

City of Clear Lake, Iowa

Financial and Compliance Report

Year Ended June 30, 2005

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City of Clear Lake, Iowa

City Officials
June 30, 2005

		Term Expiration Date Of Elected Officials
Kirk Kraft	Mayor	12-31-05
Dave Solberg	1st Ward City Council Member	12-31-05
Ned Wicker, Jr.	2nd Ward City Council Member	12-31-05
Bill Yohn	3rd Ward City Council Member	12-31-07
Julie Steinberg	At Large City Council Member	12-31-07
Rod Pump	At Large City Council Member	12-31-05

Park and Recreation Board

Dale Entner
Tim Fyfe
Kay Bacon
Marsha Cory
Val Burtness
Shane Cooney
Ron Barracks
Vicki Hensley - Director
Sue Keefe - Assistant Director

Library Board

Mary Alexander
Matt Ritter
Dolores Eliassen
Cheryl Sorbo
Jackie Lowry
Ann Bagby
Lon Rosenthal
Jean Casey - Director
Elizabeth Den Hartog - Assistant Director

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Clear Lake, Iowa

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 Clear Lake, Iowa as of and for the year ended June 30, 2005, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clear Lake, Iowa as of June 30, 2005, and the respective changes in financial position and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 and budgetary comparison information on pages 45 through 47 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Clear Lake, Iowa's basic financial statements. The combining nonmajor fund financial statements and other schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Davenport, Iowa
September 30, 2005

City of Clear Lake, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

It is an honor to present to you the financial picture of the City of Clear Lake, Iowa. We offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Clear Lake, Iowa for the fiscal year ended June 30, 2005.

Financial Highlights

The assets of the City of Clear Lake exceeded its liabilities at the close of the most recent fiscal year by \$28,946,572 (net assets). Of this amount, \$5,020,344 may be used to meet the government's ongoing obligations to citizens and creditors. For the fiscal year ended June 30, 2004, assets exceeded liabilities by \$27,584,753. Of this amount, \$5,168,240 was unrestricted.

The City's total net assets increased by \$1,361,819 during the fiscal year ended June 30, 2005. Governmental activities increased \$977,772 and business-type activities increased \$384,047. For fiscal year ended June 30, 2004, total net assets increased \$2,346,526. Governmental activities increased \$1,561,052 and business-type activities increased \$785,474.

As of the close of the current fiscal year, the City of Clear Lake's governmental funds reported combined ending fund balances of \$3,888,351, an increase of \$78,825 in comparison with the prior year. Approximately 99.9 percent of this total amount, \$3,884,375, is unreserved fund balance which is available for spending at the City's discretion. As of the close of the fiscal year June 30, 2004, governmental funds reported combined ending fund balances of \$3,809,526, of which \$3,709,312 or 97.4 percent is unreserved.

At the end of the current fiscal year, the City's unreserved fund balance for the General Fund was \$2,221,373 or 66 percent of total General Fund expenditures. The unreserved fund balance for the General Fund as of June 30, 2004 was \$2,083,920 or 53 percent of total General Fund expenditures.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the City of Clear Lake, Iowa's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the City of Clear Lake, Iowa's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Clear Lake, Iowa's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

City of Clear Lake, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

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 underlying event giving rise to 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 only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguished functions of the City of Clear Lake that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Clear Lake include general government, public safety, public works, health and social services, culture and recreation and community and economic development. The business-type activities of the City of Clear Lake include water, sewer rental, storm water and solid waste.

The Clear Lake Library Foundation is incorporated and is legally separate from the City. The financial activity of the Foundation is included in the City's financial statements as a blended component unit.

The government-wide financial statements can be found on pages 14 through 17 of this report.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Clear Lake, Iowa like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Clear Lake, Iowa maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Tax Increment Financing Fund, Road Use Tax Fund, Employee Benefits Fund, the Capital Projects Fund and the Debt Service Fund which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

City of Clear Lake, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

The City adopts an annual appropriated budget which includes all of its funds. A budgetary comparison statement has been provided as required supplementary information to demonstrate compliance with this budget on pages 45 through 47.

The basic governmental fund financial statements can be found on pages 18 through 23 of this report.

Proprietary funds – The City of Clear Lake maintains only enterprise funds which are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Clear Lake maintains four enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund, Sewer Rental Fund, Solid Waste Fund and Storm Water Fund, which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 24 through 27 of this report.

