CITY OF KEOKUK

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

JUNE 30, 2004

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CITY OF KEOKUK, IOWA
CITY OFFICIALS
June 30, 2004

Name	Title	Term
David A. Gudgel	Mayor	12/31/05
Susan Dunek	Mayor Pro-tem	12/31/04
Brent Fellows	Council Member - At Large	12/31/05
William Olmsted	Council Member - At Large	12/31/07
Chris Welker	Council Member - Ward 1	12/31/05
Marian Ealey	Council Member - Ward 2	12/31/07
Malcolm Mullin	Council Member - Ward 3	12/31/05
Roger Bryant	Council Member - Ward 4	12/31/07
William M. Shuter	Council Member - Ward 5	12/31/05
Gary Stepp	Council Member - Ward 6	12/31/07
Susan Dunek	Council Member - Ward 7	12/31/05
Mark Wessel	Fire Chief	12/31/04
Reinhold Dobson	Police Chief	12/31/04
Donna Eilers	City Clerk	12/31/04
Shirlee Laubersheimer	Assistant City Clerk	12/31/04
Phil O'Hara	City Treasurer	12/31/04
Tom Marion	City Attorney	12/31/04
Bill Richards	Public Works Director	
Charles Pietscher	Water Pollution Control Superintendent	
Richard Sykes	Bridge, Cemetery & Parks Manager	
Nate Buckner	Sanitation Manager	
John Wreiden	Streets & Vehicle Maint. Manager	
Carl Lawson	Pretreatment Operations Manager & Sewer Department Supervisor	
Richard Blood	Water Pollution Control Chief Operator	
Lester Piersee	General Maintenance Manager	

City of Keokuk

JOHN A. RUSSELL, CPA PC

Certified Public Accountant

1013 Concert Street
Keokuk, IA 52632

Phone: 319-524-2695
FAX: 319-524-8557

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 Keokuk, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Keokuk's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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

In accordance with Government Auditing Standards, we have also issued our reports dated February 11, 2005 on our consideration of the City of Keokuk's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Keokuk's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned 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.

John G. Russell CPA PC

February 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Keokuk's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements that begin on Page 16.

As this is the second year for the City's new reporting standards required by the Government Accounting Standards Board Statement No. 34 which implemented significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- The City's total receipts did not meet total disbursements by $348,292 for the year resulting in a net decrease of total cash balances of 3.45 percent over the previous year. Total governmental activities decreased by $369,218. This decrease is again attributable to a reduction in tax revenue, interest revenue and reduced state-shared revenue. Business type activities increased by $20,926.
- The City received a number of local, state and federal grants in the amount of $1,916,269.
- The City's General Fund ended the year with a cash balance of $1,000,928, which represents a 32.8% decrease of recurring revenue of the Fund. .
- Using the ability of tax increment financing the self-funded extension of a sanitary sewer main in the River Hills TIF district to the northerly boundaries of the City was paid off.
- Phase I of the Main Street project was completed on schedule. This was a 4.5 million dollar project which installed new concrete street, curbs and sidewalks with turn lanes from South Navaho Drive to 14th Street along with new street lighting.
- The City of Keokuk completed a housing rehabilitation program in which 13 low-to-moderate-income homeowners in a targeted area were each granted up to $24,999 for home improvements. The forgivable loan program was made possible by a $400,000 grant from the Iowa Department of Economic Development. The 13 homeowners were able to make value-added improvements to their properties and the work completed enhanced each of their neighborhoods.
- The City of Keokuk reduced its working force by 10 employees by attrition and early retirement in an attempt to minimize expenses.

- The Keokuk Municipal Airport completed many projects utilizing grants from the Iowa Department of Transportation and the Federal Aviation Administration. These projects included remodeling the overhead door in Hangar #1, architectural drawings for operations building, renovation of Hangar #5, taxiway joint sealing, resurfacing tarmac, the Pavement Management Program, end runway safety area grading, pavement repair, taxiway C MITL system and wind cone, engineering and construction services and purchasing additional land for the instrument landing system.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Government Accounting Standards Board (GASB) Statement No. 34. GASB 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the City's financial report.

Report Components

This annual report consists of five parts, as follows:

Government-wide Financial Statements: The Statement of Activities and Changes in Cash Balances (pages 17 - 18) provide information about the activities of the City government-wide (or "as a whole") and present an overall view of the City's finances.

