4.15	650,000
Total			
Revenue notes:			
Childhood center	Jul 1, 2001	4.75-5.70%	\$ 350,000
Road use tax	May 1, 2004	2.05-5.20	395,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
880,000	-	880,000	-	71,310
85,000	-	85,000	-	4,420
238,807	-	18,799	220,008	11,708
460,000	-	85,000	375,000	21,458
785,000	-	95,000	690,000	42,868
-	3,740,000	-	3,740,000	105,302
-	820,000	-	820,000	-
-	650,000	-	650,000	-
<u>\$ 2,448,807</u>	<u>5,210,000</u>	<u>1,163,799</u>	<u>6,495,008</u>	<u>257,065</u>
340,000	-	10,000	330,000	18,261
-	395,000	-	395,000	-
<u>\$ 340,000</u>	<u>395,000</u>	<u>10,000</u>	<u>725,000</u>	<u>18,261</u>

City of Denison
Bond and Note Maturities
June 30, 2004

Year Ending June 30,	General Obligation Notes					
	Economic Development Issued Aug 5, 1996		Corporate Purpose Issued Dec 1, 1997		Corporate Purpose Issued May 1, 2000	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2005	5.00%	\$ 19,804	4.60%	\$ 90,000	5.35%	\$ 100,000
2006	5.00	20,807	4.65	90,000	5.40	105,000
2007	5.00	21,860	4.70	95,000	5.45	110,000
2008	5.00	22,967	4.80	100,000	5.50	120,000
2009	5.00	24,129		-	5.55	125,000
2010	5.00	25,351		-	5.60	130,000
2011	5.00	26,634		-		-
2012	5.00	27,983		-		-
2013	5.00	30,473		-		-
2014		-		-		-
2015		-		-		-
2016		-		-		-
2017		-		-		-
2018		-		-		-
2019		-		-		-
Total		<u>\$ 220,008</u>		<u>\$ 375,000</u>		<u>\$ 690,000</u>

Year Ending June 30,	Revenue Notes				
	Childhood Center Issued Jul 1, 2001		Road Use Tax Issued May 1, 2004		Total
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2005	4.90-4.95%	\$ 10,000	2.05%	\$ 20,000	30,000
2006	5.00-5.05	15,000	2.55	20,000	35,000
2007	5.10	15,000	2.95	20,000	35,000
2008	5.15	15,000	3.30	20,000	35,000
2009	5.15-5.20	15,000	3.55	25,000	40,000
2010	5.20	15,000	3.80	25,000	40,000
2011	5.25-5.30	15,000	4.00	25,000	40,000
2012	5.35	20,000	4.20	25,000	45,000
2013	5.40	20,000	4.35	25,000	45,000
2014	5.45	20,000	4.50	30,000	50,000
2015	5.50	25,000	4.65	30,000	55,000
2016	5.55	25,000	4.80	30,000	55,000
2017	5.55-5.60	25,000	4.95	30,000	55,000
2018	5.60	25,000	5.10	35,000	60,000
2019	5.65	25,000	5.20	35,000	60,000
2020	5.65-5.70	25,000		-	25,000
2021	5.70	20,000		-	20,000
Total		<u>\$ 330,000</u>		<u>\$ 395,000</u>	<u>\$ 725,000</u>

See accompanying independent auditor's report.

Corporate Purpose		Corporate Purpose-Refunding		Street Improvement		Total
Issued Aug 1, 2003		Issued Aug 1, 2003		Issued May 1, 2004		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
1.70%	\$ 130,000	1.90%	\$ 200,000	1.65%	\$ 20,000	559,804
2.00	140,000	2.30	205,000	2.15	25,000	585,807
2.30	130,000	2.70	205,000	2.55	40,000	601,860
2.60	155,000	3.00	210,000	2.90	35,000	642,967
2.80	315,000		-	3.15	35,000	499,129
3.00	325,000		-	3.40	35,000	515,351
3.20	340,000		-	3.60	85,000	451,634
3.40	355,000		-	3.80	85,000	467,983
3.60	365,000		-	3.95	90,000	485,473
3.50	375,000		-	4.05	95,000	470,000
3.90	205,000		-	4.15	105,000	310,000
4.00	210,000		-		-	210,000
4.10	220,000		-		-	220,000
4.20	230,000		-		-	230,000
4.30	245,000		-		-	245,000
	<u>\$ 3,740,000</u>		<u>\$ 820,000</u>		<u>\$ 650,000</u>	<u>\$ 6,495,008</u>

