



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE March 25, 2005

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

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

The City's revenues totaled \$3,576,054 for the year ended June 30, 2004, and included \$831,650 in property tax, \$991,993 from tax increment financing, \$645,112 from charges for service, \$354,279 from operating grants, contributions and restricted interest, \$358,999 from capital grants, contributions and restricted interest, \$350,201 from local option sales tax, \$18,592 from unrestricted investment earnings and \$25,248 from other general revenues.

Expenses for City operations totaled \$3,264,156, and included \$885,179 for public works, \$665,246 for public safety and \$314,071 for culture and recreation. Expenses for business type activities totaled \$680,985.

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

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CITY OF LECLAIRE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2004

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City of LeClaire

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Vernon C. Spring	Mayor	Jan 2004
Jerry R. Holder	Mayor Pro tem	Jan 2004
William F. Biggin	Council Member	Jan 2004
Rodney L. Collier	Council Member	Jan 2006
Debra D. Smith	Council Member	Jan 2006
Bruce R. Richardson	Council Member	Jan 2006
Edwin N. Choate	Administrator/Clerk	Indefinite
Deborah F. Buskirk	Deputy Clerk	Indefinite
William McCullough	Attorney	Indefinite
(After January 2004)		
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
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, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

The City did not determine the amount of capital assets pertaining to the Enterprise, Water Fund, a major proprietary fund, at July 1, 2003, although required by U.S. generally accepted accounting principles. As a result, the net assets of the business type activities and the Enterprise, Water Fund are understated at the beginning of the year. The amount of understatement is not reasonably determinable. During the year ended June 30, 2004, the City sold the City's water system and related capital assets. Since the value of the assets sold is not reasonably determinable, the financial statements report the proceeds from the sale rather than the gain or loss on the disposal of the assets.

In our opinion, except for the effects of the omission of the capital assets for the Enterprise, Water Fund 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, as described above, the financial statements referred to above present fairly, in all material respects, the changes in financial position of the business type activities and the Enterprise, Water Fund of the City of LeClaire for the year ended June 30, 2004 in conformity with U.S. generally accepted accounting principles.

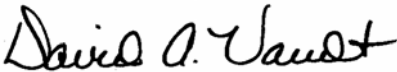
In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund and the aggregated remaining fund information of the City of LeClaire as of June 30, 2004, and the respective changes in financial position of the governmental activities, the General Fund, the Urban Renewal Tax Increment Financing Fund, the Local Option Sales Tax Fund, the Debt Service Fund, the Capital Projects Fund, the Enterprise, Sewer Fund and the aggregate remaining fund information thereof and the cash flows, where applicable, for the year ended June 30, 2004 in conformity with U.S. generally accepted accounting principles.


As described in Note 15 to the financial statements, for the year ended June 30, 2004, the City of LeClaire adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated February 9, 2005 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 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 supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of 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 year ended June 30, 2003 (which are not presented herein) and 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

February 9, 2005

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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental funds were approximately \$3,100,000 in fiscal 2004. Property tax collected amounted to approximately \$832,000, which represents a decrease of approximately \$28,000 or, 3.2%.
- Governmental fund expenditures were approximately \$6,765,000 in fiscal 2004 and enterprise fund expenses totaled approximately \$681,000.
- The City's net assets increased 45%, or approximately \$1,961,000, from June 30, 2003 to June 30, 2004. Of this amount, the net assets of the governmental activities increased approximately \$1,225,000 and the net assets of the business type activities increased by approximately \$736,000.
- During fiscal 2004, the City sold its water system to Iowa American Water Company for approximately \$1,649,000, of which \$984,143 was deposited in an irrevocable trust with an escrow agent. The funds will be used to pay principal and interest on the city's outstanding water revenue bonds which were defeased.

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 governmental 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 include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include the General Fund, Special Revenue Funds such as Urban Renewal Tax Increment Financing and Local Option Sales Tax, the Debt Service Fund and 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 Funds. These funds report 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 Funds include the Water and Sewer Funds, each considered to be a major fund of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

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

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.

	Net Assets June 30, 2004		
	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 2,601,009	82,413	2,683,422
Capital assets	9,641,044	2,711,251	12,352,295
Total assets	<u>12,242,053</u>	<u>2,793,664</u>	<u>15,035,717</u>
Long-term liabilities	6,125,602	68,986	6,194,588
Other liabilities	2,513,746	11,215	2,524,961
Total liabilities	<u>8,639,348</u>	<u>80,201</u>	<u>8,719,549</u>
Net assets:			
Invested in capital assets, net of related debt	4,750,794	2,711,251	7,462,045
Restricted	349,857	-	349,857
Unrestricted	<u>(1,497,946)</u>	<u>2,212</u>	<u>(1,495,734)</u>
Total net assets	<u>\$ 3,602,705</u>	<u>2,713,463</u>	<u>6,316,168</u>

The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources 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 approximately \$1,498,000 at the end of fiscal 2004. The deficit is due to capital projects undertaken to be financed from future revenues and governmental debt issued for water and sewer projects, the assets for which are not capitalized in the governmental activities.

Changes in Net Assets			
Year ended June 30, 2004			
	Governmental	Business Type	Total
	Activities	Activities	
Revenues:			
Program revenues:			
Charges for service	\$ 238,582	406,530	645,112
Operating grants, contributions and restricted interest	354,279	-	354,279
Capital grants, contributions and restricted interest	358,999	-	358,999
General revenues:			
Property tax levied for:			
General purposes	791,316	-	791,316
Debt service	40,334	-	40,334
Tax increment financing	991,973	-	991,973
Local option sales tax	350,201	-	350,201
Unrestricted investment earnings	15,751	2,841	18,592
Miscellaneous	21,166	4,082	25,248
Total revenues	3,162,601	413,453	3,576,054
Program expenses:			
Public safety	665,246	-	665,246
Public works	885,179	-	885,179
Culture and recreation	314,071	-	314,071
Community and economic development	133,771	-	133,771
General government	158,672	-	158,672
Debt service	426,232	-	426,232
Water	-	218,387	218,387
Sewer	-	462,598	462,598
Total expenses	2,583,171	680,985	3,264,156
Change in net assets	579,430	(267,532)	311,898
Transfers	645,446	(645,446)	-
Special item:			
Sale of water system	-	1,648,721	1,648,721
Net assets beginning of year, as restated	2,377,829	1,977,720	4,355,549
Net assets end of year	\$ 3,602,705	2,713,463	6,316,168

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of LeClaire completed fiscal 2004, its governmental funds reported a combined fund deficit of \$14,589, a decrease of \$1,348,337 below last year's total of \$1,333,748. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund balance decreased by \$24,915 to \$95,177. Note proceeds of \$547,500 and transfers in of \$759,601 were offset by the final completion of the public works facilities, the acquisition of the police station and street construction projects in progress during this fiscal year.