Fund Financial Statements: Fund financial statements (starting on Page 19) focus on the individual parts of the City government. Fund financial statements also report on the City's operations in more detail than the government-wide statements by providing information about the City's most significant ("major") funds. For *government activities,* these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities,* these statements offer short-term and long-term financial information about the activities the City operates like business, such as the sewer, sanitation and bridge services.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: The Management Discussion and Analysis and the General Funds Budgetary Comparison Schedule (starting on page 32) represent financial information required to be presented by the GASB. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements and notes (referred to as the 'basic financial statements').

Other Supplementary information: This part of the annual report (starting on page 36) includes optional financial information such as combining statements for non-major funds (which are added together and shown in the fund financial statements in a single column), a schedule of federal and state awards, and schedules of compliance with certain debt covenants. This other supplemental financial information is provided to address certain specific needs of various users of the City's financial report.

Basis of Accounting

The City has elected to present its financial statements on a cash basis for accounting. This cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the city's cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions.

Reporting the City as a Whole

The Statement of Activities and Changes in Cash Balance presents information showing how the City's cash balance changed during the most recent fiscal year.

The City's governmental activities are displayed in the Statement of Activities and Changes in Cash Balance. 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.

The business-type activities of the City include the sewer, garbage and bridge systems. These activities are financed primarily by user charges.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Changes in Cash Balances

For the year ended June 30, 2004, net assets of the primary government changed as follows:

	Governmental Activities	Business-type Activities	Total
Beginning Cash Balance	4,489,022	5,611,556	10,100,578
Reduction in Cash Balance	(369,218)	20,926	(348,292)
Ending Cash Balance	4,119,804	5,632,482	9,752,286

This represents a decrease of 3.44% in total activities and a decrease of 8.22% for government activities and a .31% increase for business-type activities.

Reporting the City's Most Significant Funds

The Fund Financial Statements

The analysis of the City's major funds begin on Page 19 and provide detailed information about the most significant funds; not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants or other money.

The City has two kinds of funds:

Governmental funds account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax and Local Option Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Other Non-major Governmental Funds. Governmental funds are reported on the basis of cash receipts and disbursements. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Financial records and reports are prepared on the basis of when cash is received and disbursed. The government fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary funds account for the City's Enterprise Funds and for the Internal Service Funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide statement of activities and changes in cash balance. The City maintains three enterprise funds to provide separate information for the sewer fund, solid waste fund and bridge fund, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The Internal Service Fund utilized by the City accounts for retirees, Keokuk Municipal Waterworks and Low Rent Housing group health insurance.

Permanent funds represent the fiduciary funds being held for our Oakland Cemetery's perpetual care.

Governmental Activities

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year the cash balance of the General Fund was $1,000,928, a decrease of $489,353 from the prior year. This decrease is attributable to a reduction in tax revenue and interest revenue.
- The Road Use Tax fund cash balance increased by $130,036 to $426,874 during the fiscal year. This occurred due to holding on spending.
- The Local Option Sales Tax Fund cash balance increased by $252,384 to $846,147 during the fiscal year. This occurred to reserving funds for capital projects.
- The Capital Projects Fund increased $111,349 to ($60,003) due to payments on projects.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ending June 30, 2004	2003
Receipts and Transfers:		
Program Receipts:		
Charges for Service and Sales	$ 252,848	$ 299,587
Operating Grants, Contributions and Restricted Interest	1, 606,417	1,734,232
Capital Grants, Contributions and Restricted Interest	527,054	607,190
General Receipts:		
Property Tax Levied For:		
General Purposes	2,980,650	3,132,271
Tax Increment Financing	339,849	318,243
Debt Service	236,235	403,344
Local Option Sales Tax	1,034,163	928,614
Utility Excise Tax	706,905	735,828
Riverboat Gaming Tax	299,211	286,814
Hotel/Motel Taxes	152,195	174,766
Other City Taxes	57,747	55,314
Grants and Contributions Not Restricted To Specific Purposes	144,970	334,347
Unrestricted Investment Earnings	103,525	150,363
Sales of Property	33,487	
Transfers	(352,372)	(108,275)
Total Receipts and Transfers	8,122,884	9,052,638
Disbursements:		
Public Safety	3,676,149	3,682,830
Public Works	1,317,718	1,452,305
Culture and Recreation	1,206,755	1,210,640
Community and Economic Development	193,330	389,689
General Government	536,681	598,778
Debt Service	986,215	990,835
Capital Projects	575,254	1,272,339
Total Disbursements	8,492,102	9,597,416
Increase/Decrease in Cash Basis Net Assets	(369,218)	(544,778)
Adjustment to Beginning Balance for Revolving Insurance	21,834	
Cash Basis Net Assets Beginning of Year	4,489,022	5,055,634
Cash Basis Net Assets End of Year	4,119,804	4,510,856

