



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

February 1, 2007

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

The City's revenues totaled \$5,425,926 for the year ended June 30, 2006, a 26% decrease from the prior year, and included \$1,027,763 from property tax, \$1,278,321 from tax increment financing, \$618,371 from charges for service, \$386,573 from operating grants, contributions and restricted interest, \$1,699,270 from capital grants, contributions and restricted interest, \$354,984 from local option sales tax, \$43,692 from unrestricted investment earnings and \$16,952 from other general revenues.

Expenses for City operations totaled \$3,876,844, a 20% increase over the prior year, and included \$842,741 for public works, \$778,306 for public safety and \$718,313 for debt service. Expenses for business type activities totaled \$497,075.

The primary reason for the decrease in revenue was a reduction in developer donated infrastructure compared to the prior year. The increase in expenses is primarily due to furnishing the new city hall, an information technology project and an increase in tax increment financing rebates compared to the prior year.

A copy of the report is available for review in the City Administrator's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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CITY OF LECLAIRE

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

JUNE 30, 2006

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City of LeClaire

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|---------------------|---------------------|
| (Before January 2006) | | |
| Vernon C. Spring | Mayor | Jan 2006 |
| Debra D. Smith | Mayor Pro tem | Jan 2006 |
| Rodney L. Collier | Council Member | Jan 2006 |
| Bruce R. Richardson | Council Member | Jan 2006 |
| Mary L. Farmer | Council Member | Jan 2008 |
| Michael R. Wolfe | Council Member | Jan 2008 |
| (After January 2006) | | |
| Vernon C. Spring | Mayor | Jan 2008 |
| Debra D. Smith | Mayor Pro tem | Jan 2010 |
| Mary L. Farmer | Council Member | Jan 2008 |
| Michael R. Wolfe | Council Member | Jan 2008 |
| Lane R. Bleeker | Council Member | Jan 2010 |
| Bruce R. Richardson | Council Member | Jan 2010 |
| Edwin N. Choate | Administrator/Clerk | Indefinite |
| Deborah F. Buskirk | Deputy Clerk | Indefinite |
| Jeffrey C. McDaniel | Attorney | Indefinite |

City of LeClaire



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of LeClaire, Iowa, as of and for the year ended June 30, 2006, 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 LeClaire's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

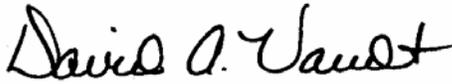
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of LeClaire at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2006 on our consideration of the City of LeClaire's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 46 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of LeClaire's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein). For the year ended June 30, 2005, we expressed unqualified opinions on the financial statements. For the year ended June 30, 2004, we expressed unqualified opinions on the financial statements, except we expressed a qualified opinion on the financial statements of the Enterprise, Water Fund due to the omission of the capital assets at July 1, 2003 and the omission of the gain or loss on the disposal of the water system and related capital assets on the business type activities and the Enterprise, Water Fund. For the year ended June 30, 2003, we expressed a qualified opinion on the financial statements other than those of the Enterprise Funds due to the omission of the general fixed assets account group and an adverse opinion on the financial statements of the Enterprise Funds due to the omission of the Enterprise Fund capital assets.

Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of LeClaire 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

As discussed in Note 14 to the financial statements, the City restated the beginning balance of governmental activities to correct the valuation of and reporting for certain capital assets. To facilitate and enhance comparability in this discussion and analysis, fiscal year 2005 amounts have been revised to reflect the change as if it had been made in the prior year.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental funds were approximately \$3,386,000 in fiscal 2006. Property tax (including TIF) amounted to approximately \$2,100,000, which represents an increase of approximately \$116,000, or 6%.
- Governmental fund expenditures were approximately \$6,726,000 in fiscal 2006 and enterprise fund expenses totaled approximately \$497,000.
- The City's net assets increased 15%, or approximately \$1,549,000, from June 30, 2005 to June 30, 2006. Of this amount, the net assets of the governmental activities increased approximately \$1,434,000 and the net assets of the business type activities increased by approximately \$115,000.

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 Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the City as a whole and present an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor special revenue funds.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

In the government-wide financial statements, the City's activities are 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 includes the sanitary sewer 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 the 1) the General Fund, 2) the Special Revenue Funds, such as Urban Renewal Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Fund. This fund reports services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between 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 Fund is the Sewer Fund, a major fund of the City. The City is responsible for ensuring the assets reported in this fund are used only for their intended purposes and by those to whom the assets belong.

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

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

| | Condensed Statement of Net Assets | | | | | | Per Cent Change June 30, 2005-2006 |
|--|-----------------------------------|-------------|-----------------------------|-----------|-------------|-------------|---|
| | Governmental Activities | | Business Type Activities | | Total | | |
| | June 30, | | June 30, | | June 30, | | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | |
| Current and other assets | \$ 3,315,475 | 3,162,817 | 70,997 | 38,889 | 3,386,472 | 3,201,706 | 5.8% |
| Capital assets | 17,396,122 | 13,445,496 | 3,824,369 | 3,732,994 | 21,220,491 | 17,178,490 | 23.5% |
| Total assets | 20,711,597 | 16,608,313 | 3,895,366 | 3,771,883 | 24,606,963 | 20,380,196 | 20.7% |
| Long-term liabilities | 9,951,564 | 7,736,461 | 10,703 | 77,354 | 9,962,267 | 7,813,815 | 27.5% |
| Other liabilities | 2,612,014 | 2,157,647 | 88,227 | 13,361 | 2,700,241 | 2,171,008 | 24.4% |
| Total liabilities | 12,563,578 | 9,894,108 | 98,930 | 90,715 | 12,662,508 | 9,984,823 | 26.8% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 9,355,408 | 7,595,070 | 3,824,369 | 3,732,994 | 13,179,777 | 11,328,064 | 16.3% |
| Restricted | 828,878 | 402,408 | - | - | 828,878 | 402,408 | 106.0% |
| Unrestricted | (2,036,267) | (1,283,273) | (27,933) | (51,826) | (2,064,200) | (1,335,099) | 54.6% |
| Total net assets | \$ 8,148,019 | 6,714,205 | 3,796,436 | 3,681,168 | 11,944,455 | 10,395,373 | 14.9% |

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 resources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is at a deficit of \$2,036,267 for governmental activities and \$27,933 for business type activities at the end of fiscal 2006. The governmental activities deficit increased primarily due to an increase in general government expenses related to furnishing the new city hall building and the city-wide information technology project. The business type activities deficit has improved from FY05 to FY06, due primarily to additional charges for service and connection fees combined with a decrease in expenses. Further spending reductions and a phased-in rate increase starting at the beginning of FY07 are anticipated to eliminate the remaining deficit balance in the business type activities by the end of FY07.

| | Changes in Net Assets | | | | | | |
|---|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-----------------|
| | Governmental | | Business Type | | Total | | Per Cent Change |
| | Activities | | Activities | | | | |
| | Year ended June 30, | Year ended June 30, | Year ended June 30, | Year ended June 30, | Year ended June 30, | Year ended June 30, | 2005-2006 |
| 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | | |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for service | \$ 239,223 | 242,328 | 379,148 | 352,341 | 618,371 | 594,669 | 4.0% |
| Operating grants, contributions and restricted interest | 386,573 | 338,596 | - | - | 386,573 | 338,596 | 14.2% |
| Capital grants, contributions and restricted interest | 1,496,333 | 2,721,063 | 202,937 | 1,078,081 | 1,699,270 | 3,799,144 | -55.3% |
| General revenues: | | | | | | | |
| Property tax levied for: | | | | | | | |
| General purposes | 993,837 | 886,550 | - | - | 993,837 | 886,550 | 12.1% |
| Debt service | 33,926 | 56,577 | - | - | 33,926 | 56,577 | -40.0% |
| Tax increment financing | 1,278,321 | 1,191,948 | - | - | 1,278,321 | 1,191,948 | 7.2% |
| Local option sales tax | 354,984 | 353,251 | - | - | 354,984 | 353,251 | 0.5% |
| Unrestricted investment earnings | 41,266 | 23,440 | 2,426 | 91 | 43,692 | 23,531 | 85.7% |
| Gain on sale of capital assets | - | 1,700 | - | - | - | 1,700 | -100.0% |
| Miscellaneous | 12,301 | 71,586 | 4,651 | 364 | 16,952 | 71,950 | -76.4% |
| Total revenues | 4,836,764 | 5,887,039 | 589,162 | 1,430,877 | 5,425,926 | 7,317,916 | -25.9% |
| Program expenses: | | | | | | | |
| Public safety | 778,306 | 784,128 | - | - | 778,306 | 784,128 | -0.7% |
| Public works | 842,741 | 824,396 | - | - | 842,741 | 824,396 | 2.2% |
| Culture and recreation | 311,836 | 225,184 | - | - | 311,836 | 225,184 | 38.5% |
| Community and economic development | 157,086 | 183,594 | - | - | 157,086 | 183,594 | -14.4% |
| General government | 571,487 | 192,380 | - | - | 571,487 | 192,380 | 197.1% |
| Debt service | 718,313 | 565,857 | - | - | 718,313 | 565,857 | 26.9% |
| Sewer | - | - | 497,075 | 463,172 | 497,075 | 463,172 | 7.3% |
| Total expenses | 3,379,769 | 2,775,539 | 497,075 | 463,172 | 3,876,844 | 3,238,711 | 19.7% |
| Increase in net assets before transfers | 1,456,995 | 3,111,500 | 92,087 | 967,705 | 1,549,082 | 4,079,205 | -62.0% |
| Transfers | (23,181) | - | 23,181 | - | - | - | 0.0% |
| Change in net assets | 1,433,814 | 3,111,500 | 115,268 | 967,705 | 1,549,082 | 4,079,205 | -62.0% |
| Net assets beginning of year, as restated | 6,714,205 | 3,602,705 | 3,681,168 | 2,713,463 | 10,395,373 | 6,316,168 | 64.6% |
| Net assets end of year | \$ 8,148,019 | 6,714,205 | 3,796,436 | 3,681,168 | 11,944,455 | 10,395,373 | 14.9% |

Overall revenues decreased approximately \$1.9 million, or 26%, from FY05 to FY06. The decrease was primarily in capital grants, contributions and restricted interest due to a decrease in developer donated infrastructure.