Notes to basic financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to basic financial statements and the required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's total net assets have increased from a year ago. Table 1 reflects total net assets of \$28,946,572, which represents an increase of \$1,361,819 from 2004.

City of Clear Lake, Iowa

Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005

Of the City of Clear Lake's net assets, 82.6 percent reflects its investment in capital assets (e.g., land, construction-in-progress, buildings and improvements, infrastructure and machinery and equipment), less depreciation and any related debt used to acquire those assets that is still outstanding. The City of Clear Lake uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported, net of related debt, it should be noted the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1 - City of Clear Lake's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$ 8,559,256	\$ 8,261,230	\$ 1,012,132	\$ 1,153,443	\$ 9,571,388	\$ 9,414,673
Capital assets net of depreciation	15,677,062	15,299,781	11,247,166	10,700,732	26,924,228	26,000,513
Total assets	24,236,318	23,561,011	12,259,298	11,854,175	36,495,616	35,415,186
Liabilities						
Current liabilities	4,682,805	4,580,270	391,239	250,163	5,074,044	4,830,433
Long-term liabilities outstanding	2,140,000	2,545,000	335,000	455,000	2,475,000	3,000,000
Total liabilities	6,822,805	7,125,270	726,239	705,163	7,549,044	7,830,433
Net Assets						
Invested in capital assets, net of related debt	13,132,062	12,239,781	10,792,166	10,135,732	23,924,228	22,375,513
Restricted	2,000	41,000	-	-	2,000	41,000
Unrestricted	4,279,451	4,154,960	740,893	1,013,280	5,020,344	5,168,240
Total net assets	\$ 17,413,513	\$ 16,435,741	\$ 11,533,059	\$ 11,149,012	\$ 28,946,572	\$ 27,584,753

A restricted portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$5,020,344, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Clear Lake, Iowa is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

The City's total net assets increased by \$1,361,819 during the current fiscal year. The governmental activities' net assets increased by \$977,772. The total business-type activities' net assets increased by \$384,047. This increase was due to the completion of several construction projects.

Table 2 highlights the City's revenues and expenses for the fiscal year ended June 30, 2005. These two main components are subtracted to yield the change in net assets. This table utilizes the full accrual method of accounting.

Revenue is further divided into two major components: Program Revenue and General Revenue. Program revenue is defined as charges for sales and services, operating grants and contributions and capital grants and contributions. General revenue includes taxes, investment income and other unrestricted revenue sources.

City of Clear Lake, Iowa

Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005

Table 2 - City of Clear Lake's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 562,361	\$ 670,564	\$ 1,470,140	\$ 1,504,126	\$ 2,032,501	\$ 2,174,690
Operating grants and contributions	776,161	731,530	-	-	776,161	731,530
Capital grants and contributions	152,585	576,293	84,910	326,280	237,495	902,573
General revenues:						
Property taxes	3,186,780	2,789,357	-	-	3,186,780	2,789,357
Other taxes	1,070,150	1,466,994	-	-	1,070,150	1,466,994
Intergovernmental	-	17,867	-	-	-	17,867
Investment earnings	87,909	50,660	19,588	28,495	107,497	79,155
Miscellaneous	-	-	-	2,088	-	2,088
Total revenues	5,835,946	6,303,265	1,574,638	1,860,989	7,410,584	8,164,254
Expenses:						
General government	580,841	637,908	-	-	580,841	637,908
Public safety	1,454,035	1,411,957	-	-	1,454,035	1,411,957
Public works	1,199,597	1,040,968	-	-	1,199,597	1,040,968
Health and social services	19,074	14,411	-	-	19,074	14,411
Culture and recreation	714,333	658,881	-	-	714,333	658,881
Community and economic development	536,133	641,594	-	-	536,133	641,594
Interest on long-term debt	128,062	150,918	-	-	128,062	150,918
Water	-	-	705,567	631,386	705,567	631,386
Sewer rental	-	-	222,352	186,202	222,352	186,202
Storm water	-	-	137,756	104,232	137,756	104,232
Solid waste	-	-	351,015	339,271	351,015	339,271
Total expenses	4,632,075	4,556,637	1,416,690	1,261,091	6,048,765	5,817,728
Excess of revenues over expenses before transfers	1,203,871	1,746,628	157,948	599,898	1,361,819	2,346,526
Transfers	(226,099)	(185,576)	226,099	185,576	-	-
Change in net assets	977,772	1,561,052	384,047	785,474	1,361,819	2,346,526
Net assets, beginning of year	16,435,741	14,874,689	11,149,012	10,363,538	27,584,753	25,238,227
Net assets, end of year	\$ 17,413,513	\$ 16,435,741	\$ 11,533,059	\$ 11,149,012	\$ 28,946,572	\$ 27,584,753