Business-type Activities

The cash balance of the Sewer Fund increased by $57,921 to $722,434, due to repayment of loan to the River Hills TIF. The cash balance of the Solid Waste Fund increased by only $585 to $119,479 due to payment on garbage truck. The cash balance in the Bridge Fund decreased due to lowered investment interest received and non-payment of transit fees. These fees were received in July, 2004. Transit rates (railroad tolls) will again be increased for the next fiscal year

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget was amended once during the course of the year on May 20, 2004. The City had sufficient cash balances to absorb these additional costs. None of the amendments made during the 2004 fiscal year should have any impact on the 2005 fiscal year budget.

LONG-TERM DEBT

At year-end, the City had $6,790,000 in General Obligation Bond debt, compared to $7,445,000 last year. This represents a nearly 8.8% reduction. The City's long-term debt is comprised of the following:

Issue 2002 Capital Loan Notes	$3,880,000
Issue 1996 General Obligation Bonds	$380,000
Issue 2000 General Obligation Bonds	$2,530,000
Total	$6,790,000

The 1996 General Obligation Bonds are paid from Tax Increment Financing revenue and an extraordinary tax payment by Roquette America, Inc. to pay the required debt service for floodwall improvements by the City. All revenues derived from the Twin ivers TIF district are directed toward debt service payments on the 2002 Capital Loan Notes. All revenues derived from Keokuk Senior Housing TIF are directed toward debt service payments on the 2000 General Obligation Bonds.

The City's general obligation bond rating continues to be A_3, a rating that has been assigned by Moody's Investor Services. The City's outstanding debt is well below the 5% limit of the 100% assessed property value.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Due to the continued poor economy, high unemployment regionally, the State of Iowa's fiscal woes, the additional rollback and the decrease in the Utility Excise Tax, the City has continued to experience cuts in revenues resulting in decreased operating revenues for the City, especially in general fund departmental operations. Additionally, there is some uncertainty regarding future property tax revenues resulting from 2005 State legislation which could overhaul the property tax system. This does not come into play immediately but could impact the City in future years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk's office at 415 Blondeau Street, Keokuk, Iowa 52632 or telephone at 319.524.2050.

City of Keokuk

Financial Statements

CITY OF KEOKUK

Statement of Activities and Net Assets-Cash Basis

Year Ended June 30, 2004

		Program Receipts		
	Disbursements	Charges for Service and Sales	Operating Grants Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	$ 3,676,149	35,669	301,231	-
Public works	1,317,718	66,165	994,397	-
Culture and recreation	1,206,755	66,397	127,218	-
Community and economic development	193,330	49	160,890	-
General government	536,681	84,568	22,681	-
Debt service	986,215	-	-	-
Capital projects	575,254	-	-	527,054
Total governmental activities	8,492,102	252,848	1,606,417	527,054
Business-type activities:				
Sewer	1,653,183	1,492,461	-	-
Garbage	655,674	519,145	-	-
Bridge	277,261	36,192	-	-
Total business-type activities	2,586,118	2,047,798	-	-
Total	$ 11,078,220	2,300,646	1,606,417	527,054

General Receipts:

Property tax levied for:

General purposes

Tax increment financing

Debt service

Local option sales tax

Utility excise tax

Riverboat gaming tax

Hotel/Motel tax

Other city taxes

Grants and contributions not restricted to specific purpose

Unrestricted investment earnings

Sale of property

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash basis net assets

Restricted

Streets

Debt Service

Employee Benefits

Other

Unrestricted

Total cash basis net assets

See notes to financial statements.