Expenses increased overall by approximately \$638,000, or 20%. Expenses for general government increased due to the purchase of furnishings for the new city hall building and the city-wide information technology project. Expenses for debt service increased due to an increase in tax increment financing rebates and interest expense.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of LeClaire completed fiscal 2006, its governmental funds reported a combined fund balance of \$722,825, a decrease of \$278,310 from last year's total of \$1,001,135. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund balance increased by \$78,495 to \$162,236.

The Special Revenue, Urban Renewal Tax Increment Financing Fund accounts for revenue from the tax authorized by ordinance in the urban renewal district which is used to pay principal and interest on indebtedness incurred for urban renewal redevelopment projects. This fund ended fiscal 2006 with a deficit of \$158,343 compared to the prior year ending fund balance of \$12,039. Tax increment financing revenues increased by approximately \$86,000, while expenditures and transfers out to cover debt payments increased by approximately \$188,000.

The Special Revenue, Local Option Sales Tax Fund accounts for revenue from the tax authorized by referendum and used for funding major capital improvements and for property tax relief. This fund balance decreased moderately by \$4,573 to \$17,018.

The Debt Service Fund ended fiscal 2006 with a balance of \$353,797, compared to the prior year ending fund balance of \$8,397. The primary reason for the increase in the ending balance of this fund is the funds being held in an escrow account for the cross-over refunding for the 1999 water improvement bonds.

The Capital Projects Fund ended fiscal 2006 with a balance of \$264,507 compared to the prior year ending fund balance of \$839,319. The decrease is a result of spending general obligation debt proceeds on hand at the end of fiscal 2005 to fund several projects throughout fiscal 2006.

Proprietary Fund Highlights

The Sewer Fund net asset balance increased by \$115,268 to \$3,796,436.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was done in March 2006 and the second amendment was made in May 2006. These amendments were needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year.

The City's revenues were \$222,625 more than budgeted, a variance of 6%. The most significant variance resulted from the inclusion of developer's contributions recognized in fiscal 2006. These were not included in the City's budgeted revenues.

Total expenditures were \$814,039 less than budgeted. Actual expenditures for the public safety, debt service and capital projects functions were \$373,627, \$105,219 and \$254,986, respectively, less than budgeted. The variance in the public safety function was primarily due to the delay in the acquisition and last payment on the Fire Department's new major piece of equipment. The variance in the debt service function was due to the budget being amended to include the refunding of \$105,000 of outstanding debt during fiscal 2006. As required by U.S. generally accepted accounting principles, the refunding was reported as an other financing use, therefore not going against the debt service function's budget. The variance in the capital projects function was primarily due to the delay in completion on various capital projects (i.e. N. 8th Street, N 4th Street/Jones Street).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$17,396,122 (net of accumulated depreciation) at June 30, 2006. Capital assets for business type activities totaled \$3,824,369 (net of accumulated depreciation) at June 30, 2006. See Note 3 to the financial statements for more information about the City's capital assets.

LONG-TERM DEBT

At June 30, 2006, the City had \$9,887,000 in total long-term debt outstanding for governmental activities. During the year ended June 30, 2006, the City issued a total of \$3,230,000 in general obligation bonds/notes, revenue bonds, and capital leases. The general obligation bond was issued to refinance a general obligation bond and note. The general obligation note was issued to finance street improvements, purchase a fire truck, construct

improvements to the levee, City Hall Plaza and Arcade and fund the City's municipal information technology and fiber optic program. The revenue bonds were issued to finance street, storm sewer and sanitary sewer improvements. The capital lease was issued to finance the purchase of the City's fire truck.

The City does not have a formal bond rating issued by one of the nationally recognized bond rating agencies. 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 \$6,045,243 is below its constitutional debt limit of \$8,764,995. Additional information about the City's long-term debt is presented in Note 4 of the financial statements.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

The major economic factors affecting decisions made by the City in setting its fiscal 2007 budget were:

1. Continuing steady increase in the assessed valuation of property within the City.
2. Continuous steady increase in the City's population.
3. Increase in commercial tax base.

The specific breakout of the tax levy rates per \$1,000 of taxable valuation for fiscal 2007 is provided below:

| | |
|-----------------------------|-------------|
| General | \$ 8.10000 |
| Levy Improvement | 0.06750 |
| Insurance | 0.72214 |
| Emergency | 0.27000 |
| Employee Benefits | 5.11912 |
| Debt Service | 0.41760 |
| | <hr/> |
| Total Regular Tax Levy Rate | \$ 14.69636 |
| | <hr/> <hr/> |
| Agricultural Tax Levy Rate | \$ 3.00375 |
| | <hr/> <hr/> |

The City's property tax rate for fiscal 2007 is \$14.69636/\$1,000, slightly less than for fiscal 2006.

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 the City Administrator at (563)-289-4242, via email at echoate@leclaireiowa.gov or at P.O. Box 605, 325 Wisconsin Street, LeClaire, Iowa 52753-0605.

Basic Financial Statements

Exhibit A

City of LeClaire
Statement of Net Assets
June 30, 2006

| | Governmental Activities | Business Type Activities | Total |
|--|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Cash and pooled investments | \$ 136,181 | 70 | 136,251 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 12,022 | - | 12,022 |
| Succeeding year | 779,000 | - | 779,000 |
| Tax increment financing: | | | |
| Delinquent | 11,814 | - | 11,814 |
| Succeeding year | 1,335,000 | - | 1,335,000 |
| Customer accounts and unbilled usage | 9,849 | 41,001 | 50,850 |
| Accounts | 11,118 | - | 11,118 |
| Special assessments | 872 | 12,345 | 13,217 |
| Due from other governments | 124,560 | 322 | 124,882 |
| Due from other funds | 63,166 | (63,166) | - |
| Prepaid expenses | 2,333 | - | 2,333 |
| Restricted assets: | | | |
| Cash and pooled investments: | | | |
| Investments | 809,410 | - | 809,410 |
| Customer deposits | 20,150 | 80,425 | 100,575 |
| Capital assets not being depreciated | 2,202,159 | 85,590 | 2,287,749 |
| Capital assets (net of accumulated depreciation) | 15,193,963 | 3,738,779 | 18,932,742 |
| Total assets | 20,711,597 | 3,895,366 | 24,606,963 |
| Liabilities | | | |
| Accounts payable | 457,125 | 10,532 | 467,657 |
| Accrued interest payable | 40,889 | - | 40,889 |
| Deferred revenue: | | | |
| Succeeding year property tax | 779,000 | 171 | 779,171 |
| Succeeding year tax increment financing | 1,335,000 | - | 1,335,000 |
| Long-term liabilities: | | | |
| Portion due or payable within one year: | | | |
| Customer deposits | 20,150 | 80,425 | 100,575 |
| General obligation bonds/notes | 1,305,000 | - | 1,305,000 |
| Capital lease purchase agreement | 25,329 | - | 25,329 |
| Compensated absences | 44,414 | 7,802 | 52,216 |
| Portion due or payable after one year: | | | |
| General obligation bonds/notes | 6,810,000 | - | 6,810,000 |
| Capital lease purchase agreement | 746,671 | - | 746,671 |
| Urban renewal tax increment revenue bonds | 1,000,000 | - | 1,000,000 |
| Total liabilities | 12,563,578 | 98,930 | 12,662,508 |

City of LeClaire
Statement of Net Assets
June 30, 2006

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|-------------------|
| Net Assets | | | |
| Invested in capital assets, net of related debt | 9,355,408 | 3,824,369 | 13,179,777 |
| Restricted for: | | | |
| Local option sales tax | 17,018 | - | 17,018 |
| Special levies | 153,755 | - | 153,755 |
| Debt service | 154,565 | - | 154,565 |
| Tourism | 37,239 | - | 37,239 |
| Park, levee and recreation | 40,547 | - | 40,547 |
| Capital projects | 55,336 | - | 55,336 |
| Other purposes | 370,418 | - | 370,418 |
| Unrestricted | (2,036,267) | (27,933) | (2,064,200) |
| Total net assets | \$ 8,148,019 | 3,796,436 | 11,944,455 |

See notes to financial statements.