City of Clear Lake, Iowa

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005**

Table 3 below discloses cost of services for governmental activities. The total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Succinctly put, net costs are costs that must be covered by local taxes or other general revenue or transfers.

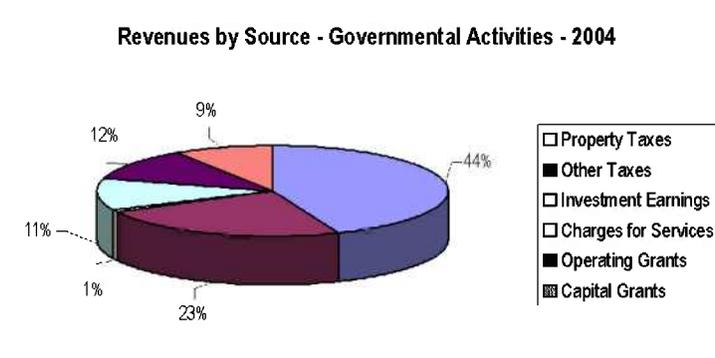
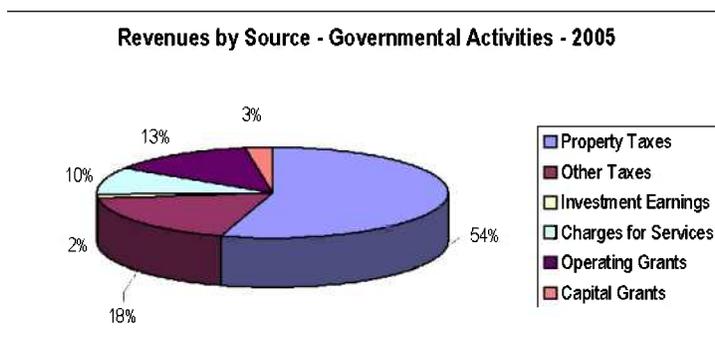
Table 3 - Governmental Activities

Programs	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Public safety	\$ 1,454,035	\$ (1,381,565)	\$ 1,411,957	\$ (1,350,734)
Public works	1,199,597	(117,749)	1,040,968	352,087
Health and social services	19,074	(15,654)	14,411	(9,577)
Culture and recreation	714,333	(569,303)	658,881	(388,723)
Community and economic development	536,133	(376,755)	641,594	(418,973)
General government	580,841	(551,880)	637,908	(611,412)
Interest on long-term debt	128,062	(128,062)	150,918	(150,918)
Total	\$ 4,632,075	\$ (3,140,968)	\$ 4,556,637	\$ (2,578,250)

Net cost of services is 67.8 percent of total cost of services in 2005 as compared to 63 percent in 2004. As expected, this reflects a continued reliance on taxes and other general revenue sources to fund the cost of services.