	Net (Disbursements) Receipts		
	Governmental Activities	Business-Type Activities	Total
	(3,339,249)	-	(3,339,249)
	(257,156)	-	(257,156)
	(1,013,140)	-	(1,013,140)
	(32,391)	-	(32,391)
	(429,432)	-	(429,432)
	(986,215)	-	(986,215)
	(48,200)	-	(48,200)
	(6,105,783)	-	(6,105,783)
	-	(160,722)	(160,722)
	-	(136,529)	(136,529)
	-	(241,069)	(241,069)
	-	(538,320)	(538,320)
	(6,105,783)	(538,320)	(6,644,103)
	2,980,650	-	2,980,650
	339,849	-	339,849
	236,235	-	236,235
	1,034,163	-	1,034,163
	706,905	-	706,905
	299,211	-	299,211
	152,195	-	152,195
	57,747	-	57,747
	144,970	-	144,970
	103,525	206,874	310,399
	33,487	-	33,487
	(352,372)	352,372	-
	5,736,565	559,246	6,295,811
	(369,218)	20,926	(348,292)
	4,489,022	5,611,556	10,100,578
$	4,119,804	5,632,482	9,752,286
	426,874	-	426,874
	501,316	-	501,316
	1,257,264	-	1,257,264
	875,696	-	875,696
	1,058,654	5,632,482	6,691,136
$	4,119,804	5,632,482	9,752,286

CITY OF KEOKUK

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
Year Ended June 30, 2004

		Special Revenue		
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits
Receipts:				
Property tax	$ 2,101,134	-	-	812,816
Tax increment financing collections	-	-	-	-
Other city tax	972,007	-	1,034,163	179,911
Licenses and permits	63,685	-	-	-
Use of money and property	176,833	-	2,411	-
Intergovernmental	343,829	951,726	-	-
Charges for service	247,638	-	-	-
Miscellaneous	142,379	-	-	-
Total receipts	4,047,505	951,726	1,036,574	992,727
Disbursements:				
Governmental activities:				
Public safety	3,674,279	-	-	-
Public works	545,762	771,690	-	-
Culture and recreation	1,206,421	-	-	-
Community and economic development	83,111	-	-	-
General government	536,495	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	6,046,068	771,690	-	-
Excess (deficiency) of receipts over (under) disbursements	(1,998,563)	180,036	1,036,574	992,727
Other financing sources (uses):				
Operating transfers in	1,515,276	-	46,621	336,854
Operating transfers out	(6,066)	(50,000)	(830,811)	(1,225,550)
Total other financing sources (uses)	1,509,210	(50,000)	(784,190)	(888,696)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(489,353)	130,036	252,384	104,031
Cash balance beginning of year	1,490,281	296,838	593,763	536,435
Cash balance end of year	$ 1,000,928	426,874	846,147	640,466
Cash basis fund balances				
Reserved:				
Debt Service	$ -	-	355,662	-
Unreserved:	1,000,928	426,874	490,485	640,466
Total cash basis fund balances	$ 1,000,928	426,874	846,147	640,466

See notes to financial statements.

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
236,235	-	66,700	3,216,885
-	-	339,849	339,849
49,442	-	14,699	2,250,222
-	-	-	63,685
-	-	37,563	216,807
-	467,409	104,096	1,867,060
-	-	6,422	254,060
-	59,645	64,664	266,688
285,677	527,054	633,993	8,475,256
-	-	-	3,674,279
-	-	-	1,317,452
-	-	-	1,206,421
-	-	110,187	193,298
-	-	-	536,495
986,215	-	-	986,215
-	575,254	-	575,254
986,215	575,254	110,187	8,489,414
(700,538)	(48,200)	523,806	(14,158)
692,204	185,385	3,333	2,779,673
-	(25,836)	(993,782)	(3,132,045)
692,204	159,549	(990,449)	(352,372)
(8,334)	111,349	(466,643)	(366,530)
153,988	(171,352)	1,589,069	4,489,022
145,654	(60,003)	1,122,426	4,122,492
145,654	-	-	501,316
-	(60,003)	1,122,426	3,621,176
145,654	(60,003)	1,122,426	4,122,492

City of Keokuk

Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets
Governmental Funds
As of and for the year ended June 30, 2004

Total governmental funds cash balances (page 20)	$	4,122,492
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:		
The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.		(2,688)
Cash basis net assets of governmental activities (page 18)	$	4,119,804
Net change in cash balances (page 20)	$	(366,530)
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:		
The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.		(2,688)
Change in cash balance of business type activities (page 18)	$	(369,218)

See accompanying independent auditor's report.