City of LeClaire
Statement of Activities
Year ended June 30, 2006

| Functions/Programs: | Expenses | Program Revenues | | |
|---|---------------------|------------------------|--|--|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Governmental activities: | | | | |
| Public safety | \$ 778,306 | 30,255 | 42,529 | - |
| Public works | 842,741 | 154,281 | 239,917 | 1,494,875 |
| Culture and recreation | 311,836 | 17,095 | 85,627 | - |
| Community and economic development | 157,086 | 7,814 | 14,500 | - |
| General government | 571,487 | 29,778 | 4,000 | 1,458 |
| Debt service: | | | | |
| Interest on long-term debt | 426,035 | - | - | - |
| Tax increment financing rebate payments | 292,278 | - | - | - |
| Total governmental activities | <u>3,379,769</u> | <u>239,223</u> | <u>386,573</u> | <u>1,496,333</u> |
| Business type activities: | | | | |
| Sewer | 497,075 | 379,148 | - | 202,937 |
| Total | <u>\$ 3,876,844</u> | <u>618,371</u> | <u>386,573</u> | <u>1,699,270</u> |

General Revenues:

| |
|---|
| Property and other city tax levied for: |
| General purposes |
| Debt service |
| Tax increment financing |
| Local option sales tax |
| Unrestricted investment earnings |
| Miscellaneous |
| Transfers |
| Total general revenues and transfers |
| Change in net assets |
| Net assets beginning of year, as restated |
| Net assets end of year |

See notes to financial statements.

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|-------------|
| Governmental Activities | Business Type Activities | Total |
| (705,522) | - | (705,522) |
| 1,046,332 | - | 1,046,332 |
| (209,114) | - | (209,114) |
| (134,772) | - | (134,772) |
| (536,251) | - | (536,251) |
| (426,035) | - | (426,035) |
| (292,278) | - | (292,278) |
| (1,257,640) | - | (1,257,640) |
| - | 85,010 | 85,010 |
| (1,257,640) | 85,010 | (1,172,630) |
| 993,837 | - | 993,837 |
| 33,926 | - | 33,926 |
| 1,278,321 | - | 1,278,321 |
| 354,984 | - | 354,984 |
| 41,266 | 2,426 | 43,692 |
| 12,301 | 4,651 | 16,952 |
| (23,181) | 23,181 | - |
| 2,691,454 | 30,258 | 2,721,712 |
| 1,433,814 | 115,268 | 1,549,082 |
| 6,714,205 | 3,681,168 | 10,395,373 |
| \$ 8,148,019 | 3,796,436 | 11,944,455 |

City of LeClaire
Balance Sheet
Governmental Funds

June 30, 2006

| | Special Revenue | | |
|---|-------------------|---|------------------------------|
| | General | Urban Renewal Tax Increment Financing | Local Option Sales Tax |
| Assets | | | |
| Cash and pooled investments | \$ 39,340 | - | - |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 7,433 | - | - |
| Succeeding year | 462,000 | - | - |
| Tax increment financing: | | | |
| Delinquent | - | 11,814 | - |
| Succeeding year | - | 1,335,000 | - |
| Customer accounts | 9,849 | - | - |
| Accounts | 7,162 | 3,956 | - |
| Special assessments | 872 | - | - |
| Due from other governments | 48,654 | - | 57,114 |
| Due from other funds | - | - | - |
| Prepaid expenditures | 2,333 | - | - |
| Restricted assets: | | | |
| Cash and pooled investments: | | | |
| Investments | 364,478 | - | - |
| Customer deposits | 20,150 | - | - |
| Total assets | \$ 962,271 | 1,350,770 | 57,114 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 50,299 | - | 1,377 |
| Due to other funds | 266,359 | 174,113 | 38,719 |
| Deferred revenue: | | | |
| Succeeding year property tax | 462,000 | - | - |
| Succeeding year tax increment financing | - | 1,335,000 | - |
| Other | 1,227 | - | - |
| Payable from restricted assets: | | | |
| Customer deposits | 20,150 | - | - |
| Total liabilities | 800,035 | 1,509,113 | 40,096 |

| Debt Service | Capital Projects | Nonmajor Special Revenue | Total |
|-----------------|---------------------|--------------------------------|-----------|
| 20,285 | 70,596 | 5,960 | 136,181 |
| 409 | - | 4,180 | 12,022 |
| 38,000 | - | 279,000 | 779,000 |
| - | - | - | 11,814 |
| - | - | - | 1,335,000 |
| - | - | - | 9,849 |
| - | - | - | 11,118 |
| - | - | - | 872 |
| - | - | 18,792 | 124,560 |
| - | 591,355 | 109,548 | 700,903 |
| - | - | - | 2,333 |
| 444,932 | - | - | 809,410 |
| - | - | - | 20,150 |
| 503,626 | 661,951 | 417,480 | 3,953,212 |
| - | 397,444 | 8,005 | 457,125 |
| 111,829 | - | 46,717 | 637,737 |
| 38,000 | - | 279,000 | 779,000 |
| - | - | - | 1,335,000 |
| - | - | 148 | 1,375 |
| - | - | - | 20,150 |
| 149,829 | 397,444 | 333,870 | 3,230,387 |

City of LeClaire
Balance Sheet
Governmental Funds

June 30, 2006

| | Special Revenue | | |
|--|-----------------|-----------|--------|
| | Urban Renewal | Local | |
| | Tax Increment | Option | |
| General | Financing | Sales Tax | |
| Liabilities and Fund Balances (continued) | | | |
| Fund balances: | | | |
| Reserved for: | | | |
| Debt service | - | - | - |
| Specific purpose | 364,478 | - | - |
| Prepaid expenditures | 2,333 | - | - |
| Special levies | 45,425 | - | - |
| Tourism | 37,239 | - | - |
| Park, levee and recreation | 40,547 | - | - |
| Unreserved: | | | |
| Reported in: | | | |
| General fund | (327,786) | - | - |
| Special revenue funds | - | (158,343) | 17,018 |
| Capital projects fund | - | - | - |
| Total fund balances | 162,236 | (158,343) | 17,018 |
| Total liabilities and fund balances | \$ 962,271 | 1,350,770 | 57,114 |

See notes to financial statements.

| Debt Service | Capital Projects | Nonmajor Special Revenue | Total |
|-----------------|---------------------|--------------------------------|-----------|
| 353,797 | - | - | 353,797 |
| - | - | - | 364,478 |
| - | - | - | 2,333 |
| - | - | - | 45,425 |
| - | - | - | 37,239 |
| - | - | - | 40,547 |
| - | - | - | (327,786) |
| - | - | 83,610 | (57,715) |
| - | 264,507 | - | 264,507 |
| 353,797 | 264,507 | 83,610 | 722,825 |
| 503,626 | 661,951 | 417,480 | 3,953,212 |

City of LeClaire

City of LeClaire

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

June 30, 2006

Total governmental fund balances (page 21) \$ 722,825

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 \$20,632,829 and the accumulated depreciation is \$3,236,707. 17,396,122

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 1,375

Long-term liabilities, including general obligation bonds/notes, urban renewal tax increment revenue bonds, capital lease, compensated absences and accrued interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. (9,972,303)

Net assets of governmental activities (page 15) \$ 8,148,019

See notes to financial statements.

City of LeClaire

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

Year ended June 30, 2006

| | Special Revenue | | |
|---|-----------------|---|------------------------------|
| | General | Urban Renewal Tax Increment Financing | Local Option Sales Tax |
| Revenues: | | | |
| Property tax | \$ 501,820 | - | - |
| Tax increment financing | - | 1,278,321 | - |
| Other city tax | 193,456 | - | 354,984 |
| Licenses and permits | 6,848 | - | - |
| Use of money and property | 53,361 | 1,785 | 174 |
| Intergovernmental | 48,060 | - | - |
| Charges for service | 172,686 | - | - |
| Special assessments | 125 | - | - |
| Miscellaneous | 119,030 | 1,010 | - |
| Total revenues | 1,095,386 | 1,281,116 | 355,158 |
| Expenditures: | | | |
| Operating: | | | |
| Public safety | 1,027,164 | - | - |
| Public works | 202,413 | - | 31,355 |
| Culture and recreation | 221,336 | - | 17,544 |
| Community and economic development | 224,854 | 7,363 | - |
| General government | 190,693 | 43,390 | 14,411 |
| Debt service | - | 307,653 | - |
| Capital projects | - | - | - |
| Total expenditures | 1,866,460 | 358,406 | 63,310 |
| Excess (deficiency) of revenues over (under) expenditures | (771,074) | 922,710 | 291,848 |
| Other financing sources (uses): | | | |
| Operating transfers in | 93,998 | 35,239 | - |
| Operating transfers out | (47,949) | (1,128,331) | (296,421) |
| General obligation notes issued | 32,000 | - | - |
| Discount on general obligation notes | (480) | - | - |
| Revenue bonds issued | - | - | - |
| Capital lease proceeds | 772,000 | - | - |
| Refunded debt | - | - | - |
| Total other financing sources (uses) | 849,569 | (1,093,092) | (296,421) |
| Net change in fund balances | 78,495 | (170,382) | (4,573) |
| Fund balances beginning of year | 83,741 | 12,039 | 21,591 |
| Fund balances (deficit) end of year | \$ 162,236 | (158,343) | 17,018 |