Governmental Activities

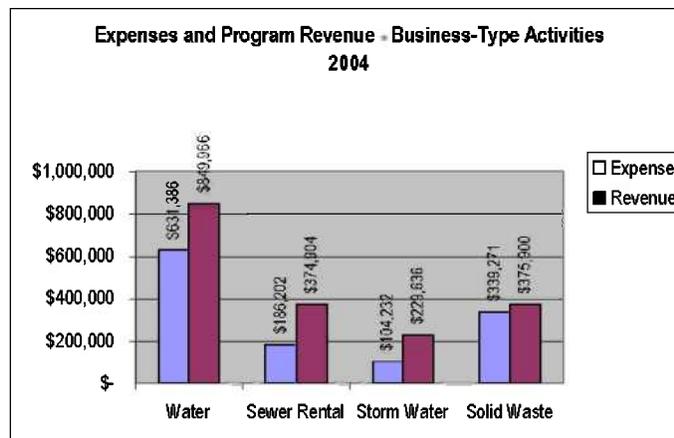
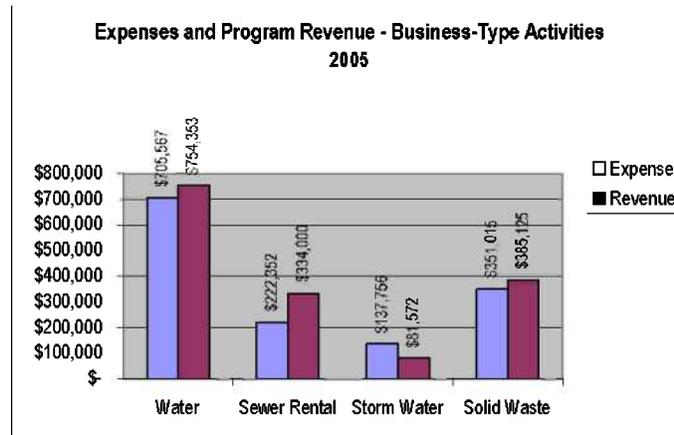
The graph below shows the percentage of the total governmental activities revenues allocated by each revenue type:



City of Clear Lake, Iowa

Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005

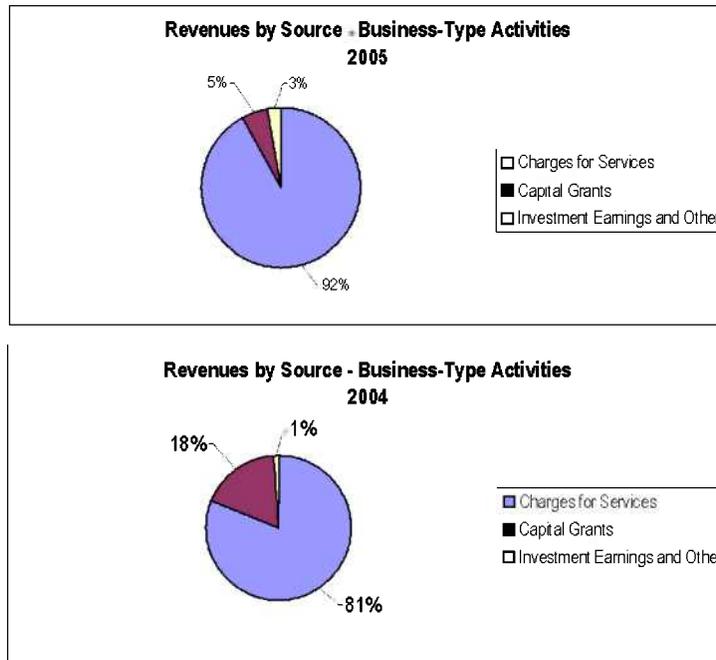
Total business-type activities' revenue for the fiscal year was \$1,574,638. All but \$19,588 of this revenue was generated for specific business-type activity expenses. The graph below shows a comparison between the business-type activity expenditures and program revenues.



City of Clear Lake, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

The graph below shows the breakdown of revenues by source for the business-type activities.



Business-Type Activities

Business-type activities increased the City of Clear Lake's net assets by \$384,047 accounting for 28.2 percent of the growth in the City's net assets.

Financial Analysis of the Government's Funds

As noted earlier, the City of Clear Lake, Iowa uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the City of Clear Lake, Iowa's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Clear Lake, Iowa's governmental funds reported combined ending fund balances of \$3,888,351, an increase of \$78,825 in comparison with the prior year. Approximately 99.9 percent of this total amount, \$3,884,375, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

City of Clear Lake, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,221,373 while total fund balance reached \$2,223,349. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to fund expenditures. Unreserved fund balance represents 66 percent of total General Fund expenditures, while total fund balance represents approximately 66.3 percent of that same amount.

The fund balance of the City's General Fund increased by \$85,585 during the current fiscal year. This was due to construction projects delays that caused the completion or start of the project until after the end of the fiscal year.

The Tax Increment Financing (TIF) Fund accounts for revenues collected to be used for economic purposes. Fund balance decreased \$10,090 from \$39,696 in 2004 to \$29,606 in 2005 primarily due to the repayment of a bond issue which required the City to reserve a portion of the fund balance.