Schedule 4

City of Denison

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 2,135,128	1,854,448
Tax increment financing	319,292	519,558
Other city tax	532,164	523,997
Licenses and permits	31,199	32,810
Use of money and property	68,661	47,347
Intergovernmental	1,349,715	1,109,095
Charges for service	235,334	411,741
Special assessments	156,734	-
Miscellaneous	537,069	176,427
	<u>\$ 5,365,296</u>	<u>4,675,423</u>
Total		
Disbursements:		
Operating:		
Public safety	\$ 1,212,053	1,231,143
Public works	863,252	855,477
Health and social services	9,489	11,392
Culture and recreation	543,157	540,320
Community and economic development	209,126	76,026
General government	478,426	544,350
Debt service	638,433	495,734
Capital projects	3,690,442	859,204
	<u>\$ 7,644,378</u>	<u>4,613,646</u>
Total		

See accompanying independent auditor's report.



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

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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 Denison, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 3, 2004. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 Denison's 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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the 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 (2).

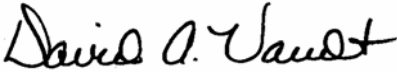
Internal Control Over Financial Reporting


In planning and performing our audit, we considered the City of Denison's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Denison's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings.

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

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

November 3, 2004

City of Denison

Schedule of Findings

Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

Information Systems – The City does not have a disaster recovery plan.

Recommendation – The City should develop a written disaster recovery plan.

Response – We will develop a written policy.

Conclusion – Response accepted.

City of Denison

Schedule of Findings

Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the City Council. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation – The City should adopt a new resolution increasing the maximum depositories.

Response – We will review this. The existing resolution may be sufficient.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2004 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 – We will amend in sufficient amount in the future.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No questionable disbursements were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments – Except as noted in item (1) above, 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.
- (9) Revenue Notes – The City has established the Road Use Tax Revenue and Project accounts. However, the City has not established the required sinking, reserve or surplus revenue funds. Also, \$1,049 in accrued interest received from the sale of the road use tax revenue notes was not deposited in the Road Use Tax Sinking Account.

Recommendation – The City should establish the required accounts and make the required transfers to the sinking, reserve and surplus revenue accounts. The accrued interest should be transferred to the road use tax sinking account as required.

City of Denison

Schedule of Findings

Year ended June 30, 2004

Response – We will establish the required accounts and will transfer the interest as recommended.

Conclusion – Response accepted.

- (10) Local Option Sales Tax – The ballot for the local option sales tax authorizes the City to collect the tax and to allocate 25% for property tax relief and 75% for infrastructure. The City does not maintain adequate records to document the proper expenditure of local option sales tax for the authorized uses.

Recommendation – The City should establish procedures to accumulate and document local option sales tax disbursements to demonstrate compliance with ballot requirements.

Response – We have a five-year financial plan that will use the funds.

Conclusion – Response acknowledged. The City should establish procedures to record local option sales tax activity which would document compliance with the ballot requirements.

- (11) Corrective Transfer – Accrued interest of \$6,399 from the sale of general obligation notes was recorded in the Capital Projects Fund.

Recommendation – The City should transfer \$6,399 from the Capital Projects Fund to the Debt Service Fund.

Response – We will correct this.

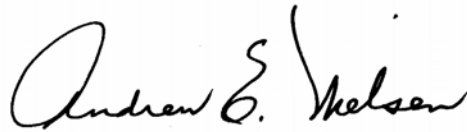
Conclusion – Response accepted.

City of Denison

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Trevor L. Theulen, CPA, Assistant Auditor
Candice R. Meester, 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" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State