See notes to financial statements.

| Debt Service | Capital Projects | Nonmajor Special Revenue | Total |
|--------------|------------------|--------------------------|-------------|
| 33,134 | - | 286,864 | 821,818 |
| - | - | - | 1,278,321 |
| 792 | - | 11,697 | 560,929 |
| - | - | - | 6,848 |
| 14,892 | 5,050 | 656 | 75,918 |
| - | 945 | 239,917 | 288,922 |
| - | - | - | 172,686 |
| - | - | - | 125 |
| - | 46,743 | 13,150 | 179,933 |
| 48,818 | 52,738 | 552,284 | 3,385,500 |
| - | - | 97,418 | 1,124,582 |
| - | - | 277,104 | 510,872 |
| - | - | 31,987 | 270,867 |
| - | - | 526 | 232,743 |
| - | - | 26,410 | 274,904 |
| 1,319,352 | - | - | 1,627,005 |
| - | 2,684,731 | - | 2,684,731 |
| 1,319,352 | 2,684,731 | 433,445 | 6,725,704 |
| (1,270,534) | (2,631,993) | 118,839 | (3,340,204) |
| 1,159,484 | 334,830 | 2,189 | 1,625,740 |
| - | (102,754) | (73,466) | (1,648,921) |
| 570,000 | 1,193,000 | - | 1,795,000 |
| (8,550) | (17,895) | - | (26,925) |
| - | 650,000 | - | 650,000 |
| - | - | - | 772,000 |
| (105,000) | - | - | (105,000) |
| 1,615,934 | 2,057,181 | (71,277) | 3,061,894 |
| 345,400 | (574,812) | 47,562 | (278,310) |
| 8,397 | 839,319 | 36,048 | 1,001,135 |
| 353,797 | 264,507 | 83,610 | 722,825 |

City of LeClaire

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

Year ended June 30, 2006

Net change in fund balances - Total governmental funds (page 25) \$ (278,310)

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

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

| | | |
|--|--------------|-----------|
| Expenditures for capital assets | \$ 3,007,994 | |
| Capital assets contributed by developers | 1,451,124 | |
| Depreciation expense | (506,019) | 3,953,099 |

In the Statement of Activities, the loss on the disposition of capital assets is expensed, whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (2,473)

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. 140

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

| | | |
|--------------------------|-------------|-------------|
| Issued | (3,217,000) | |
| Amortization of discount | (13,042) | |
| Repaid | 1,025,000 | (2,205,042) |

Bond issuance costs are reported as expenditures in governmental funds but are amortized and expensed over the life of the debt in the Statement of Activities. (13,827)

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 | (8,465) | |
| Accrued interest on long-term debt | (11,308) | (19,773) |

Change in net assets of governmental activities (page 17) \$ 1,433,814

See notes to financial statements.

City of LeClaire
Statement of Net Assets
Proprietary Fund
June 30, 2006

| | Enterprise - Sewer |
|--|---------------------|
| Assets | |
| Cash and pooled investments | \$ 70 |
| Receivables: | |
| Customer accounts and unbilled usage | 41,001 |
| Special assessments | 12,345 |
| Due from other governments | 322 |
| Restricted assets: | |
| Cash and pooled investments: | |
| Customer deposits | 80,425 |
| Capital assets not being depreciated | 85,590 |
| Capital assets (net of accumulated depreciation) | 3,738,779 |
| Total assets | 3,958,532 |
| Liabilities | |
| Accounts payable | 10,532 |
| Due to other funds | 63,166 |
| Deferred revenue | 171 |
| Payable from restricted assets: | |
| Customer deposits | 80,425 |
| Compensated absences | 7,802 |
| Total liabilities | 162,096 |
| Net Assets | |
| Invested in capital assets | 3,824,369 |
| Unrestricted | (27,933) |
| Total net assets | \$ 3,796,436 |

See notes to financial statements.

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

Year ended June 30, 2006

| | <u>Enterprise - Sewer</u> |
|---|---------------------------|
| Operating revenues: | |
| Charges for service | \$ 378,675 |
| Miscellaneous | 5,124 |
| Total operating revenues | <u>383,799</u> |
| Operating expenses: | |
| Business type activities: | |
| Cost of sales and services | 371,013 |
| Depreciation | 126,062 |
| Total operating expenses | <u>497,075</u> |
| Operating loss | (113,276) |
| Non-operating revenues: | |
| Interest income | <u>2,426</u> |
| Net loss before contributions and transfers | <u>(110,850)</u> |
| Contributions and transfers: | |
| Capital contributions | 202,937 |
| Transfers in | 34,500 |
| Transfers out | (11,319) |
| Total contributions and transfers | <u>226,118</u> |
| Change in net assets | 115,268 |
| Net assets beginning of year | <u>3,681,168</u> |
| Net assets end of year | <u>\$ 3,796,436</u> |

See notes to financial statements.

City of LeClaire
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2006

| | Enterprise - Sewer |
|---|--------------------|
| Cash flows from operating activities: | |
| Cash received from customers and users | \$ 391,451 |
| Cash received from other revenues | 5,124 |
| Cash paid for personal services | (220,064) |
| Cash paid to suppliers | (141,704) |
| Net cash provided by operating activities | 34,807 |
| Cash flows from noncapital financing activities: | |
| Deficit cash implicity financed | (58,446) |
| Transfers from other funds | 34,500 |
| Transfers to other funds | (11,319) |
| Advances from other funds | 24,150 |
| Net cash used for noncapital financing activities | (11,115) |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (14,500) |
| Cash flows from investing activities: | |
| Interest on investments | 2,426 |
| Net increase in cash and cash equivalents | 11,618 |
| Cash and cash equivalents beginning of year | 68,877 |
| Cash and cash equivalents end of year | \$ 80,495 |
| Reconciliation of operating loss to net cash provided by operating activities: | |
| Operating loss | \$ (113,276) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation | 126,062 |
| Decrease in customer accounts, unbilled usage and other receivables | 987 |
| Decrease in prepaid expenses | 12,819 |
| (Decrease) in accounts payable | (2,829) |
| (Decrease) in compensated absences | (745) |
| Increase in deferred revenue | 171 |
| Increase in customer deposits | 11,618 |
| Net cash provided by operating activities | \$ 34,807 |

During the year ended June 30, 2006, developers contributed sanitary sewer extensions totaling \$202,937 to the Enterprise, Sewer Fund.

See notes to financial statements.

City of LeClaire

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of LeClaire is a political subdivision of the State of Iowa located in Scott County. It was first incorporated in 1834 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 of LeClaire provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. It also provides sewer utilities.

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

A. Reporting Entity

For financial reporting purposes, the City of LeClaire 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.

These financial statements present the City of LeClaire and its blended 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.

Blended Component Unit – The following component unit is legally separate from the City, but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate fund.

Friends of the LeClaire Community Library, Inc. (Friends of the Library) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting the LeClaire Community Library. In accordance with criteria set by the Governmental Accounting Standards Board, Friends of the Library 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.

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 or appoint representatives to the following boards and commissions: Scott County

Assessor's Conference Board, Scott County Emergency Management Commission, Scott County Area Solid Waste Management Commission, Mississippi Valley Welcome Center Board and Bi-State Regional Commission. Financial transactions of these organizations are not included in the City's financial statements.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government 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 property 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 Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

The City reports the following major proprietary fund:

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

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

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

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

The proprietary fund of the City applies 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 Fund is charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services 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 accrual basis.

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund and other funds as provided by law. Investments consist of money market accounts which are stated at cost and an investment in U.S. Treasury securities which is stated at fair value.

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.

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2006 and unpaid taxes. The succeeding year property taxes represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivables have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2005.

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

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2006, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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.

Restricted Assets – Funds set aside for payment of general obligation bonds when they are callable since their use is restricted by the bond resolution. Funds set aside for payment of a fire truck upon the completion of the fire truck since their use is restricted by the lease-purchase agreement. Restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Fund Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending 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 | \$ 5,000 |
| Equipment and vehicles | 5,000 |
| Infrastructure | 10,000 |

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

| Asset Class | Estimated Useful Lives (In Years) |
|----------------------------|-----------------------------------|
| Buildings and improvements | 20-50 years |
| Equipment | 5-40 years |
| Vehicles | 7-30 years |
| Infrastructure | 20-77 years |

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements

represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable, including tax increment financing and other receivables not collected within sixty days after year end.