The Road Use Fund is to maintain and improve City streets. Fund balance increased \$124,988 from \$672,770 in 2004 to \$797,758 in 2005 primarily due to construction projects not completed prior to the end of the fiscal year and actual expenditures under budget.

The Employee Benefits Fund accounts for the employees' group life and health insurance. Fund balance increased by \$96,635 from \$248,964 in 2004 to \$345,599 in 2005. This increase was due to the actual health insurance premium increase was less than anticipated.

The Capital Project Fund balance decreased \$169,227 from \$165,524 in 2004 to a deficit of (\$3,703) in 2005. This decrease was due to a delay in issuing bonds for capital projects.

The Debt Service Fund balance decreased \$65,289 from \$134,865 in 2004 to \$69,576 in 2005. This decrease was due to the use of reserves to repay debt.

Proprietary funds – The City of Clear Lake, Iowa's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

Formal and legal budgetary control is based on nonmajor classes of disbursements known as functions, not by fund or fund type.

Differences between the original budget and the final amended budget can be summarized as follows:

- The total original revenue budget of \$7,469,970 was increased to \$8,033,972 (an increase of \$564,002) mainly due to an increase in intergovernmental revenue.
- The total original expenditure budget of \$8,706,892 was increased to \$10,355,342 (an increase of \$1,648,450) mainly for capital projects, CDBG grant expenditures and refunding of two bond issues.
- The total original budget for other financing sources of \$950,000 was increased to \$1,527,000 (an increase of \$577,000) mainly due to refunding two bond issues and increasing transfers between the funds.

During the year, however, revenues were less than budgetary revenues and expenditures were less than budgetary expenditures.

City of Clear Lake, Iowa

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005**

Capital Asset and Debt Administration

Capital assets - The City of Clear Lake's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounted to \$26,924,228 (net of accumulated depreciation). This investment in capital assets includes land, construction-in-progress, buildings and improvements, infrastructure, and machinery and equipment. The total increase in capital assets for the current year was 3.6 percent (a 2.5 percent increase for governmental activities and a 5.1 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the North 5th Street project, the 10th Avenue North sidewalks, the 26th Avenue South overlay, the South 4th Street project and the Highway 122 water main extension.

Additional information on the City of Clear Lake's capital assets can be found in Note 3 of this report.

City of Clear Lake's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 2,392,922	\$ 2,351,294	\$ 331,716	\$ 328,516	\$ 2,724,638	\$ 2,679,810
Construction-in-progress	359,977	740,173	482,275	132,822	842,252	872,995
Buildings and improvements	4,840,294	4,681,406	1,228,527	1,228,527	6,068,821	5,909,933
Infrastructure	15,768,204	14,657,925	14,284,010	13,777,653	30,052,214	28,435,578
Machinery and equipment	2,765,760	2,768,655	806,062	806,062	3,571,822	3,574,717
Accumulated depreciation	(10,450,095)	(9,899,672)	(5,885,424)	(5,572,848)	(16,335,519)	(15,472,520)
Total	\$ 15,677,062	\$ 15,299,781	\$ 11,247,166	\$ 10,700,732	\$ 26,924,228	\$ 26,000,513

Debt - As of June 30, 2005, the City of Clear Lake, Iowa had general obligation bonds outstanding totaling \$3,000,000. In the current year, the City paid \$625,000 in principal and \$152,422 in interest on outstanding debt.

Table 5 - Outstanding Debt, June 30

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 2,545,000	\$ 2,995,000	\$ 455,000	\$ 565,000	\$ 3,000,000	\$ 3,560,000
Revenue bonds	-	65,000	-	-	-	65,000
	\$ 2,545,000	\$ 3,060,000	\$ 455,000	\$ 565,000	\$ 3,000,000	\$ 3,625,000

Additional information about the City's long-term debt can be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Real property assessed values have continued to rise with tax year 2005 at \$544,087,002.

The unemployment rate for the Cerro Gordo County is 4.7%. This is an increase from a rate of 3.9% a year ago. This compares unfavorably to the state's average unemployment rate of 4.6%.

City of Clear Lake, Iowa

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005**

Requests for Information

These financial statements and discussions are designed to provide our citizens, taxpayers, investors and creditors with a complete disclosure of the City's finances and to demonstrate a high degree of accountability for the public dollars entrusted to us. If you have questions about this report or need additional information, please write Linda Nelson, Finance Officer, City of Clear Lake, 15 North 6th Street, PO Box 185, Clear Lake, Iowa 50428.