The Special Revenue, Urban Renewal Tax Increment Financing Fund accounts for revenue from the tax authorized by ordinance in the urban renewal district which are used to pay principal and interest on indebtedness incurred for urban renewal redevelopment projects. This fund ended fiscal 2004 with a \$101,230 fund balance compared to the prior year ending fund deficit of \$33,371. Tax increment financing revenues increased by approximately \$222,000, while expenditures and transfers out to cover debt payments increased by approximately \$93,000.

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 ended fiscal 2004 with a \$80,577 fund balance compared to the prior year ending fund balance of \$45,306. Local option sales tax revenue increased by \$13,091 in fiscal 2004.

The Debt Service Fund ended fiscal 2004 with a \$4,362 fund balance compared to the prior year ending fund balance of \$13,486. Bond/note principal and interest payments decreased by \$109,981 in fiscal 2004.

The Capital Project Fund ended fiscal 2004 with a deficit of \$389,966 compared to the prior year ending fund balance of \$1,106,885. The fiscal 2004 deficit is a result of project costs exceeding available funds. The deficit will be eliminated through the collection of donations and the issuance of general obligation debt.

Proprietary Fund Highlights

The Water Fund ended fiscal 2004 with no net assets due to the sale of the water system to the Iowa American Water Company as of October 7, 2003.

The Sewer Fund ended fiscal 2004 with a net asset balance of \$2,713,463 compared to the prior year ending net asset balance of \$2,838,112. This was modest decline of \$124,649.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was done in January 2004 and the second amendment was made in May 2004. These amendments were needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year. Overall, budgeted expenditures/expenses decreased due to the sale of the city's water system and related decrease in expenses for this system.

Even with these amendments, the City exceeded the budgeted amounts in the public works, debt service, capital projects and business type activities functions.

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 \$9,641,044 (net of accumulated depreciation) at June 30, 2004. Capital assets for business type activities totaled \$2,711,251 (net of accumulated depreciation) at June 30, 2004. See Note 3 to the financial statements for more information about the City's capital assets.

LONG-TERM DEBT

At June 30, 2004, the City had \$6,090,000 in total long-term debt outstanding for governmental activities. During the year ended June 30, 2004, the City issued a total of \$1,365,000 in general obligation notes and \$350,000 in urban renewal tax increment revenue bonds to finance police and fire department equipment purchases, the new police department building and various City-wide street improvement projects.

During the year, \$839,935 of water revenue bonds were defeased and, at June 30, 2004, the City had no bonded debt outstanding for business type activities.

The City does not have a formal bond rating as 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 \$6,090,000 is below its constitutional debt limit of \$8,526,627. 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 2005 budget were:

1. Continuing steady increase in the assessed valuation of property within the City.
2. An Iowa Department of Transportation USTEP grant for the construction of the Eagle Ridge Road and U.S. Highway 67 intersection signal improvements.
3. Continuous steady increase in the City's population.

The General Fund is projected to end fiscal 2005 with a fund balance of approximately \$35,000.

The specific breakout of the tax levy rates per \$1,000 of taxable valuation for fiscal 2005 are provided below:

General	\$ 8.10000
Levy Improvement	0.06750
Insurance	0.89175
Emergency	0.27000
Employee Benefits	4.75423
Debt Service	0.61291
	<hr/>
Total Regular Tax Levy Rate	\$ 14.69639
	<hr/> <hr/>
Agricultural Tax Levy Rate	\$ 3.00375
	<hr/> <hr/>

The City maintained its property tax rate at \$14.69639/\$1,000 for the fourth straight year during fiscal 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator at (563)-289-4242, via email at lecliowa@aol.com or at P.O. Box 605, 425 N. 3rd Street, LeClaire, Iowa 52753-0605.

Basic Financial Statements

Exhibit A

City of LeClaire
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 394,688	70	394,758
Receivables:			
Property tax:			
Delinquent	2,831	-	2,831
Succeeding year	743,000	-	743,000
Tax increment financing:			
Delinquent	75	-	75
Succeeding year	1,068,000	-	1,068,000
Customer accounts and unbilled usage	9,494	36,526	46,020
Accounts	97,090	1,101	98,191
Special assessments	3,330	7,544	10,874
Due from other governments	177,901	97	177,998
Due from other funds	58,543	(58,543)	-
Advances to/from other funds	(24,150)	24,150	-
Prepaid expenses	37,934	12,760	50,694
Restricted assets:			
Cash and pooled investments:			
Customer deposits	16,718	58,708	75,426
Capital assets (net of accumulated depreciation)	9,641,044	2,711,251	12,352,295
Bond issuance costs	15,555	-	15,555
Total assets	12,242,053	2,793,664	15,035,717
Liabilities			
Accounts payable	682,526	11,215	693,741
Accrued interest payable	20,220	-	20,220
Deferred revenue:			
Succeeding year property tax	743,000	-	743,000
Succeeding year tax increment financing	1,068,000	-	1,068,000
Long-term liabilities:			
Portion due or payable within one year:			
Customer deposits	16,718	58,708	75,426
General obligation bonds/notes	835,000	-	835,000
Compensated absences	18,525	7,367	25,892
Portion due or payable after one year:			
General obligation bonds/notes (net of \$14,711 unamortized discount)	4,890,289	-	4,890,289
Urban renewal tax increment revenue bonds	350,000	-	350,000
Compensated absences	15,070	2,911	17,981
Total liabilities	8,639,348	80,201	8,719,549

City of LeClaire
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	4,750,794	2,711,251	7,462,045
Restricted for:			
Local option sales tax	80,577	-	80,577
Special levies	97,422	-	97,422
Debt service	85,462	-	85,462
Road purposes	13,883	-	13,883
Tourism	48,089	-	48,089
Park, levee and recreation	23,037	-	23,037
Other purposes	1,387	-	1,387
Unrestricted	(1,497,946)	2,212	(1,495,734)
Total net assets	\$ 3,602,705	2,713,463	6,316,168

See notes to financial statements.