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

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The City also allows employees to accumulate compensatory time during the fiscal year in lieu of overtime pay. 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 who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Road Use Tax Funds.

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

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

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements exceeded the budget in the community and economic development and capital projects functions before the budget was amended.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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's investments at June 30, 2006 consist of U.S. Treasury securities with a cost/fair value of \$444,932. The securities mature in June 2007.

Interest rate risk: The City's investment policy limits the investment of operating funds (funds reasonably expected to be expended during the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days. However, all investments of the City shall have maturities consistent with the needs and uses of the City.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

| | Balance | | | Balance |
|--|---------------|-----------|-------------|------------|
| | Beginning | | | End |
| | of Year | | | of Year |
| | (as restated) | Increases | Decreases | |
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 597,804 | 174,842 | - | 772,646 |
| Land, right of way | 106,403 | - | - | 106,403 |
| Deposits on fire truck | - | 426,484 | - | 426,484 |
| Construction in progress - infrastructure | 397,829 | 1,807,215 | (1,308,418) | 896,626 |
| Construction in progress - other | 1,127,123 | 409,612 | (1,536,735) | - |
| Total capital assets not being depreciated | 2,229,159 | 2,818,153 | (2,845,153) | 2,202,159 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 3,325,938 | 1,284,693 | - | 4,610,631 |
| Equipment and vehicles | 1,680,429 | 197,142 | (26,537) | 1,851,034 |
| Infrastructure, road network | 8,957,422 | 2,759,542 | - | 11,716,964 |
| Infrastructure, other | - | 252,041 | - | 252,041 |
| Total capital assets being depreciated | 13,963,789 | 4,493,418 | (26,537) | 18,430,670 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 269,533 | 76,943 | - | 346,476 |
| Equipment and vehicles | 717,515 | 133,209 | (16,764) | 833,960 |
| Infrastructure, road network | 1,760,404 | 291,666 | - | 2,052,070 |
| Infrastructure, other | - | 4,201 | - | 4,201 |
| Total accumulated depreciation | 2,747,452 | 506,019 | (16,764) | 3,236,707 |
| Total capital assets being depreciated, net | 11,216,337 | 3,987,399 | (9,773) | 15,193,963 |
| Governmental activities capital assets, net | \$13,445,496 | 6,805,552 | (2,854,926) | 17,396,122 |
| Business type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 85,590 | - | - | 85,590 |
| Capital assets being depreciated: | | | | |
| Buildings | 1,794,197 | - | - | 1,794,197 |
| Equipment and vehicles | 1,025,800 | - | - | 1,025,800 |
| Infrastructure, sewer network | 3,446,949 | 217,437 | - | 3,664,386 |
| Total capital assets being depreciated | 6,266,946 | 217,437 | - | 6,484,383 |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,133,004 | 52,243 | - | 1,185,247 |
| Equipment and vehicles | 845,220 | 27,060 | - | 872,280 |
| Infrastructure, sewer network | 641,318 | 46,759 | - | 688,077 |
| Total accumulated depreciation | 2,619,542 | 126,062 | - | 2,745,604 |
| Total capital assets being depreciated, net | 3,647,404 | 91,375 | - | 3,738,779 |
| Business type activities capital assets, net | \$ 3,732,994 | 91,375 | - | 3,824,369 |

Depreciation expense was charged to the following functions:

| | | |
|--|--|------------|
| Governmental activities: | | |
| Public safety | | \$ 85,058 |
| Public works | | 345,110 |
| Culture and recreation | | 41,909 |
| General government | | 33,942 |
| | | <hr/> |
| Total depreciation expense - governmental activities | | \$ 506,019 |
| | | <hr/> |
| Business type activities: | | |
| Sewer | | \$ 126,062 |
| | | <hr/> |

As permitted by U.S. generally accepted accounting principles, the City will add storm sewer infrastructure from prior years during the next year.

(4) Long-Term Liabilities

Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year | Due Within One Year |
|---|---------------------------------|-----------|-----------|---------------------------|---------------------------|
| Governmental activities: | | | | | |
| General obligation bonds/notes | \$ 7,331,958 | 1,808,042 | 1,025,000 | 8,115,000 | 1,305,000 |
| Urban renewal tax increment revenue bonds | 350,000 | 650,000 | - | 1,000,000 | - |
| Capital lease purchase agreement | - | 772,000 | - | 772,000 | 25,329 |
| Compensated absences | 35,949 | 67,082 | 58,617 | 44,414 | 44,414 |
| | <hr/> | | | | |
| Total | \$ 7,717,907 | 3,297,124 | 1,083,617 | 9,931,414 | 1,374,743 |
| | <hr/> | | | | |
| Business type activities: | | | | | |
| Compensated absences | \$ 8,547 | 11,906 | 12,651 | 7,802 | 7,802 |
| | <hr/> | | | | |

General obligation bonds/notes

Seven issues of unmatured general obligation bonds/notes, totaling \$8,115,000, are outstanding at June 30, 2006. General obligation bonds/notes bear interest at rates ranging from 1.95% to 5.65% per annum and mature in varying annual amounts, ranging from \$15,000 to \$305,000, with the final maturities due in the year ending June 30, 2020.

General obligation refunding bonds

On August 3, 2005, the City issued \$570,000 of general obligation refunding bonds, series 2005A, with interest rates ranging from 3.15% to 4.00% for a current refunding of the City's general obligation fire station note dated April 1, 2002 and a crossover refunding of the callable portion of the City's outstanding general obligation water bonds, series 1999, dated November 15, 1999. The City entered into an escrow agreement whereby a portion of the proceeds from the general obligation refunding bonds were converted into U.S. Securities. These securities and additional cash were placed in an escrow account for the express purpose of paying the \$445,000 principal on the refunded general obligation water bonds when they become callable on June 1, 2007 and the interest from August 3, 2005 to and including June 1, 2007. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the City. The transactions, balances and liabilities of the escrow account are recorded by the City since the refunded debt is not considered extinguished.

The City refunded the general obligation fire station note and general obligation water bonds to reduce its total debt service payments by approximately \$21,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$18,000.

Revenue bonds

Two issues of unmatured urban renewal tax increment revenue bonds, totaling \$1,000,000, are outstanding at June 30, 2006. Urban renewal tax increment revenue bonds bear interest at rates ranging from 3.00% to 6.40% per annum and mature in annual amounts of \$50,000 and \$81,250, with the final maturities due in the year ending June 30, 2016.

Details of general obligation and revenue bonds/notes payable at June 30, 2006 are as follows:

| | Date of Issue | Interest Rates | Final Due Date | Annual Payments | Amount Originally Issued | Outstanding June 30, 2006 |
|--|---------------|----------------|----------------|-----------------|--------------------------|---------------------------|
| Governmental activities: | | | | | | |
| General obligation bonds/notes: | | | | | | |
| Water improvement bonds | Nov 15, 1999 | 5.00-5.60% | Jun 1, 2015 | 35,000-65,000 | \$ 720,000 | \$ 490,000 |
| Taxable refunding notes | Dec 1, 2002 | 3.10-5.65 | Jun 1, 2009 | 100,000-300,000 | 1,410,000 | 550,000 |
| Corporate purpose and refunding | Dec 1, 2002 | 2.00-4.40 | Jun 1, 2013 | 160,000-305,000 | 2,885,000 | 1,830,000 |
| Corporate purpose notes | Dec 1, 2003 | 1.95-4.00 | Jun 1, 2013 | 25,000-240,000 | 1,365,000 | 1,290,000 |
| Corporate purpose annual appropriation notes | Aug 1, 2004 | 2.65-5.00 | Jun 1, 2019 | 145,000-265,000 | 2,440,000 | 2,175,000 |
| Refunding bonds | Aug 3, 2005 | 3.15-4.00 | Jun 1, 2015 | 15,000-75,000 | 570,000 | 555,000 |
| Corporate purpose annual appropriation notes | Aug 3, 2005 | 3.45-4.80 | Jun 1, 2020 | 65,000-115,000 | 1,225,000 | 1,225,000 |
| Total general obligation bonds/notes | | | | | | <u>8,115,000</u> |
| Revenue bonds: | | | | | | |
| Urban renewal tax increment | Mar 1, 2004 | 3.00-5.50 | Jun 1, 2014 | 50,000 | 350,000 | 350,000 |
| Urban renewal tax increment | Apr 17, 2006 | 4.85-6.40 | Jun 1, 2016 | 81,250 | 650,000 | 650,000 |
| Total revenue bonds | | | | | | <u>1,000,000</u> |
| Total governmental activities | | | | | | <u>\$ 9,115,000</u> |