City of Clear Lake, Iowa

Statement of Net Assets
June 30, 2005

Assets	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash	\$ 848,335	\$ 255,463	\$ 1,103,798
Certificates of deposit	3,071,000	504,000	3,575,000
Investments	45,396	-	45,396
Receivables, net of allowances for uncollectible amounts:			
Property taxes	3,659,428	-	3,659,428
Assessments	507,766	-	507,766
Accounts, consumers	1,831	152,796	154,627
Unbilled usage	-	30,779	30,779
Other	150,802	-	150,802
Due from other governments	273,647	-	273,647
Internal balances	(925)	925	-
Inventories	1,976	68,169	70,145
Total current assets	8,559,256	1,012,132	9,571,388
Noncurrent assets:			
Capital assets:			
Nondepreciable:			
Land	2,392,922	331,716	2,724,638
Construction-in-progress	359,977	482,275	842,252
Depreciable:			
Buildings and improvements	4,840,294	1,228,527	6,068,821
Infrastructure	15,768,204	14,284,010	30,052,214
Machinery and equipment	2,765,760	806,062	3,571,822
Accumulated depreciation	(10,450,095)	(5,885,424)	(16,335,519)
Total noncurrent assets	15,677,062	11,247,166	26,924,228
Total assets	\$ 24,236,318	\$ 12,259,298	\$ 36,495,616

See Notes to Basic Financial Statements.

Liabilities	Governmental Activities	Business-Type Activities	Total
Current:			
Accounts and contracts payable	\$ 311,611	\$ 194,144	\$ 505,755
Accrued liabilities	130,279	26,136	156,415
Deposits	-	28,836	28,836
Compensated absences	123,180	22,123	145,303
Deferred revenue	3,712,735	-	3,712,735
Current maturities of long-term debt	405,000	120,000	525,000
Total current liabilities	4,682,805	391,239	5,074,044
Noncurrent, general obligation loan notes, net of current maturities	2,140,000	335,000	2,475,000
Total liabilities	6,822,805	726,239	7,549,044
 Net Assets			
Invested in capital assets, net of related debt	13,132,062	10,792,166	23,924,228
Restricted for endowments	2,000	-	2,000
Unreserved	4,279,451	740,893	5,020,344
Total net assets	17,413,513	11,533,059	28,946,572
 Total liabilities and net assets	\$ 24,236,318	\$ 12,259,298	\$ 36,495,616

City of Clear Lake, Iowa

Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
Public safety	\$ 1,454,035	\$ 57,904	\$ 6,987	\$ 7,579
Public works	1,199,597	296,893	678,275	106,680
Health and social services	19,074	3,420	-	-
Culture and recreation	714,333	123,281	16,264	5,485
Community and economic development	536,133	54,060	72,477	32,841
General government	580,841	26,803	2,158	-
Interest on long-term debt	128,062	-	-	-
Total governmental activities	4,632,075	562,361	776,161	152,585
Business-type activities:				
Water	705,567	708,817	-	45,536
Sewer rental	222,352	297,826	-	36,174
Storm water	137,756	78,372	-	3,200
Solid waste	351,015	385,125	-	-
Total business-type activities	1,416,690	1,470,140	-	84,910
Total primary government	\$ 6,048,765	\$ 2,032,501	\$ 776,161	\$ 237,495

General Revenues

Taxes:

Property taxes

Other taxes

Investment earnings

Transfers

Total general revenues and transfers

Changes in net assets

Net assets beginning of year

Net assets end of year

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (1,381,565)	\$ -	\$ (1,381,565)
(117,749)	-	(117,749)
(15,654)	-	(15,654)
(569,303)	-	(569,303)
(376,755)	-	(376,755)
(551,880)	-	(551,880)
(128,062)	-	(128,062)
<u>(3,140,968)</u>	<u>-</u>	<u>(3,140,968)</u>
-	48,786	48,786
-	111,648	111,648
-	(56,184)	(56,184)
-	34,110	34,110
<u>-</u>	<u>138,360</u>	<u>138,360</u>
<u>(3,140,968)</u>	<u>138,360</u>	<u>(3,002,608)</u>
3,186,780	-	3,186,780
1,070,150	-	1,070,150
87,909	19,588	107,497
(226,099)	226,099	-
<u>4,118,740</u>	<u>245,687</u>	<u>4,364,427</u>
977,772	384,047	1,361,819
<u>16,435,741</u>	<u>11,149,012</u>	<u>27,584,753</u>
<u>\$ 17,413,513</u>	<u>\$ 11,533,059</u>	<u>\$ 28,946,572</u>