CITY OF KEOKUK

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
Year Ended June 30, 2004

	Enterprise Funds			
	Solid Waste	Sewer	Bridge	Total
Receipts:				
Charges for service	$ 517,440	1,486,473	36,192	2,040,105
Use of money, property and interest	-	8,717	198,157	206,874
Licenses and permits	-	3,700	-	3,700
Miscellaneous	1,705	2,288	-	3,993
Total receipts	519,145	1,501,178	234,349	2,254,672
Disbursements:				
Business-type activities:				
Operations	655,455	1,652,668	277,133	2,585,256
Governmental activities:				
Non-program	-	-	-	-
Total disbursements	655,455	1,652,668	277,133	2,585,256
Excess (deficiency) of receipts over (under) disbursements	(136,310)	(151,490)	(42,784)	(330,584)
Other financing sources (uses):				
Operating transfers in:	183,516	209,411	6,066	398,993
Operating transfers out:	(46,621)	-	-	(46,621)
Total other financing sources	136,895	209,411	6,066	352,372
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	585	57,921	(36,718)	21,788
Cash balance beginning of year	118,894	664,513	4,859,774	5,643,181
Cash balance end of year	$ 119,479	722,434	4,823,056	5,664,969
Cash basis bund balances				
Unreserved:	119,479	722,434	4,823,056	5,664,969
Total cash basis fund balances	119,479	722,434	4,823,056	5,664,969

See notes to financial statements.

Internal Service Fund Employee Health
247,130
-
-
-
247,130
-
250,680
250,680
(3,550)
-
-
(3,550)
(31,625)
(35,175)
(35,175)
(35,175)

City of Keokuk

Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets
Proprietary Funds
As of and for the year ended June 30, 2004

Total enterprise funds cash balances (page 22)	$	5,664,969
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:		
The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.		(32,487)
Cash basis net assets of business type activities (page 18)	$	5,632,482
Net change in cash balances (page 22)	$	21,788
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:		
The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.		(862)
Change in cash balance of business type activities (page 18)	$	20,926

See accompanying independent auditor's report.

1) Summary of Significant Accounting Policies

The City of Keokuk is a political subdivision of the State of Iowa located in Lee County. It was first incorporated in 1847 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides garbage pick-up and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Great River Regional Waste Authority and Keokuk Economic Development Corporation.

B. Basis of Presentation

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax receipts.

The Employee Benefits Funds

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

The Capital Projects Fund is used to account for construction projects and infrastructure improvements.

The City reports the following major proprietary funds:

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

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

The Bridge Fund accounts for the operation and maintenance of the City's bridge.

The City also reports the following additional proprietary fund:
An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in the general government 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's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Fair Value
U.S. government securities	$4,626,480	4,515,

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of $1,450,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

3) Long-Term Debt

Bonds Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Principal	Obligation Interest	Total
2005	685,000	306,922	991,922
2006	505,000	280,927	785,927
2007	535,000	259,727	794,727
2008	555,000	236,607	791,607
2009	470,000	212,041	682,041
2010-2014	2,710,000	718,366	3,428,366
2015-2017	1,330,000	115,087	1,445,087
Total	$6,790,000	2,129,677	8,919,677

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

Note Payable Bank

On August 20, 2003, the City entered into a note agreement with Keokuk Savings Bank in the amount of $68,934 for the purchase of a CAT End loader. The note is at 2.65% and is due in 4 equal installments on $18,389 each beginning August 21, 2004. Annual payment requirements are as follows:

June 30,	Principal	Interest	Total
2005	16,558	1,832	18,390
2006	17,001	1,388	18,389
2007	17,452	937	18,389
2008	17,923	466	18,389
Total	$68,934	4,623	73,557

4) Pension and Retirement Benefits

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The above report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th St., Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less that 17% of earnable compensation. Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2004, 2003, and 2002 were $344,249, $286,655 and $274,729 respectively, which met the required minimum contribution.

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were $141,858, $143,636, and $141,906, respectively, equal to the required contributions for each year.

5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or normal retirement. Upon retirement each employee is entitled to 100% of his accumulated sick leave up to a maximum of 71 days or 568 hours. Firemen are entitled to 900 hours of accumulated sick leave due to their longer average work week. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	$ 321,379
Sick Leave	773,172
Total	$1,094,551

This liability has been computed based on rates of pay as of June 30, 2004.

6) 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:	
	Local Option Sales Tax	$ 116,970
	Road Use Tax	50,000
	Employee Benefits	1,225,551
	Tax Increment Financing	6,045
	Emergency Fund	81,399
	Perpetual Care	9,475
	Capital Projects	25,836
		1,515,276
Special Revenue		
Local Option Sales Tax	Capital Projects	46,621
Debt Service	Local Option Sales Tax	341,607
	Tax Increment Financing	350,597
		692,204
Capital Projects	Local Option Sales Tax	185,385
Enterprise	General	6,066
	Tax Increment Financing	209,411
	Local Option Sales Tax	183,516
		398,993
	Total	$ 2,838,479

7) Risk Management

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

8) Industrial Development Revenue Bonds

The City has issued $8,745,000 of industrial development revenue bonds of which $7,810,000 is outstanding at June 30, 2004, for the purposes of constructing privately owned manufacturing and other related facilities within the City. These bonds are not either direct or contingent liabilities of the City, as the revenue form lease agreements and property purchased with the bond proceeds are pledged for the total payment of principal and interest on the bonds and the bondholders can look only to those sources for repayment.