City of LeClaire
Statement of Activities
Year ended June 30, 2004

Functions / Programs:	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 665,246	39,446	56,769	-
Public works	885,179	148,696	240,563	161,044
Culture and recreation	314,071	15,143	17,907	197,955
Community and economic development	133,771	6,825	39,040	-
General government	158,672	28,472	-	-
Debt service:				
Interest on long-term debt	231,486	-	-	-
Tax increment financing rebate payments	194,746	-	-	-
Total governmental activities	<u>2,583,171</u>	<u>238,582</u>	<u>354,279</u>	<u>358,999</u>
Business type activities:				
Water	218,387	73,028	-	-
Sewer	462,598	333,502	-	-
Total business type activities	<u>680,985</u>	<u>406,530</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,264,156</u>	<u>645,112</u>	<u>354,279</u>	<u>358,999</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

Special item:

Sale of water system
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
(569,031)	-	(569,031)
(334,876)	-	(334,876)
(83,066)	-	(83,066)
(87,906)	-	(87,906)
(130,200)	-	(130,200)
(231,486)	-	(231,486)
(194,746)	-	(194,746)
(1,631,311)	-	(1,631,311)
-	(145,359)	(145,359)
-	(129,096)	(129,096)
-	(274,455)	(274,455)
(1,631,311)	(274,455)	(1,905,766)
791,316	-	791,316
40,334	-	40,334
991,973	-	991,973
350,201	-	350,201
15,751	2,841	18,592
21,166	4,082	25,248
645,446	(645,446)	-
2,856,187	(638,523)	2,217,664
-	1,648,721	1,648,721
1,224,876	735,743	1,960,619
2,377,829	1,977,720	4,355,549
\$ 3,602,705	2,713,463	6,316,168

City of LeClaire
Balance Sheet
Governmental Funds

June 30, 2004

Assets	Special Revenue			
	General	Urban Renewal Tax Increment Financing	Local Option Sales Tax	Debt Service
Cash and pooled investments	\$ 112,023	98,315	26,517	4,264
Receivables:				
Property tax:				
Delinquent	1,753	-	-	98
Succeeding year	446,000	-	-	51,000
Tax increment financing:				
Delinquent	-	75	-	-
Succeeding year	-	1,068,000	-	-
Customer accounts	9,494	-	-	-
Accounts	4,221	2,840	-	-
Special assessments	3,330	-	-	-
Due from other governments	33,851	-	54,060	-
Due from other funds	271,194	-	-	-
Prepaid expenditures	20,546	-	-	-
Restricted assets:				
Cash and pooled investments:				
Customer deposits	16,718	-	-	-
Total assets	\$ 919,130	1,169,230	80,577	55,362
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 335,850	-	-	-
Due to other funds	-	-	-	-
Deferred revenue:				
Succeeding year property tax	446,000	-	-	51,000
Succeeding year tax increment financing	-	1,068,000	-	-
Other	1,235	-	-	-
Payable from restricted assets:				
Customer deposits	16,718	-	-	-
Advance from other funds	24,150	-	-	-
Total liabilities	823,953	1,068,000	-	51,000

Capital Projects	Nonmajor Special Revenue	Total
79,482	74,087	394,688
-	980	2,831
-	246,000	743,000
-	-	75
-	-	1,068,000
-	-	9,494
88,564	1,465	97,090
-	-	3,330
70,703	19,287	177,901
-	-	271,194
-	17,388	37,934
-	-	16,718
<u>238,749</u>	<u>359,207</u>	<u>2,822,255</u>

327,500	19,176	682,526
212,651	-	212,651
-	246,000	743,000
-	-	1,068,000
88,564	-	89,799
-	-	16,718
-	-	24,150
<u>628,715</u>	<u>265,176</u>	<u>2,836,844</u>

City of LeClaire
Balance Sheet
Governmental Funds

June 30, 2004

	Special Revenue			
	General	Urban Renewal Tax Increment Financing	Local Option Sales Tax	Debt Service
Liabilities and Fund Balances (continued)				
Fund balances:				
Reserved for:				
Debt service	-	-	-	4,362
Prepaid expenditures	20,546	-	-	-
Special levies	36,459	-	-	-
Tourism	48,089	-	-	-
Park, levee and recreation	23,037	-	-	-
Unreserved:				
Undesignated:				
Reported in:				
General fund	(32,954)	-	-	-
Special revenue funds	-	101,230	80,577	-
Capital projects fund	-	-	-	-
Total fund balances	95,177	101,230	80,577	4,362
Total liabilities and fund balances	\$ 919,130	1,169,230	80,577	55,362

See notes to financial statements.

Capital Projects	Nonmajor Special Revenue	Total
-	-	4,362
-	17,388	37,934
-	-	36,459
-	-	48,089
-	-	23,037
-	-	(32,954)
-	76,643	258,450
(389,966)	-	(389,966)
(389,966)	94,031	(14,589)
238,749	359,207	2,822,255

City of LeClaire

City of LeClaire

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

June 30, 2004

Total governmental fund balances (page 21) \$ (14,589)

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 \$12,019,652 and the accumulated depreciation is \$2,378,608. 9,641,044

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 89,799

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. 15,555

Long-term liabilities, including customer deposits, general obligation bonds/notes, 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. (6,129,104)

Net assets of governmental activities (page 15) \$ 3,602,705

See notes to financial statements.

City of LeClaire

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

Year ended June 30, 2004

	Special Revenue			
	General	Urban Renewal Tax Increment Financing	Local Option Sales Tax	Debt Service
Revenues:				
Property tax	\$ 411,299	-	-	39,110
Tax increment financing	-	991,973	-	-
Other city tax	133,025	-	350,201	1,224
Licenses and permits	5,522	-	-	-
Use of money and property	36,569	2,532	1,065	283
Intergovernmental	40,900	-	-	-
Charges for service	180,064	-	-	-
Special assessments	49	-	-	-
Miscellaneous	97,697	2,840	-	-
Total revenues	905,125	997,345	351,266	40,617
Expenditures:				
Operating:				
Public safety	1,269,206	-	-	-
Public works	435,863	-	-	-
Culture and recreation	229,291	-	-	-
Community and economic development	109,590	46,866	-	-
General government	124,981	-	-	-
Debt service	-	198,333	-	936,051
Capital projects	-	-	-	-
Total expenditures	2,168,931	245,199	-	936,051
Excess (deficiency) of revenues over (under) expenditures	(1,263,806)	752,146	351,266	(895,434)
Other financing sources (uses):				
Operating transfers in	759,601	3,912	-	886,310
Operating transfers out	(61,640)	(621,457)	(315,995)	-
General obligation notes issued	547,500	-	-	-
Discount on general obligation notes	(6,570)	-	-	-
Urban renewal tax increment revenue bonds issued	-	-	-	-
Total other financing sources (uses)	1,238,891	(617,545)	(315,995)	886,310
Net change in fund balances	(24,915)	134,601	35,271	(9,124)
Fund balances (deficit) beginning of year	120,092	(33,371)	45,306	13,486
Fund balances (deficit) end of year	\$ 95,177	101,230	80,577	4,362

See notes to financial statements.