City of Clear Lake, Iowa

Balance Sheet
Governmental Funds
June 30, 2005

Assets	General	Tax Increment Financing	Road Use Tax	Employee Benefits
Cash and cash equivalents	\$ 597,876	\$ 963	\$ 70,435	\$ 74,072
Certificates of deposit	1,661,300	26,000	707,000	264,000
Investments	-	-	-	-
Receivables, net of allowances for uncollectible amounts:				
Property taxes	2,115,924	717,017	-	445,411
Special assessments	507,766	-	-	-
Accounts, consumers	1,831	-	-	-
Other	144,720	-	-	13
Due from other governments	218,839	-	53,801	-
Due from other funds	-	-	-	-
Inventories	1,976	-	-	-
Total assets	\$ 5,250,232	\$ 743,980	\$ 831,236	\$ 783,496
Liabilities and Fund Balances				
Liabilities:				
Accounts and contracts payable	\$ 188,826	\$ -	\$ 27,005	\$ -
Accrued liabilities	116,700	-	4,532	59
Due to other funds	13,832	-	1,941	-
Deferred revenue	2,707,525	714,374	-	437,838
Total liabilities	3,026,883	714,374	33,478	437,897
Fund Balance (Deficit):				
Reserved for:				
Inventories	1,976	-	-	-
Endowments	-	-	-	-
Unreserved, reported in:				
General Fund	2,221,373	-	-	-
Special revenue funds	-	29,606	797,758	345,599
Debt Service Fund	-	-	-	-
Capital Projects Fund	-	-	-	-
Total fund balances (deficit)	2,223,349	29,606	797,758	345,599
Total liabilities and fund balances (deficit)	\$ 5,250,232	\$ 743,980	\$ 831,236	\$ 783,496

See Notes to Basic Financial Statements.

	Capital Projects	Debt Service	Other Nonmajor Governmental	Total Governmental Funds
\$	75,299	\$ 1,242	\$ 28,448	\$ 848,335
	-	64,700	348,000	3,071,000
	-	-	45,396	45,396
	-	292,211	88,865	3,659,428
	-	-	-	507,766
	-	-	-	1,831
	-	69	6,000	150,802
	1,007	-	-	273,647
	14,848	-	-	14,848
	-	-	-	1,976
<u>\$</u>	<u>91,154</u>	<u>\$ 358,222</u>	<u>\$ 516,709</u>	<u>\$ 8,575,029</u>

\$	93,850	\$ -	\$ 1,930	\$ 311,611
	-	-	-	121,291
	-	-	-	15,773
	1,007	288,646	88,613	4,238,003
<u>\$</u>	<u>94,857</u>	<u>288,646</u>	<u>90,543</u>	<u>4,686,678</u>

	-	-	-	1,976
	-	-	2,000	2,000
	-	-	-	2,221,373
	-	-	424,166	1,597,129
	-	69,576	-	69,576
	(3,703)	-	-	(3,703)
<u>\$</u>	<u>(3,703)</u>	<u>69,576</u>	<u>426,166</u>	<u>3,888,351</u>

<u>\$</u>	<u>91,154</u>	<u>\$ 358,222</u>	<u>\$ 516,709</u>	<u>\$ 8,575,029</u>
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City of Clear Lake, Iowa

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2005

Total governmental fund balances	\$ 3,888,351
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Land	2,392,922
Buildings and improvements	4,840,294
Infrastructure	15,768,204
Machinery and equipment	2,765,760
Construction in progress	359,977
Accumulated depreciation	<u>(10,450,095)</u>
	<u>15,677,062</u>
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	<u>525,268</u>
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Compensated absences, current	(123,180)
Accrued interest payable	(8,988)
General obligation loan notes, current	(405,000)
General obligation loan notes, noncurrent	<u>(2,140,000)</u>
	<u>(2,677,168)</u>
Net assets of governmental activities	<u><u>\$ 17,413,513</u></u>

See Notes to Basic Financial Statements.