9) Deficit Fund Balance

The Capital Projects Fund had a deficit balance of $60,003 at June 30, 2004. The deficit balance was a result of highway and airport project costs incurred prior to availability of grant funds. The deficit will be eliminated upon receipt of grant monies and transfers from local option sales tax infrastructure fund balances.

10) Commitments

The City has entered into various contracts for road and street projects and airport improvement projects. The total amount of contracts awarded is $745,285. Work completed on these contracts is $52,255 of which $35,641 has been paid as of June 30, 2004.

11) Contingency

On March 17, 1994, the City entered into a loan guaranty agreement with the Keokuk Economic Development Corporation in the amount of $500,000. The loan, of which the sole security is the guaranty of the City of Keokuk, is due February 17, 2005 in its entirety with interest paid annually at an annual rate of 6%. The balance on the loan at June 30, 2004 was $475,000.

Required Supplementary Information

CITY OF KEOKUK

Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Year Ended June 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	$ 3,216,885	-	-
Tax increment financing collections	339,849	-	-
Other city tax	2,250,222	-	-
Licenses and permits	63,685	3,700	-
Use of money and property	216,807	206,874	-
Intergovernmental	1,867,060	-	-
Charges for services	254,060	2,287,235	247,130
Miscellaneous	266,688	3,993	-
Total receipts	8,475,256	2,501,802	247,130
Disbursements:			
Public safety	3,674,279	-	-
Public works	1,317,452	-	-
Culture and recreation	1,206,421	-	-
Community and economic development	193,298	-	-
General government	536,495	-	-
Debt service	986,215	-	-
Capital projects	575,254	-	-
Business-type	-	2,585,256	-
Non-program	-	250,680	250,680
Total disbursements	8,489,414	2,835,936	250,680
Excess (deficiency) of receipts over (under) disbursements	(14,158)	(334,134)	(3,550)
Other financing sources, net	(352,372)	352,372	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(366,530)	18,238	(3,550)
Balances beginning of year	4,489,022	5,611,556	(31,625)
Balances end of year	$ 4,122,492	5,629,794	(35,175)

See accompanying independent auditor's report.

Net	Budgeted Original	Amounts Final	Final to Actual Variance - Positive (Negative)
3,216,885	3,108,550	3,108,550	108,335
339,849	342,423	336,205	3,644
2,250,222	2,308,025	2,180,839	69,383
67,385	117,460	128,144	(60,759)
423,681	445,262	395,454	28,227
1,867,060	1,413,117	2,277,534	(410,474)
2,294,165	2,211,741	2,312,785	(18,620)
270,681	124,778	503,221	(232,540)
10,729,928	10,071,356	11,242,732	(512,804)
3,674,279	3,484,210	3,953,123	278,844
1,317,452	1,271,510	1,489,128	171,676
1,206,421	1,118,386	1,244,508	38,087
193,298	190,550	274,706	81,408
536,495	893,168	582,795	46,300
986,215	986,816	986,816	601
575,254	653,000	951,117	375,863
2,585,256	2,730,222	3,083,956	498,700
-	-	-	-
11,074,670	11,327,862	12,566,149	1,491,479
(344,742)	(1,256,506)	(1,323,417)	978,675
-	-	-	-
(344,742)	(1,256,506)	(1,323,417)	978,675
10,132,203	10,521,495	10,521,495	(389,282)
9,787,461	9,264,989	9,198,078	589,393

City of Keokuk

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, one budget amendment increased budgeted disbursements by $1,238,287. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in the general government or business-type functions.