Capital Projects	Nonmajor Special Revenue	Total
-	234,589	684,998
-	-	991,973
-	12,403	496,853
-	-	5,522
6,388	665	47,502
72,480	240,563	353,943
-	-	180,064
-	-	49
205,110	6,251	311,898
283,978	494,471	3,072,802
-	122,921	1,392,127
-	300,782	736,645
-	36,950	266,241
-	541	156,997
-	18,683	143,664
-	-	1,134,384
2,935,147	-	2,935,147
2,935,147	479,877	6,765,205
(2,651,169)	14,594	(3,692,403)
122,271	11,425	1,783,519
(125,643)	(13,338)	(1,138,073)
817,500	-	1,365,000
(9,810)	-	(16,380)
350,000	-	350,000
1,154,318	(1,913)	2,344,066
(1,496,851)	12,681	(1,348,337)
1,106,885	81,350	1,333,748
(389,966)	94,031	(14,589)

City of LeClaire

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

Year ended June 30, 2004

Net change in fund balances - Total governmental funds (page 25) \$ (1,348,337)

**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 exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 3,766,732	
Depreciation expense	(287,456)	3,479,276

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. 89,799

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	(1,715,000)	
Discount on general obligation notes	16,380	
Amortization of discount	(1,669)	
Repaid	711,409	(988,880)

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. 15,555

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	(19,190)	
Interest on long-term debt	(3,347)	(22,537)

Change in net assets of governmental activities (page 17) \$ 1,224,876

See notes to financial statements.

City of LeClaire
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Enterprise Sewer
Assets	
Cash and pooled investments	\$ 70
Receivables:	
Customer accounts and unbilled usage	36,526
Accounts	1,101
Special assessments	7,544
Due from other governments	97
Advances to other funds	24,150
Prepaid expenses	12,760
Restricted assets:	
Cash and pooled investments:	
Customer deposits	58,708
Capital assets (net of accumulated depreciation)	2,711,251
Total assets	2,852,207
Liabilities	
Accounts payable	11,215
Due to other funds	58,543
Payable from restricted assets:	
Customer deposits	58,708
Compensated absences	7,367
Long-term liabilities:	
Compensated absences	2,911
Total liabilities	138,744
Net Assets	
Invested in capital assets	2,711,251
Unrestricted	2,212
Total net assets	\$ 2,713,463

See notes to financial statements.

Exhibit H

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

Year ended June 30, 2004

	Enterprise		Total
	Water	Sewer	
Operating revenues:			
Charges for service	\$ 73,028	333,502	406,530
Miscellaneous	1,230	2,852	4,082
Total operating revenues	<u>74,258</u>	<u>336,354</u>	<u>410,612</u>
Operating expenses:			
Business type activities:			
Cost of sales and services	76,533	326,969	403,502
Depreciation	-	135,629	135,629
Total operating expenses	<u>76,533</u>	<u>462,598</u>	<u>539,131</u>
Operating loss	<u>(2,275)</u>	<u>(126,244)</u>	<u>(128,519)</u>
Non-operating revenues (expenses):			
Interest income	2,219	622	2,841
Debt service administration fees	(1,800)	-	(1,800)
Sale of water system	1,648,721	-	1,648,721
Escrow payment in excess of defeased principal	(140,054)	-	(140,054)
Total non-operating revenues (expenses)	<u>1,509,086</u>	<u>622</u>	<u>1,509,708</u>
Income (loss) before operating transfers	<u>1,506,811</u>	<u>(125,622)</u>	<u>1,381,189</u>
Operating transfer in	-	973	973
Operating transfers out	(646,419)	-	(646,419)
Total operating transfers	<u>(646,419)</u>	<u>973</u>	<u>(645,446)</u>
Change in net assets	860,392	(124,649)	735,743
Net assets beginning of year, as restated	<u>(860,392)</u>	<u>2,838,112</u>	<u>1,977,720</u>
Net assets end of year	<u>\$ -</u>	<u>2,713,463</u>	<u>2,713,463</u>

See notes to financial statements.

City of LeClaire

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Enterprise		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers and users	\$ 106,688	351,753	458,441
Cash received from other revenues	1,230	2,755	3,985
Cash paid for personal services	(40,921)	(191,339)	(232,260)
Cash paid to suppliers	(86,355)	(135,567)	(221,922)
Net cash provided by (used for) operating activities	(19,358)	27,602	8,244
Cash flows from noncapital financing activities:			
Transfers in (out)	(646,419)	973	(645,446)
Deficit cash implicitly financed	(117,246)	40,082	(77,164)
Net cash provided by (used for) noncapital financing activities	(763,665)	41,055	(722,610)
Cash flows from capital and related financing activities:			
Acquisition of capital assets	-	(51,693)	(51,693)
Sale of water system	1,648,721	-	1,648,721
Escrow payment	(984,143)	-	(984,143)
Debt service administration fees	(1,800)	-	(1,800)
Net cash provided by (used for) capital and related financing activities	662,778	(51,693)	611,085
Cash flows from investing activities:			
Interest on investments	2,219	622	2,841
Net increase (decrease) in cash and cash equivalents	(118,026)	17,586	(100,440)
Cash and cash equivalents beginning of year	118,026	41,192	159,218
Cash and cash equivalents end of year	\$ -	58,778	58,778

Exhibit I

City of LeClaire
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2004

	Enterprise		
	Water	Sewer	Total
Reconciliation of operating loss to net cash provided by (used for) operating activities:			
Operating loss	\$ (2,275)	(126,244)	(128,519)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation	-	135,629	135,629
(Increase) decrease in customer accounts, unbilled usage and other receivables	33,660	(219)	33,441
(Increase) decrease in prepaid expenses	7,043	(2,327)	4,716
Increase (decrease) in accounts payable	(7,123)	2,526	(4,597)
(Decrease) in compensated absences	(9,293)	(136)	(9,429)
Increase (decrease) in customer deposits	(41,370)	18,373	(22,997)
Net cash provided by (used for) operating activities	<u>\$ (19,358)</u>	<u>27,602</u>	<u>8,244</u>

See notes to financial statements.

City of LeClaire

Notes to Financial Statements

June 30, 2004

(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, health and social services, 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. 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, the Friends of the LeClaire Community Library, Inc. 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 City and its blended 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 and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The City reports the following major governmental funds:

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

Special Revenue:

The 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 funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system. On October 7, 2003, the City sold the water system to the Iowa American Water Company.

The 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, 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 funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the 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 a money market account, which is stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

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, 2004 and unpaid taxes. The succeeding year property tax and tax increment financing receivables represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax and tax increment

financing 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, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2003.

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

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, 2004, 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 – Restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Advances to/from Other Funds – Non-current portions of interfund loan receivables are reported as advances.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds 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 extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land, buildings and improvements	\$ 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 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 that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. 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 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. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the public works, debt service, capital projects and business type activities functions.