A summary of the annual general obligation and revenue bonds/notes principal and interest requirements to maturity by year is as follows:

| Year Ending June 30, | General Obligation Bond/Notes | | | Urban Renewal Tax Increment Revenue Bonds | | |
|----------------------|-------------------------------|------------------|------------------|---|----------------|------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2007 | \$ 1,305,000 | 334,620 | 1,639,620 | - | 50,614 | 50,614 |
| 2008 | 915,000 | 279,535 | 1,194,535 | 50,000 | 47,875 | 97,875 |
| 2009 | 910,000 | 243,583 | 1,153,583 | 131,250 | 46,700 | 177,950 |
| 2010 | 830,000 | 209,207 | 1,039,207 | 131,250 | 42,269 | 173,519 |
| 2011 | 850,000 | 177,995 | 1,027,995 | 131,250 | 36,694 | 167,944 |
| 2012-2016 | 2,375,000 | 467,068 | 2,842,068 | 556,250 | 87,500 | 643,750 |
| 2017-2021 | 930,000 | 101,850 | 1,031,850 | - | - | - |
| Total | <u>\$ 8,115,000</u> | <u>1,813,858</u> | <u>9,928,858</u> | <u>1,000,000</u> | <u>311,652</u> | <u>1,311,652</u> |

Capital Lease Purchase Agreement

The City entered into a capital lease purchase agreement for a fire truck. The following is a schedule of the future minimum lease payments, including interest at 4.98% per annum:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------------|------------|----------|-----------|
| 2007 | \$ 25,329 | 38,446 | 63,775 |
| 2008 | 26,591 | 37,184 | 63,775 |
| 2009 | 27,915 | 35,860 | 63,775 |
| 2010 | 29,305 | 34,470 | 63,775 |
| 2011 | 30,765 | 33,010 | 63,775 |
| 2012-2016 | 178,389 | 140,486 | 318,875 |
| 2017-2021 | 227,457 | 91,418 | 318,875 |
| 2022-2025 | 226,249 | 28,852 | 255,101 |
| Total | \$ 772,000 | 439,726 | 1,211,726 |

The fire truck is in the process of being built. To date, \$426,484 has been paid on the fire truck. The remaining balance of approximately \$345,000 will be paid as the various components of the fire truck are built. Interest payments under the capital lease purchase agreement totaled \$32,465 during the year ended June 30, 2006.

Water Revenue Bond Defeasance

During the year ended June 30, 2004, the City defeased water revenue bonds by creating an irrevocable trust fund. New debt was issued and the proceeds were used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the City's Statement of Net Assets. As of June 30, 2006, the amount of defeased debt outstanding but removed from the Statement of Net Assets is \$490,000.

Contingent Liability for Hydro-Electric Promissory Note

On January 15, 1990, the City entered into a loan agreement with Voith Hydro, Inc., for \$700,000. The City received \$250,000 on March 14, 1990 and \$450,000 during the year ended June 30, 1991 for the purpose of paying costs related to the planning, design and development of the hydro-electric generating plant. The note bears interest payable at maturity at the rate of 7.25% per annum. The note will mature 30 days after the issuance of the notice to proceed. The outstanding balance at June 30, 2006 was \$700,000.

The Federal Energy Regulatory Commission (FERC) imposed certain restrictions upon the City's license for the development of the generating plant. On April 1, 1996, the City entered into an agreement for the development phase with Gracon Corporation, an energy project engineering and development organization. Subsequent to April 1, 1996, Gracon Corporation changed its name to Matrix Energy, Inc. The development agreement has expired and was not renewed. If the generating plant does not proceed, any accumulated assets are sold and used to satisfy the Voith Hydro, Inc. loan. Any remaining balance on the loan is forgiven. The future development of the generating plant remains uncertain.

The note and interest payable are not general obligations of the City and are not payable from taxes or general revenues or funds of the City.

(5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|---------------------------------------|---------------------------------------|---------------------|
| General | Special Revenue: | |
| | Group Insurance | \$ 54,793 |
| | Emergency | 15,367 |
| | Friends of the Library | 3,306 |
| | Capital Projects | 9,213 |
| | Enterprise: | |
| | Sewer | 11,319 |
| | | <u>93,998</u> |
| Special Revenue: | | |
| Urban Renewal Tax Increment Financing | Capital Projects | 35,239 |
| Group Insurance | General | 2,189 |
| | | <u>37,428</u> |
| Debt Service | General | 31,760 |
| | Special Revenue: | |
| | Urban Renewal Tax Increment Financing | 818,281 |
| | Local Option Sales Tax | 251,141 |
| | Capital Projects | 58,302 |
| | | <u>1,159,484</u> |
| Capital Projects | General | 14,000 |
| | Special Revenue: | |
| | Urban Renewal Tax Increment Financing | 277,190 |
| | Local Option Sales Tax | 43,640 |
| | | <u>334,830</u> |
| Enterprise: | Special Revenue: | |
| Sewer | Urban Renewal Tax Increment Financing | 32,860 |
| | Local Option Sales Tax | 1,640 |
| | | <u>34,500</u> |
| | | <u>\$ 1,660,240</u> |
| | Total | |

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

(6) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

| Receivable Fund | Payable Fund | Amount |
|----------------------------------|---------------------------------------|-------------------|
| Capital Projects | General | \$ 266,359 |
| | Special Revenue: | |
| | Urban Renewal Tax Increment Financing | 150,001 |
| | Debt Service | 111,829 |
| | Enterprise: | |
| | Sewer | 63,166 |
| Special Revenue: | Special Revenue: | |
| Workers' Compensation | Road Use Tax | 20,692 |
| Employees' Retirement FICA/IPERS | Road Use Tax | 26,025 |
| | Local Option Sales Tax | 26,715 |
| Group Insurance | Local Option Sales Tax | 12,004 |
| | Urban Renewal Tax Increment Financing | 24,112 |
| Total | | <u>\$ 700,903</u> |

These balances result from interfund loans to finance projects and the elimination of cash deficits. Repayments will be made from future revenues.

(7) 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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$57,064, \$50,789 and \$45,556, respectively, equal to the required contributions for each year.

(8) Deficit Balances

At June 30, 2006, the City had deficit unreserved/unrestricted fund balances/net assets in the following funds:

| Fund | Unreserved/Unrestricted Fund Balances/Net Assets (Deficit) June 30, 2006 |
|---------------------------------------|--|
| General | \$ (327,786) |
| Special Revenue: | |
| Urban Renewal Tax Increment Financing | (158,343) |
| Road Use Tax | (35,910) |
| Enterprise: | |
| Sewer | (27,933) |

The General Fund deficit is the result of expenditures exceeding revenues during the fiscal year. The deficit will be eliminated through new revenue sources and the reduction of expenditures in subsequent fiscal years.

The Special Revenue, Urban Renewal Tax Increment Financing Fund deficit is the result of expenditures and transfers exceeding revenues during the fiscal year. The deficit will be eliminated through future tax increment financing collections.

The Special Revenue, Road Use Tax Fund deficit is the result of street maintenance costs in excess of available funds. The deficit will be eliminated through the reduction of expenditures in subsequent fiscal years.

The Enterprise, Sewer Fund deficit is the result of significant systems control and operational expenses during the fiscal year, including related personnel expenses. The deficit will be eliminated through reduction of future expenses, including postponing capital improvement plans, and through a future rate increase.

(9) Risk Management

The City of LeClaire 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 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.

The City has a group insurance policy which provides comprehensive medical coverage for eligible employees and, if elected, their spouses and dependents. The City's group insurance is a partial self-funded health plan. Under the partial self-funded plan, the City will reimburse an eligible employee for a portion of the deductible. The amount of the deductibles for the employees and City are as follows:

| | <u>Single</u> | <u>Family</u> |
|----------|---------------|---------------|
| Employee | \$ 400 | 500 |
| City | 4,600 | 9,500 |

The City self funds dental coverage for eligible employees and, if elected, their spouses and dependents. The maximum annual coverage is \$1,000 per person.

The City self funds short-term disability benefits for employees. Benefits equal 100% of the employee's salary for the first three working days and 75% of the employee's salary for the remaining days up to six months, at which time the City's long-term disability insurance coverage begins. The City records the plan assets and related liabilities for the self-funded plan in the General Fund.

(10) Development and Rebate Agreements

The City has entered into fifteen development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental taxes paid by the developers in exchange for infrastructure improvements, development of commercial retail space and residential housing constructed by the developers as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for a period ranging from four to twenty years, beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. Certain of the agreements include provisions for payment of interest. To the extent there are insufficient tax increment revenues available to make the required scheduled payment on any payment date, the unpaid amount shall be carried over to the next payment date without accruing any further interest.

During the year ended June 30, 2006, the City rebated \$292,278 of incremental taxes to the developers, paying \$252,100 of principal and \$40,178 of interest. Also, the City entered into one development and rebate agreement totaling \$3,500,000, revised an estimate for one development and rebate agreement increasing the projected payments by \$3,795,205 and withdrew one agreement totaling \$870,000. The outstanding principal balance on the rebate agreements at June 30, 2006 is \$21,446,003.

The agreements are not general obligations of the City and, due to their nature, are not recorded as a liability in the City's financial statements. However, the agreements are subject to the constitutional debt limitation of the City.