Other Supplementary Information

CITY OF KEOKUK

Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
Year Ended June 30, 2004

	Special		
	Economic Development	Fire/Police Retirement	Tax Increment Financing
Receipts:			
Property tax	$ -	-	-
Tax increment financing collections			339,849
Other city tax:			
Utility tax replacement excise tax	-	-	-
Use of money and property:			
Interest on investments	-	37,563	-
Intergovernmental:			
Grant	104,096	-	-
Charge for service	-	-	-
Miscellaneous	28,152	-	36,512
Total receipts	132,248	37,563	376,361
Disbursements:			
Community and economic development	110,187	-	-
Excess of receipts over disbursements	22,061	37,563	376,361
Other financing sources (uses):			
Operating transfers in:	4,531	-	(1,198)
Operating transfers out:	-	(336,855)	(566,053)
Total other financing sources (uses)	4,531	(336,855)	(567,251)
Excess (deficiency) of receipts over (under) disbursements and other financing uses	26,592	(299,292)	(190,890)
Cash balance beginning of year	93,825	916,090	195,106
Cash balance end of year	$ 120,417	616,798	4,216
Cash Basis Fund Balances			
Unreserved:			
Special Revenue Funds	$ 120,417	616,798	4,216
Permanent Funds	-	-	-
Total cash basis fund balances	$ 120,417	616,798	4,216

See accompanying independent auditor's report.

Revenue	Permanent	
Emergency	Cemetery Perpetual Care	Total
66,700	-	66,700
		339,849
14,699	-	14,699
-	-	37,563
-	-	104,096
-	6,422	6,422
-	-	64,664
81,399	6,422	633,993
-	-	110,187
81,399	6,422	523,806
-	-	3,333
(81,399)	(9,475)	(993,782)
(81,399)	(9,475)	(990,449)
-	(3,053)	(466,643)
-	384,048	1,589,069
-	380,995	1,122,426
-	-	741,431
-	380,995	380,995
-	380,995	1,122,426

CITY OF KEOKUK

Schedule of Indebtedness

Year Ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate Purpose	Jun 1, 1996	4.85-5.00 %	1,000,000
Corporate Purpose	Aug 1, 2000	4.80-5.30	3,000,000
Refunding Capital Notes	May 1, 2002	3.15-4.80	4,685,000
Note Payable bank:			
CAT End Loader	August 20, 2003	2.65 %	68,934

See accompanying independent auditor's report.

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
	465,000	-	85,000	380,000	22,903	-
	2,695,000	-	165,000	2,530,000	134,505	-
	4,285,000	-	405,000	3,880,000	171,407	-
$	7,445,000	-	655,000	6,790,000	328,815	-
$	-	68,934	-	68,934	-	-

CITY OF KEOKUK

Bond and Note Maturities

June 30, 2004

	General Obligation Bonds					
	Corporate Purpose		Corporate Purpose		Refunding	
Year	Issued June 1, 1996		Issued August 1, 2000		Issued May 1, 2001	
Ending	Interest		Interest		Interest	
June 30,	Rates	Amount	Rates	Amount	Rates	Amount
2005	4.85 %	$ 90,000	4.80	$ 175,000	3.15	$ 420,000
2006	5.00	90,000	4.80	185,000	3.40	230,000
2007	5.00	100,000	4.80	195,000	3.65	240,000
2008	5.00	100,000	4.85	205,000	3.85	250,000
2009		-	4.95	215,000	4.00	255,000
2010		-	5.00	225,000	4.10	265,000
2011		-	5.05	240,000	4.20	280,000
2012		-	5.15	250,000	4.30	290,000
2013		-	5.20	265,000	4.35	300,000
2014		-	5.25	280,000	4.45	315,000
2015		-	5.30	295,000	4.60	330,000
2016		-		-	4.70	345,000
2017		-		-	4.80	360,000
Total		$ 380,000		$ 2,530,000		$ 3,880,000

See accompanying independent auditor's report.

Schedule 4

City of Keokuk

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

For the Last Four Years

		2004	2003	2002	2001
Receipts:					
Property and other City tax	$	5,467,107	5,715,165	5,541,976	5,296,467
Tax increment financing collections		339,849	318,243	597,814	334,655
Licenses and permits		63,685	74,946	61,428	50,604
Use of money and property		216,807	217,866	355,706	593,703
Intergovernmental		1,867,060	2,385,411	1,568,827	1,947,196
Charges for service		254,060	184,625	174,653	240,869
Special assessments		-	1,785	1,827	---
Miscellaneous		266,688	262,872	319,983	398,046
Total		8,475,256	9,160,913	8,622,214	8,861,540
Disbursements:					
Public safety		3,674,279	3,682,830	3,273,464	3,184,524
Public works		1,317,452	1,452,305	1,507,669	1,519,713
Culture and recreation		1,206,421	1,210,640	1,150,309	1,044,485
Community and economic development		193,298	389,689	367,332	334,635
General government		536,495	598,778	551,613	492,300
Debt service		986,215	990,835	1,401,291	1,242,194
Capital projects		575,254	1,272,339	2,848,468	1,706,208
Total	$	8,489,414	9,597,416	11,100,146	9,524,059

See accompanying independent auditor's report.