(2) Cash and Pooled Investments

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

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

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

(3) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year (as restated, note 15)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 456,455	30,000	-	486,455
Land, right of way	104,927	-	-	104,927
Construction in progress - infrastructure	228,557	1,477,726	(233,000)	1,473,283
Construction in progress - other	506,138	1,226,008	(1,684,775)	47,371
Total capital assets not being depreciated	1,296,077	2,733,734	(1,917,775)	2,112,036
Capital assets being depreciated:				
Buildings and improvements	982,375	2,280,350	-	3,262,725
Equipment and vehicles	1,229,301	463,923	(61,245)	1,631,979
Infrastructure, road network	4,779,912	233,000	-	5,012,912
Total capital assets being depreciated	6,991,588	2,977,273	(61,245)	9,907,616
Less accumulated depreciation for:				
Buildings and improvements	177,822	34,067	-	211,889
Equipment and vehicles	563,642	100,110	(34,745)	629,007
Infrastructure, road network	1,384,433	153,279	-	1,537,712
Total accumulated depreciation	2,125,897	287,456	(34,745)	2,378,608
Total capital assets being depreciated, net	4,865,691	2,689,817	(26,500)	7,529,008
Governmental activities capital assets, net	\$ 6,161,768	5,423,551	(1,944,275)	9,641,044

	Balance Beginning of Year (as restated, note 15)	Increases	Decreases	Balance End of Year
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 85,590	-	-	85,590
Capital assets being depreciated:				
Buildings	1,714,997	-	-	1,714,997
Equipment and vehicles	1,037,975	20,686	-	1,058,661
Infrastructure, sewer network	2,417,061	31,007	-	2,448,068
Total capital assets being depreciated	5,170,033	51,693	-	5,221,726
Less accumulated depreciation for:				
Buildings	1,034,458	51,923	-	1,086,381
Equipment and vehicles	854,394	51,879	-	906,273
Infrastructure, sewer network	571,584	31,827	-	603,411
Total accumulated depreciation	2,460,436	135,629	-	2,596,065
Total capital assets being depreciated, net	2,709,597	(83,936)	-	2,625,661
Business type activities capital assets, net	\$ 2,795,187	(83,936)	-	2,711,251

Depreciation expense was charged to the following functions:

Governmental activities:		
Public safety		\$ 73,793
Public works		198,873
Culture and recreation		1,720
General government		13,070
Total depreciation expense - governmental activities		\$ 287,456
Business type activities:		
Sewer		\$ 135,629

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

(4) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds/notes	\$ 5,086,409	1,350,289	711,409	5,725,289	(1) 835,000
Urban renewal tax increment revenue bonds	-	350,000	-	350,000	-
Compensated absences	14,405	46,874	27,684	33,595	18,525
Total	\$ 5,100,814	1,747,163	739,093	6,108,884	853,525

(1) Notes were sold at a discount; unamortized discount at June 30, 2004 totaled \$14,711.

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Business type activities:					
Revenue bonds	\$ 839,935	-	839,935	-	(2) -
Compensated absences	19,707	17,250	26,679	10,278	7,367
Total	\$ 859,642	17,250	866,614	10,278	7,367

(2) Bonds were defeased during the year ended June 30, 2004.

General obligation bonds/notes

Eight issues of unmatured general obligation bonds/notes, totaling \$5,740,000, are outstanding at June 30, 2004. General obligation bonds/notes bear interest at rates ranging from 1.60% to 5.65% per annum and mature in varying annual amounts, ranging from \$10,000 to \$305,000, with the final maturities due in the year ending June 30, 2015.

Revenue bonds

One issue of unmatured urban renewal tax increment revenue bonds, totaling \$350,000, is outstanding at June 30, 2004. These bonds bear interest at rates ranging from 3.00% to 5.50% per annum and mature in annual amounts of \$50,000, with the final maturity due in the year ending June 30, 2014.

Details of general obligation and revenue bonds/notes payable at June 30, 2004 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2004
Governmental activities:						
General obligation bonds/notes:						
Corporate purpose notes	Apr 1, 1998	4.95 %	Jun 1, 2005	\$ 25,000-60,000	200,000	\$ 25,000
Water improvement bonds	Nov 15, 1999	5.00-5.60	Jun 1, 2015	35,000-65,000	720,000	575,000
Corporate purpose notes	April 1, 2002	5.00	Jun 1, 2012	10,000-15,000	140,000	120,000
Taxable refunding notes	Dec 1, 2002	3.10-5.65	Jun 1, 2009	100,000-300,000	1,410,000	1,090,000
Corporate purpose and refunding	Dec 1, 2002	2.00-4.00	Jun 1, 2013	160,000-305,000	2,885,000	2,360,000
Taxable refunding notes	May 30, 2003	1.60-1.85	Jun 1, 2005	105,000-115,000	220,000	115,000
Refunding notes	May 30, 2003	3.05-3.25	Jun 1, 2006	40,000-45,000	130,000	90,000
Corporate purpose notes	Dec 1, 2003	1.95-4.00	Jun 1, 2013	50,000-240,000	1,365,000	1,365,000
						5,740,000
Revenue bonds:						
Urban renewal tax increment	Mar 1, 2004	3.00-5.50	Jun 1, 2014	50,000	350,000	350,000
Total governmental activities						<u>\$ 6,090,000</u>

A summary of the annual general obligation and revenue bond/note 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
2005	\$ 835,000	227,268	1,062,268	-	15,375	15,375
2006	655,000	201,230	856,230	-	15,375	15,375
2007	635,000	176,155	811,155	-	15,375	15,375
2008	675,000	151,515	826,515	50,000	15,375	65,375
2009	675,000	122,650	797,650	50,000	13,875	63,875
2010-2014	2,200,000	250,600	2,450,600	250,000	38,250	288,250
2015	65,000	3,640	68,640	-	-	-
Total	<u>\$ 5,740,000</u>	<u>1,133,058</u>	<u>6,873,058</u>	<u>350,000</u>	<u>113,625</u>	<u>463,625</u>

Water Revenue Bond Defeasance

During the year ended June 30, 2004, the City sold the municipal water system for \$1,648,721. On October 7, 2003, the City deposited \$984,144 of the proceeds in an irrevocable trust with an escrow agent to be used to purchase government securities in such amounts and with such maturities to be sufficient to pay the principal and interest on the City's outstanding water revenue bonds. As a result, the City's outstanding water revenue bonds of \$839,935, net of \$15,065 unamortized discount, were defeased and the liability for the bonds was removed from the Enterprise, Water Fund. \$835,000 of the defeased debt remains outstanding at June 30, 2004.

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, 2004 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, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Urban Renewal Tax Increment Financing	\$ 2,726
	Local Option Sales Tax	2,260
	Emergency	13,212
	Capital Projects	95,957
	Enterprise:	
	Water	645,446
		<u>759,601</u>
Special Revenue:		
Urban Renewal Tax	Capital Projects	3,912
Increment Financing	Capital Projects	11,425
Group Insurance		
Debt Service	General	61,640
	Special Revenue:	
	Urban Renewal Tax	515,258
	Increment Financing	
	Local Option Sales Tax	295,015
	Road Use Tax	48
	Capital Projects	14,349
		<u>886,310</u>

Transfer to	Transfer from	Amount
Capital Projects	Special Revenue:	
	Urban Renewal Tax	
	Increment Financing	103,473
	Local Option Sales Tax	18,720
	Road Use Tax	78
		<u>122,271</u>
Enterprise:	Enterprise:	
Sewer	Water	973
		<u>973</u>
Total		<u>\$ 1,784,492</u>

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

(6) Interfund Assets/Liabilities

The detail of interfund assets and liabilities at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
Due From/Due to Other Funds:		
General	Capital Projects	\$ 212,651
	Enterprise:	
	Sewer	<u>58,543</u>
Total		<u>\$ 271,194</u>
Advances To/From Other Funds:		
Enterprise:		
Sewer	General	<u>\$ 24,150</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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$45,556, \$42,934 and \$42,015, respectively, equal to the required contributions for each year.