Twelve of the fifteen agreements include an annual appropriation clause and only the amount payable in the succeeding year is subject to the constitutional debt limitation. The remaining three agreements do not include an annual appropriation clause and, accordingly, the entire outstanding principal balance of these agreements is subject to the constitutional debt limitation.

The City entered into a sewer installation reimbursement agreement with a developer for costs associated with installation of a sanitary sewer main extension. This reimbursement shall be made after the sanitary sewer main extension is complete, dedicated to and accepted by the City and no sooner than the time when a building permit has been issued for the "start of construction" of the development. The start of construction must begin no later than October 2010 for the developer to be reimbursed. The developer will be eligible for reimbursement of actual costs up to a maximum of \$20,000.

(11) Construction Commitments

The City has entered into construction contracts totaling \$855,224 for street construction projects. The projects were primarily funded through the issuance of general obligation bonds. As of June 30, 2006, costs of \$494,533 have been incurred on the projects. The remaining \$360,691 will be paid as work on the projects progresses.

(12) Subsequent Events

Construction Contracts

In July 2006, the City entered into two contracts totaling \$484,470 for street improvements. The projects will be financed through the issuance of general obligation debt.

Development and Rebate Agreement

In September 2006, the City entered into two development and rebate agreements to assist in an urban renewal project. The City agreed to rebate incremental taxes of the lesser of the developer's costs or \$10,280,000 in exchange for public improvements, residential subdivision, residential units and private facilities as the site for commercial business.

Operating Lease

In September 2006, the City entered into a sixty month lease agreement in a principal amount not to exceed \$132,000 for the purpose of leasing information technology equipment. The lease is subject to non-appropriation by the City Council.

General Obligation Bonds

In October 2006, the City issued \$3,155,000 of general obligation annual appropriation corporate purpose bonds, series 2006. The bonds were issued to fund various projects, including acquiring a police vehicle and constructing street, sidewalk, water, sanitary sewer and street lighting improvements. These bonds are subject to non-appropriation by the City Council.

(13) Pending Litigation

The City is a defendant in several lawsuits seeking unspecified amounts of damages. The probability and amount of loss, if any, is indeterminable.

(14) Restatement

Beginning net assets for governmental activities were restated to correct the valuation of and reporting for certain capital assets.

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Net assets, June 30, 2005, as previously reported | \$ 7,023,289 |
| Adjustment to capital assets to correct error | <u>(309,084)</u> |
| Net assets July 1, 2005, as restated | <u>\$ 6,714,205</u> |

Required Supplementary Information

City of LeClaire

Comparison of Revenues, Expenditures/Expenses
and Changes in Balances/Net Assets
Budget and Actual -
Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

| | Governmental Funds Actual | Proprietary Fund Actual | Total Actual |
|--|---------------------------------|-------------------------------|-----------------|
| Revenues: | | | |
| Property tax | \$ 821,818 | - | 821,818 |
| Tax increment financing | 1,278,321 | - | 1,278,321 |
| Other city tax | 560,929 | - | 560,929 |
| Licenses and permits | 6,848 | - | 6,848 |
| Use of money and property | 75,918 | 2,426 | 78,344 |
| Intergovernmental | 288,922 | - | 288,922 |
| Charges for service | 172,686 | 378,675 | 551,361 |
| Special assessments | 125 | - | 125 |
| Miscellaneous | 179,933 | 208,061 | 387,994 |
| Total revenues | 3,385,500 | 589,162 | 3,974,662 |
| Expenditures/Expenses: | | | |
| Public safety | 1,124,582 | - | 1,124,582 |
| Public works | 510,872 | - | 510,872 |
| Culture and recreation | 270,867 | - | 270,867 |
| Community and economic development | 232,743 | - | 232,743 |
| General government | 274,904 | - | 274,904 |
| Debt service | 1,627,005 | - | 1,627,005 |
| Capital projects | 2,684,731 | - | 2,684,731 |
| Business type activities | - | 497,075 | 497,075 |
| Total expenditures/expenses | 6,725,704 | 497,075 | 7,222,779 |
| Excess (deficiency) of revenues over (under) expenditures/expenses | (3,340,204) | 92,087 | (3,248,117) |
| Other financing sources/(uses), net | 3,061,894 | 23,181 | 3,085,075 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses | (278,310) | 115,268 | (163,042) |
| Balances beginning of year | 1,001,135 | 3,681,168 | 4,682,303 |
| Balances end of year | \$ 722,825 | 3,796,436 | 4,519,261 |

See accompanying independent auditor's report.

| Less Funds Not Required to be Budgeted | Net | Budgeted Amounts | | Final to Net Variance |
|--|-------------|------------------|-------------|-----------------------------|
| | | Original | Final | |
| - | 821,818 | 819,911 | 819,911 | 1,907 |
| - | 1,278,321 | 1,208,028 | 1,328,997 | (50,676) |
| - | 560,929 | 548,290 | 554,775 | 6,154 |
| - | 6,848 | 6,180 | 6,180 | 668 |
| - | 78,344 | 35,050 | 67,223 | 11,121 |
| - | 288,922 | 287,973 | 301,305 | (12,383) |
| - | 551,361 | 493,125 | 498,128 | 53,233 |
| - | 125 | 125 | 125 | - |
| 8,131 | 379,863 | 91,403 | 167,262 | 212,601 |
| 8,131 | 3,966,531 | 3,490,085 | 3,743,906 | 222,625 |
| - | 1,124,582 | 1,579,759 | 1,498,209 | 373,627 |
| - | 510,872 | 526,643 | 513,862 | 2,990 |
| 5,947 | 264,920 | 240,076 | 272,940 | 8,020 |
| - | 232,743 | 82,623 | 234,410 | 1,667 |
| - | 274,904 | 260,740 | 284,676 | 9,772 |
| - | 1,627,005 | 1,567,357 | 1,732,224 | 105,219 |
| - | 2,684,731 | 832,664 | 2,939,717 | 254,986 |
| - | 497,075 | 500,868 | 554,833 | 57,758 |
| 5,947 | 7,216,832 | 5,590,730 | 8,030,871 | 814,039 |
| 2,184 | (3,250,301) | (2,100,645) | (4,286,965) | 1,036,664 |
| (3,306) | 3,088,381 | 1,316,808 | 3,308,190 | (219,809) |
| (1,122) | (161,920) | (783,837) | (978,775) | 816,855 |
| 7,062 | 4,675,241 | 2,616,456 | 4,675,241 | - |
| 5,940 | 4,513,321 | 1,832,619 | 3,696,466 | 816,855 |

City of LeClaire

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2006

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

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

Formal and legal budgetary control is based upon eight major classes of disbursements known as functions, not by fund. These functions are: public safety, public works, 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Fund. 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, two budget amendments increased budgeted disbursements by \$2,440,141. The budget amendment is reflected in the final budgeted amounts.

Disbursements exceeded the budget in the community and economic development and capital projects functions before the budget was amended.

Other Supplementary Information

City of LeClaire
 Combining Balance Sheet
 Nonmajor Special Revenue Funds

June 30, 2006

| | Road Use Tax | Workers' Compensation | Employees' Retirement FICA/IPERS |
|--|--------------------|--------------------------|--|
| Assets | | | |
| Cash and pooled investments | \$ 20 | - | - |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 291 | 1,482 |
| Succeeding year | - | 17,000 | 101,000 |
| Due from other governments | 18,792 | - | - |
| Due from other funds | | 20,692 | 52,740 |
| Total assets | \$ 18,812 | 37,983 | 155,222 |
| Liabilities and Fund Equity | | | |
| Liabilities: | | | |
| Accounts payable | \$ 8,005 | - | - |
| Due to other funds | 46,717 | - | - |
| Deferred revenue: | | | |
| Succeeding year property tax | - | 17,000 | 101,000 |
| Other | - | - | - |
| Total liabilities | 54,722 | 17,000 | 101,000 |
| Fund equity: | | | |
| Fund balances (deficit): | | | |
| Unreserved | (35,910) | 20,983 | 54,222 |
| Total liabilities and fund equity | \$ 18,812 | 37,983 | 155,222 |

See accompanying independent auditor's report.

| Group Insurance | Emergency | Friends of the Library | Total |
|-----------------|-----------|------------------------|---------|
| - | - | 5,940 | 5,960 |
| 2,191 | 216 | - | 4,180 |
| 147,000 | 14,000 | - | 279,000 |
| - | - | - | 18,792 |
| 36,116 | - | - | 109,548 |
| 185,307 | 14,216 | 5,940 | 417,480 |
| - | - | - | 8,005 |
| - | - | - | 46,717 |
| 147,000 | 14,000 | - | 279,000 |
| 148 | - | - | 148 |
| 147,148 | 14,000 | - | 333,870 |
| 38,159 | 216 | 5,940 | 83,610 |
| 185,307 | 14,216 | 5,940 | 417,480 |

City of LeClaire

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances (Deficit)
Nonmajor Special Revenue Funds