City of Keokuk
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
Department of Transportation:			
Airport Improvement Program	20.106	3-19-0050-10	$ 24,608
		3-19-0050-11	177,942
		3-19-0050-12	65,252
			267,802
Indirect:			
Department of Justice:			
Governor's Office of Drug Control Policy:			
Byrne Formula Grant Program	16.579	02A-0213	6,383
		03A-0217	148,016
			154,399
Direct:			
U.S. Department of Justice			
Office of Justice Programs			
Local Law Enforcement Block Grant Program	16.592	2003-LB-BX-0063	27,827
Indirect:			
Division of Criminal and Juvenile Justice			
Planning:			
Juvenile Accountability Incentive Block Grant Program	16.523	JAB-504-68	4,194
Department of Transportation:			
Governor's Traffic Safety Bureau:			
State and Community Highway Safety Program	20.600	Alcohol, Pap 04-02, Task 06	9,825
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	PAP 03-410, Task 23	4,800
Incentives to Prevent OMVI	20.605	PAP 04-163, Task 40	4,439
Iowa Department of Transportation:			
Highway Planning and Construction Program	20.205	STPE-3942(3)-8V-56	5,005
		STPE-U-3942(607)-70-76	35,749
			40,754
Federal Emergency Management Agency:			
Assistance to Firefighters Grant Program	83.554	EMW-2002-FG-02385	46,969
Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Home Investment Partnerships Program	14.239	01-HM-106-25	64,903
Total			$ 625,912

Basis of Presentation-

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

See accompanying independent auditor's report.

City of Keokuk

JOHN A. RUSSELL, CPA PC

Certified Public Accountant

1013 Concert Street
Keokuk, IA 52632

Phone: 319-524-2695
FAX: 319-524-8557

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 Keokuk, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated February 11, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 City of Keokuk's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance 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 noncompliance that are required to be reported under Government Auditing Standards.

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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Keokuk'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Keokuk and other parties to whom the City of Keokuk 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 assistance extended to us by personnel of the City of Keokuk 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.

John A. Russell CPA PC

JOHN A. RUSSELL, CPA PC

February 11, 2005

City of Keokuk

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

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

To the Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Keokuk, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The City of Keokuk's major federal program is identified in Part 1 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable of its major federal program is the responsibility of the City of Keokuk's management. Our responsibility is to express an opinion on the City of Keokuk's compliance based on our audit.

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

In our opinion the City of Keokuk complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

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

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

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

John A. Russell CPA PC

JOHN A. RUSSELL, CPA PC

February 11, 2005

City of Keokuk

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

(a.) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
(b.) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
(c.) The audit did not disclose any non-compliance which is material to the financial statements.
(d.) No reportable conditions in internal control over the major program was disclosed by the audit of the financial statements.
(e.) An unqualified opinion was issued on compliance with requirements applicable to the major program.
(f.) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510 (a).
(g.) The major program was CFDA Number 20.10G Airport Improvement Program.
(h.) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.
(i.) The City of Keokuk did qualify as a low-risk auditee.

City of Keokuk

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:
No matters were reported.

REPORTABLE CONDITIONS:
No material weaknesses in internal control over financial reporting were identified.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:
No matters were reported.

REPORTABLE CONDITIONS:
No material weaknesses in internal control over financial reporting were identified.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-04 Official Depository Banks – A resolution naming official depositories has been adopted by the City Council. The resolutions do not include funds of the Keokuk Municipal Water Works. The maximum deposit amounts were not exceeded during the year ended June 30, 2004.

Bank	Maximum Authorized Deposit
State Central Bank, Keokuk, Iowa	$ 8,000,000
Keokuk Savings Bank & Trust Co., Keokuk, Iowa	8,000,000
First Community Bank, Keokuk, Iowa	8,000,000
Iowa Public Agency Investment Trust	8,000,000

IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004, did not exceed the amounts budgeted.

IV-C-04 Questionable Expenditures – No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

Part IV: Other Findings Related to Required Statutory Reporting (cont):

IV-D-04 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-04 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Board minutes, but were not.

IV-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.