(8) Deficit Fund Balance

At June 30, 2004, the Capital Projects Fund had a deficit fund balance of \$389,966.

The deficit is the result of project costs in excess of available funds. The deficit will be eliminated upon collection of donations and the issuance of general obligation notes.

(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	\$ 300	400
City	2,200	4,650

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 Special Revenue, Group Insurance Fund.

(10) Development and Rebate Agreement

The City has entered into nine 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, 2004, the City rebated \$194,746 of incremental taxes to the developers, paying \$136,006 of principal and \$58,740 of interest. The outstanding principal balance on the rebate agreements at June 30, 2004 is \$12,891,322.

During the year ended June 30, 2004, the City issued \$350,000 of urban renewal tax increment revenue bonds and \$774,500 of general obligation corporate purpose notes to fund payments totaling \$1,073,717 made to a developer for construction costs pursuant to a development agreement.

These agreements are annualized appropriation agreements and, due to their nature, are not recorded as a liability in the City's financial statements.

The agreements are not a general obligation of the City. However, the amount payable in the succeeding year is subject to the constitutional debt limitation of the City.

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not exceed budgeted appropriations at the function level. During the year ended June 30, 2004, expenditures in the public works, debt service, capital projects and business type functions exceeded the amounts budgeted.

(12) Construction Commitment

During the year ended June 30, 2004, the City entered into a contract for \$579,817 to construct street and traffic signal improvements. The project was funded through the issuance of general obligation notes. At June 30, 2004, \$269,413 of the contract had been completed. The remaining \$310,404 will be paid as work progresses.

(13) Municipal Water System

As a result of contamination of the City's water supply, the City and two local businesses entered into an agreement with the Iowa Comprehensive Petroleum Underground Storage Tank Fund Board implementing a community remediation project. The project included the sale of the City of LeClaire Municipal Water Works System (Water System) to Iowa American Water Company (IAWC) and the subsequent connection to a new water supply. The City agreed to shutdown and plug city wells within sixty days after a new water supply system is operational. The total project costs for connecting the City to the new water supply was \$2,400,000. The City's share of the project costs were \$285,000, which was paid during the fiscal year ended June 30, 2004.

During the year ended June 30, 2003, the City completed the requirements for the sale of the City's water system, including holding a special election on the matter. On October 7, 2003, the system was sold to IAWC who will provide drinking water to the City through a connection with its Davenport Public Water System. The City received \$1,648,721 from the sale, of which \$984,143 was deposited in an irrevocable trust with an escrow agent (as trustee under an escrow agreement) and was used to purchase government obligations in such amounts and with such maturities to be sufficient to pay the principal and interest on the City's outstanding water revenue bonds which were defeased on October 7, 2003.

(14) Subsequent Events

General Obligation Notes

In August 2004, the City issued \$2,440,000 of general obligation corporate purpose notes, Series 2004A. The notes were issued to fund various projects, including a street signalization project, acquisition of a police vehicle, levee paving project, construction of a water main to serve the City, acquisition of real property for economic development purposes and construction of a new City Hall. These notes are payable from a continuing annual levy of taxes against all taxable property of the City.

City Hall Contract

On November 2, 2004, the City entered into a contract for \$1,145,792 for the construction of a new City Hall. The project will be financed through the issuance of general obligation debt.

(15) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – Management’s Discussion and Analysis – for State and local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the City’s governmental and business type activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

Beginning net assets for business type activities and the Enterprise, Sewer Fund have been restated to include capital assets at July 1, 2003.

The effects of the accounting change and other restatements are summarized as follows:

Governmental activities:	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$ 1,333,748
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$2,125,897	6,161,768
Long-term liabilities	(5,100,814)
Interest payable	<u>(16,873)</u>
Net assets July 1, 2003, as restated	<u>\$ 2,377,829</u>

Business type activities and Enterprise, Sewer Fund:

	<u>Business Type</u> <u>Activities</u>	<u>Enterprise</u> <u>Sewer Fund</u>
Net assets June 30, 2003, as previously reported	\$ (817,467)	42,925
Capital assets, net of accumulated depreciation of \$2,460,436	<u>2,795,187</u>	<u>2,795,187</u>
Net assets July 1, 2003, as restated	<u>\$ 1,977,720</u>	<u>2,838,112</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 Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 684,998	-
Tax increment financing	991,973	-
Other city tax	496,853	-
Licenses and permits	5,522	-
Use of money and property	47,502	2,841
Intergovernmental	353,943	-
Charges for service	180,064	406,530
Special assessments	49	-
Miscellaneous	311,898	4,082
Total receipts	<u>3,072,802</u>	<u>413,453</u>
Disbursements:		
Public safety	1,392,127	-
Public works	736,645	-
Culture and recreation	266,241	-
Community and economic development	156,997	-
General government	143,664	-
Debt service	1,134,384	-
Capital projects	2,935,147	-
Business type activities	-	680,985
Total disbursements	<u>6,765,205</u>	<u>680,985</u>
Excess (deficiency) of receipts over (under) disbursements	(3,692,403)	(267,532)
Other financing sources, net	<u>2,344,066</u>	<u>1,003,275</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,348,337)	735,743
Balances beginning of year, as restated	<u>1,333,748</u>	<u>1,977,720</u>
Balances end of year	<u>\$ (14,589)</u>	<u>2,713,463</u>

See accompanying independent auditor's report.