Year ended June 30, 2006

| | Road Use Tax | Workers' Compensation | Employees' Retirement FICA/IPERS |
|--|--------------------|--------------------------|--|
| Revenues: | | | |
| Property tax | \$ - | 19,979 | 101,736 |
| Other city tax | - | 857 | 3,952 |
| Use of money and property | - | 112 | 330 |
| Intergovernmental | 239,917 | - | - |
| Miscellaneous | - | 387 | - |
| Total revenues | 239,917 | 21,335 | 106,018 |
| Expenditures: | | | |
| Operating: | | | |
| Public safety | - | 13,456 | 57,406 |
| Public works | 235,613 | 7,440 | 13,425 |
| Culture and recreation | - | 1,929 | 12,211 |
| Community and economic development | - | - | 526 |
| General government | - | 824 | 12,741 |
| Total expenditures | 235,613 | 23,649 | 96,309 |
| Excess (deficiency) of revenues over (under) expenditures | 4,304 | (2,314) | 9,709 |
| Other financing sources (uses): | | | |
| Operating transfers in | - | - | - |
| Operating transfers out | - | - | - |
| Total other financing (uses) | - | - | - |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | 4,304 | (2,314) | 9,709 |
| Fund balances beginning of year | (40,214) | 23,297 | 44,513 |
| Fund balances (deficit) end of year | \$ (35,910) | 20,983 | 54,222 |

See accompanying independent auditor's report.

| Group | | Friends of the | |
|-----------|-----------|-------------------|----------|
| Insurance | Emergency | Library | Total |
| 150,351 | 14,798 | - | 286,864 |
| 6,285 | 603 | - | 11,697 |
| 162 | 52 | - | 656 |
| - | - | - | 239,917 |
| 4,632 | - | 8,131 | 13,150 |
| 161,430 | 15,453 | 8,131 | 552,284 |
| 26,556 | - | - | 97,418 |
| 20,626 | - | - | 277,104 |
| 11,900 | - | 5,947 | 31,987 |
| - | - | - | 526 |
| 12,845 | - | - | 26,410 |
| 71,927 | - | 5,947 | 433,445 |
| 89,503 | 15,453 | 2,184 | 118,839 |
| 2,189 | - | - | 2,189 |
| (54,793) | (15,367) | (3,306) | (73,466) |
| (52,604) | (15,367) | (3,306) | (71,277) |
| 36,899 | 86 | (1,122) | 47,562 |
| 1,260 | 130 | 7,062 | 36,048 |
| 38,159 | 216 | 5,940 | 83,610 |

Schedule 3

City of LeClaire

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

For the Last Four Years

| | Modified Accrual Basis | | | |
|------------------------------------|------------------------|------------------|------------------|------------------|
| | 2006 | 2005 | 2004 | 2003 |
| Revenues: | | | | |
| Property tax | \$ 821,818 | 792,171 | 684,998 | 719,944 |
| Tax increment financing | 1,278,321 | 1,191,949 | 991,973 | 773,172 |
| Other city tax | 560,929 | 504,206 | 496,853 | 477,157 |
| Licenses and permits | 6,848 | 4,837 | 5,522 | 4,115 |
| Use of money and property | 75,918 | 54,819 | 47,502 | 43,178 |
| Intergovernmental | 288,922 | 522,271 | 353,943 | 298,527 |
| Charges for service | 172,686 | 180,186 | 180,064 | 164,715 |
| Special assessments | 125 | 238 | 49 | 81 |
| Miscellaneous | 179,933 | 448,415 | 311,898 | 89,083 |
| Total | \$ 3,385,500 | 3,699,092 | 3,072,802 | 2,569,972 |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety | \$ 1,124,582 | 728,325 | 1,392,127 | 572,454 |
| Public works | 510,872 | 533,706 | 736,645 | 408,116 |
| Culture and recreation | 270,867 | 186,035 | 266,241 | 157,341 |
| Community and economic development | 232,743 | 180,336 | 156,997 | 96,336 |
| General government | 274,904 | 204,981 | 143,664 | 130,476 |
| Debt service | 1,627,005 | 1,391,486 | 1,134,384 | 1,241,646 |
| Capital projects | 2,684,731 | 1,861,899 | 2,935,147 | 802,625 |
| Total | \$ 6,725,704 | 5,086,768 | 6,765,205 | 3,408,994 |

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

City of LeClaire



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 Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of LeClaire, Iowa as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of LeClaire's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 LeClaire's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 believe none of the reportable conditions described above are material weaknesses.

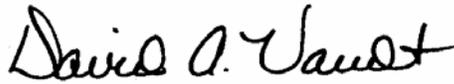
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of LeClaire's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of LeClaire and other parties to whom the City of LeClaire 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 LeClaire 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, 2006

City of LeClaire

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (A) Information Systems – The City has adopted a written policy for its information system but has not developed a written disaster recovery plan.

Recommendation – The City should develop a disaster recovery plan.

Response – The City will continue to pursue the development of such a plan as time and personnel availability permit.

Conclusion – Response accepted.

- (B) Capital Assets – During our review of internal controls over capital assets, the following items were noted:

- The useful lives identified in the City’s capital asset policy are not always followed for vehicles, equipment and infrastructure.
- A physical observation of capital assets has not been performed periodically by an employee having no responsibility for the assets.
- The disposal of assets is not approved by an independent person.

Recommendation – The useful lives for all classes of capital assets should be adhered to. A physical observation of capital assets should be performed periodically by an employee having no responsibility for the assets. The disposal of an asset should be approved by the appropriate department head.

Response – While the City’s capital asset acquisition and disposal policies establish estimated “useful lives”, particularly for determining the optimum disposal timing, physical and financial factors can and do change over a 5-10 year useful life period involving individual assets that may make it more advantageous to keep those assets longer (or shorter) than the estimate. If we find that this becomes a regular, recurring pattern for a particular asset the City will modify its capital asset policy accordingly. The City is continuing, pending personnel and time constraints, to conduct an annual physical observation (inventory) of all capital assets by an “independent” employee. Physical disposal of assets will be approved by department heads.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of LeClaire

Schedule of Findings

Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements exceeded the budget in the community and economic development and capital projects functions before the budget was amended. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City is continuing to improve its monitoring capabilities with regards to its budgeted expenditures and will try to better coordinate its budget amendment timing.

Conclusion – Response accepted.

- (2) 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.
- (3) Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- (4) 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> |
|---|------------------------------------|---------------|
| Chad M. Stoltenberg, Police Officer and Volunteer Firefighter, owner | Electrical labor and parts | \$ 540 |
| Brian Kuklok, Volunteer Firefighter, owner | Electrical labor and parts | 540 |

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Chad M. Stoltenberg and Brian Kuklok do not appear to represent conflicts of interest since the cumulative amounts were less than \$1,500 during the year.

- (5) 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.

City of LeClaire

Schedule of Findings

Year ended June 30, 2006

- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) 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.
- (8) Financial Condition – At June 30, 2005 and 2006, the City had deficit unreserved/unrestricted fund balances/net assets in the following funds:

| Fund | Unreserved/Unrestricted Fund Balances/Net Assets (Deficit) | |
|---------------------------------------|---|-----------|
| | June 30, | |
| | 2005 | 2006 |
| General | \$ (111,858) | (327,786) |
| Special Revenue: | | |
| Urban Renewal Tax Increment Financing | - | (158,343) |
| Road Use Tax | (40,214) | (35,910) |
| Enterprise: | | |
| Sewer | (51,826) | (27,933) |

Recommendation – The City should investigate alternatives to eliminate the deficits in order to return these funds to a sound financial position.

Response – The City is continuing to review and pursue options to rectify these balances.

Conclusion – Response accepted.

- (9) Health Insurance Plan – The City provides employees health insurance and other benefits through a partially self-insured benefit plan. Chapter 509A.15 of the Code of Iowa requires the City to obtain an actuarial opinion issued by a member of the American Academy of Actuaries which attests to the adequacy of reserves, rates and the financial condition of the plan and to file an annual financial report with the Insurance Commissioner.

Recommendation – The City should obtain an actuarial opinion, issued by a member of the American Academy of Actuaries, as required. The City should also file an annual financial report with the Insurance Commissioner, as required.

City of LeClaire

Schedule of Findings

Year ended June 30, 2006

Response – The City continues to maintain that, given the comparative limited nature of this benefit program and the excessive cost and limited availability of actuaries qualified to perform this analysis, this analysis is without merit and value and will continue to evaluate the merits, (financial, legal, logistical and otherwise) of this requirement.

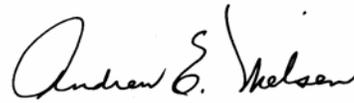
Conclusion – The City should obtain the actuarial opinion as required.

City of LeClaire

Staff

This audit was performed by:

Cynthia L. Weber, CPA, Manager
Kimberly M. Knight, CPA, Senior Auditor II
Kip M. Druecker, Senior Auditor
Carey L. Fraise, Staff Auditor
Melissa J. Knoll-Speer, Staff Auditor
Jeffrey L. Lenhart, Staff Auditor
Michael R. Field, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State