Total Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Actual Variance
			Original	Final	
684,998	-	684,998	690,243	688,943	(3,945)
991,973	-	991,973	916,708	916,708	75,265
496,853	-	496,853	455,618	489,418	7,435
5,522	-	5,522	4,870	4,795	727
50,343	-	50,343	39,360	40,660	9,683
353,943	-	353,943	1,037,121	273,397	80,546
586,594	-	586,594	717,880	568,041	18,553
49	-	49	125	75	(26)
315,980	6,251	309,729	538,337	307,124	2,605
3,486,255	6,251	3,480,004	4,400,262	3,289,161	190,843
1,392,127	-	1,392,127	771,766	1,447,473	55,346
736,645	-	736,645	619,269	653,107	(83,538)
266,241	8,079	258,162	200,673	260,028	1,866
156,997	-	156,997	1,759,755	161,089	4,092
143,664	-	143,664	170,732	178,038	34,374
1,134,384	-	1,134,384	1,772,773	1,131,545	(2,839)
2,935,147	-	2,935,147	1,775,771	2,835,535	(99,612)
680,985	-	680,985	1,004,202	549,494	(131,491)
7,446,190	8,079	7,438,111	8,074,941	7,216,309	(221,802)
(3,959,935)	(1,828)	(3,958,107)	(3,674,679)	(3,927,148)	(30,959)
3,347,341	-	3,347,341	3,952,000	3,347,341	-
(612,594)	(1,828)	(610,766)	277,321	(579,807)	(30,959)
3,311,468	3,215	3,308,253	71,066	513,068	2,795,185
2,698,874	1,387	2,697,487	348,387	(66,739)	2,764,226

City of LeClaire

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

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 funds 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 8 major classes of disbursements known as functions, not by fund. These 8 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 Funds. Although the budget document presents function expenditures/expenses by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments decreased budgeted disbursements by \$858,632. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements in the public works, debt service, capital projects and business type activities functions exceeded the amounts budgeted.

Other Supplementary Information

City of LeClaire
Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2004

	Road Use Tax	Workers' Compensation	Employees' Retirement FICA/IPERS
Assets			
Cash and pooled investments	\$ 17,174	6,635	37,619
Receivables:			
Property tax:			
Delinquent	-	85	305
Succeeding year	-	21,000	84,000
Accounts	-	-	-
Due from other governments	19,287	-	-
Prepaid expenditures	-	10,407	-
Total assets	\$ 36,461	38,127	121,924
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ 8,921	-	-
Deferred revenue:			
Succeeding year property tax	-	21,000	84,000
Total liabilities	8,921	21,000	84,000
Fund equity:			
Fund balances:			
Reserved for prepaid expenditures	-	10,407	-
Unreserved	27,540	6,720	37,924
	27,540	17,127	37,924
Total liabilities and fund equity	\$ 36,461	38,127	121,924

See accompanying independent auditor's report.

Group Insurance	Emergency	Friends of the Library	Total
11,272	-	1,387	74,087
539	51	-	980
128,000	13,000	-	246,000
1,465	-	-	1,465
-	-	-	19,287
6,981	-	-	17,388
148,257	13,051	1,387	359,207
10,255	-	-	19,176
128,000	13,000	-	246,000
138,255	13,000	-	265,176
6,981	-	-	17,388
3,021	51	1,387	76,643
10,002	51	1,387	94,031
148,257	13,051	1,387	359,207

City of LeClaire

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

Year ended June 30, 2004

	Road Use Tax	Workers' Compensation	Employees' Retirement FICA/IPERS
Revenues:			
Property tax	\$ -	20,370	72,929
Other city tax	-	1,636	5,858
Use of money and property	-	91	349
Intergovernmental	240,563	-	-
Miscellaneous	-	-	-
Total revenues	<u>240,563</u>	<u>22,097</u>	<u>79,136</u>
Expenditures:			
Operating:			
Public safety	-	7,650	44,939
Public works	262,180	2,091	12,851
Culture and recreation	-	2,048	1,987
Community and economic development	-	-	541
General government	-	166	8,107
Total expenditures	<u>262,180</u>	<u>11,955</u>	<u>68,425</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(21,617)</u>	<u>10,142</u>	<u>10,711</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(126)	-	-
Total other financing sources (uses)	<u>(126)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(21,743)</u>	<u>10,142</u>	<u>10,711</u>
Fund balances beginning of year	<u>49,283</u>	<u>6,985</u>	<u>27,213</u>
Fund balances end of year	<u>\$ 27,540</u>	<u>17,127</u>	<u>37,924</u>

See accompanying independent auditor's report.

Group Insurance	Emergency	Friends of the Library	Total
129,053	12,237	-	234,589
4,262	647	-	12,403
155	70	-	665
-	-	-	240,563
-	-	6,251	6,251
133,470	12,954	6,251	494,471
70,332	-	-	122,921
23,660	-	-	300,782
24,836	-	8,079	36,950
-	-	-	541
10,410	-	-	18,683
129,238	-	8,079	479,877
4,232	12,954	(1,828)	14,594
11,425	-	-	11,425
-	(13,212)	-	(13,338)
11,425	(13,212)	-	(1,913)
15,657	(258)	(1,828)	12,681
(5,655)	309	3,215	81,350
10,002	51	1,387	94,031

Schedule 3

City of LeClaire

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

For the Last Two Years

	Modified Accrual Basis	
	2004	2003
Revenues:		
Property tax	\$ 684,998	719,944
Tax increment financing	991,973	773,172
Other city tax	496,853	477,157
Licenses and permits	5,522	4,115
Use of money and property	47,502	43,178
Intergovernmental	353,943	298,527
Charges for service	180,064	164,715
Special assessments	49	81
Miscellaneous	311,898	89,083
Total	<u>\$ 3,072,802</u>	<u>2,569,972</u>
Expenditures:		
Operating:		
Public safety	\$ 1,392,127	572,454
Public works	736,645	408,116
Culture and recreation	266,241	157,341
Community and economic development	156,997	96,336
General government	143,664	130,476
Debt service	1,134,384	1,241,646
Capital projects	2,935,147	802,625
Total	<u>\$ 6,765,205</u>	<u>3,408,994</u>

See accompanying independent auditor's report.

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

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 Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of LeClaire, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated February 9, 2005. A qualified opinion was issued on the changes in financial position of the business type activities and the Enterprise, Water Fund due to the omission of capital assets pertaining to the Enterprise, Water Fund at July 1, 2003 and the omission of the gain or loss on disposal of the Enterprise, Water Fund capital assets. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items (2) and (9).

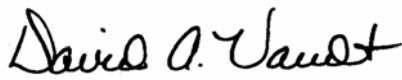
Internal Control Over Financial Reporting

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of 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.

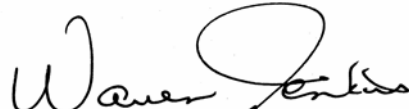
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. Prior year reportable conditions have been resolved except for items (A) and (C).

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

February 9, 2005

City of LeClaire
Schedule of Findings
June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Information Systems – During our review of internal control, the existing control activities in the City’s computer based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer based systems were noted:

The City has adopted a written policy for its information system but has not implemented the following procedures:

- Password confidentiality.
- Password changes because software does not require the user to change log-ins/passwords periodically.
- Offsite storage of computer back ups of software and files.
- Running an updated anti-virus program on a regular basis.
- Developing a written disaster recovery plan.

Recommendation – The City should implement procedures to address security over passwords, including requiring periodic changes to employee passwords. A disaster recovery plan should be developed and off-site storage of critical files should be established. The City’s anti-virus program should be updated and run on a regular basis.

Response – With the exception of the development of the disaster recovery plan, all other issues will be resolved as a part of the City’s move to new City Hall and the accompanying upgrade of the entire City-wide computer network in August of 2005. The disaster recovery plan development will be a part and parcel of the development of the City’s emergency operations center plan as discussed in the Information Technology Committee’s report to the City Council dated July 12, 2004.

Conclusion – Response accepted.

City of LeClaire

Schedule of Findings

June 30, 2004

- (B) Capital Assets – Although the City has used consistent capitalization thresholds and useful lives, it has not adopted a formal policy for them. In addition, a physical observation of capital assets has not been performed periodically by an employee having no responsibility for the assets.

Recommendation – The City should adopt a formal capital asset policy including capitalization thresholds and useful lives for all capital assets. A physical observation of capital assets should be performed periodically by an employee having no responsibility for the assets.

Response – It is intended that this task will be completed sometime during calendar year 2005 with the completion of the initial implementation of GASB 34 and its accompanying work.

Conclusion – Response accepted.

- (C) Records of Accounts – The LeClaire Volunteer Fire Department (Department) maintained a checking and savings account separate from the City Clerk's records. The transactions and the resulting balances were not reported to the Council each month, and the transactions were not recorded in the Clerk's records. During the year ended June 30, 2003, the Department closed the bank accounts and opened new bank account(s) under the LeClaire Fire Association (Association). The City was not able to provide documentation the Association has obtained separate legal status as of June 30, 2004.

Recommendation – Chapter 384.20 of the Code of Iowa states in part "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." Until the Association demonstrates it is legally separate from the City, the monthly financial transactions should be included in the Clerk's monthly financial reports.

Response – The City is currently awaiting documentation from the Firefighters Association as to their legal status. Additionally, copies of that organizations' articles of incorporation and by-law will be provided when received by the City. As a result of discussions with the Associations' legal counsel in this matter, the City anticipates that the Association will have this work completed towards the end of calendar year 2005.

Conclusion – Response acknowledged. Until the Association becomes legally separate from the City, the monthly financial transactions should be included in the Clerk's monthly reports.

- (D) Change Orders – A change order for \$45,191 on the U.S. Highway 67/Eagle Ridge Road project was not approved by the City Council. In addition, four change orders totaling \$8,092 on the library construction project were not approved by the Library Board.

Recommendation – Change orders should be approved as required by City Ordinance.

City of LeClaire

Schedule of Findings

June 30, 2004

Response – Regarding the Eagle Ridge Road/Highway U.S. 67 project, Subsection 18.06(4) of the City Code states that the City Administrator does have certain latitudes and authority to approve contract change orders. While this particular situation did not “fit” exactly within these current day parameters, this subsection of the City Code and prior Council actions were relied upon to form the basis of the decision that was made in this case. The two (2) reasons why this matter was not presented to the Council for a formal change order consideration are: (1) there was already Council authority (via the 1983 agreement) for this very transaction as contemplated and, (2) it did not result in any net increase in cost to the City. Therefore, pursuant to the provisions of the above-referenced City Code section, no further Council action or consideration was deemed necessary by the City Administrator.

The Library Board agrees that with respect to future projects, it will approve all change orders and note such action in board minutes in a timely manner.

Conclusion – Response acknowledged. However, change orders should be approved by the City Council in accordance with City Code.

- (E) Vacation Balance - The City Administrator/Clerk’s vacation balance at June 30, 2004 exceeded the allowable carryover as specified in the union contract. The City Council did not approve a time extension for use of the vacation hours.

Recommendation – Allowable vacation carryover should comply with the City’s union contract. All exceptions should be approved by the City Council.

Response – The second sentence of paragraph 4, of Article VIII, Section 8, of the AFSCME contract, (by reference, the applicable material in this particular matter), states as follows: “Any accrued but unused vacation leave will not be paid for or allowed to be used unless specifically granted by the City Council, City Administrator, or as otherwise provided for herein.” Unless otherwise modified or clarified by formal action of the City Council the authority exists within this provision for the City Administrator to monitor and allow the payment for and/or accrual of vacation leave for that particular position, as well as for all other City positions, as deemed necessary.

Conclusion – Response acknowledged. However, to strengthen control over the accrual and/or payout of vacation, exceptions for the City Administrator to allow carryover hours in excess of amounts allowed by the union contract should be approved by the City Council as discussed in and allowed by Article VIII, Section 8, of the AFSCME contract.

City of LeClaire
 Schedule of Findings
 June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public works, debt service, capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – The City will monitor this situation more closely in the future and will amend the budget as necessary.

Conclusion – Response accepted.

- (3) Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (4) Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jo Phares, Utility Clerk, wife of Tony Phares	Repair and parts	\$ 130

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transaction does not appear to represent a conflict of interest since the cumulative amount was less than \$1,500 during the year.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of LeClaire

Schedule of Findings

June 30, 2004

- (8) 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.

- (9) Financial Condition – At June 30, 2004, the Capital Projects Fund had a deficit fund balance of \$389,966.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return the fund to a sound financial position.

Response – This matter was mostly resolved with the August 1, 2004 bond issue funding.

Conclusion – Response accepted.

- (10) Public Improvement – The City entered into a development agreement which required the City to issue general obligation debt not to exceed \$750,000 and to pay a developer for infrastructure improvements made by the developer. During the year ended June 30, 2004, the City made payments totaling \$733,717 to the contractor for the infrastructure improvement, not the developer. The City did not have a contract with the contractor for the work. In addition, the contractor was paid an additional \$31,007 for certain sewer improvements which were not included in the development agreement.

Although the City held a public hearing prior to entering into the development agreement, a public hearing was not held on the proposed plans, specifications, and form of contract for the infrastructure project, nor did the City advertise or receive bids for the project as required by Chapters 384.102 and 384.96 of the Code of Iowa.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will consult with legal counsel to determine the disposition and need for corrective actions, if any.

Conclusion – Response accepted.

- (11) Library Board Minutes – The minutes did not include details of the bids received on the library project. Chapter 384.100 of the Code of Iowa requires the governing body to announce the amount of the bids at the time and place specified in the notice to bidders. In addition, the contract was awarded by motion rather than by resolution as required by Chapter 384.100 of the Code of Iowa.

Recommendation – The minutes record should include bid information and future contracts should be awarded by resolution as required.

Response – The Library Board has reviewed the provisions of Chapter 384.100 of the Code of Iowa and affirms that code requirements set forth therein will be satisfied with respect to the award of future contracts, including the requirements to announce the amount of the bids and the award by resolutions.

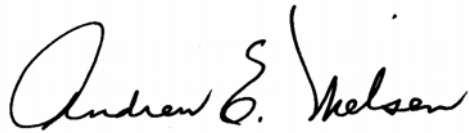
Conclusion – Response accepted.

City of LeClaire

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Donna F. Kruger, CPA, Senior Auditor II
Kimberly M. Knight, Staff Auditor
Donald N. Miksch, Assistant Auditor
Jeffrey L. Lenhart, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State