City of Clear Lake, Iowa

**Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended June 30, 2005**

	General	Tax Increment Financing	Road Use Tax	Employee Benefits
Revenues:				
Property taxes	\$ 1,852,499	\$ 570,640	\$ -	\$ 497,337
Special assessments	270,686	-	-	-
Other taxes	1,059,320	-	-	7,423
Licenses and permits	86,559	-	-	-
Intergovernmental	115,115	-	678,276	-
Charges for services	75,545	-	-	-
Fines and forfeitures	39,330	-	-	-
Use of money and property	74,247	3,612	-	5,559
Miscellaneous	78,993	-	-	-
Total revenue	3,652,294	574,252	678,276	510,319
Expenditures:				
Current:				
Public safety	1,193,104	-	-	234,286
Public works	392,682	-	257,719	96,865
Health and social services	19,072	-	-	2
Culture and recreation	578,415	-	-	43,676
Community and economic development	259,739	65,773	-	5,906
General government	533,698	-	-	32,949
Capital projects	376,837	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	3,353,547	65,773	257,719	413,684
Excess of revenue over (under) expenditures	298,747	508,479	420,557	96,635
Other financing sources (uses):				
Transfers in	275,395	-	-	-
Transfers out	(488,557)	(518,569)	(295,569)	-
Total other financing sources	(213,162)	(518,569)	(295,569)	-
Net change in fund balance	85,585	(10,090)	124,988	96,635
Fund balances, beginning of year	2,137,764	39,696	672,770	248,964
Fund balances (deficit), end of year	\$ 2,223,349	\$ 29,606	\$ 797,758	\$ 345,599

See Notes to Basic Financial Statements.

Capital Projects	Debt Service	Other Nonmajor Governmental	Total
\$ -	\$ 246,428	\$ 19,876	\$ 3,186,780
-	-	-	270,686
-	3,407	-	1,070,150
-	-	-	86,559
110,342	-	-	903,733
-	-	-	75,545
-	-	-	39,330
383	4,982	15,151	103,934
-	-	12,012	91,005
110,725	254,817	47,039	5,827,722
-	-	3,250	1,430,640
-	-	-	747,266
-	-	-	19,074
-	-	5,788	627,879
-	-	4,899	336,317
-	-	-	566,647
773,239	-	-	1,150,076
-	515,000	-	515,000
-	129,899	-	129,899
773,239	644,899	13,937	5,522,798
(662,514)	(390,082)	33,102	304,924
570,445	324,793	1,700	1,172,333
(77,158)	-	(18,579)	(1,398,432)
493,287	324,793	(16,879)	(226,099)
(169,227)	(65,289)	16,223	78,825
165,524	134,865	409,943	3,809,526
\$ (3,703)	\$ 69,576	\$ 426,166	\$ 3,888,351

City of Clear Lake, Iowa

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005**

Net change in fund balances - governmental funds	\$	78,825
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following is the amount by which capital outlays exceeded depreciation in the current year:</p>		
Capital outlays		968,160
Depreciation		(590,354)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations and disposals) is to increase/decrease net assets:</p>		
Contributions by developers		330
Loss from the disposal of capital assets		(855)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		7,894
<p>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:</p>		
Change in compensated absences		(3,065)
<p>The issuance of long-term debt (e.g. bonds, loan, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds an interest expenditure is reported when due. The following is the detail of the net effect of these differences in the treatment of long-term debt and related items:</p>		
Repayment of bond principal		515,000
Interest		1,837
		<hr/>
Change in net assets of governmental activities	\$	977,772
		<hr/> <hr/>

See Notes to Basic Financial Statements.

City of Clear Lake, Iowa

Statement of Net Assets
 Proprietary Funds
 June 30, 2005

	Water	Sewer Rental	Storm Water	Solid Waste	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 146,465	\$ 61,808	\$ 20,630	\$ 26,560	\$ 255,463
Certificates of deposit	54,000	280,000	95,000	75,000	504,000
Receivables, net of allowances for uncollectible amounts:					
Accounts, consumers	76,317	32,417	9,343	34,719	152,796
Unbilled usage	15,492	6,257	1,458	7,572	30,779
Due from other funds	1,273	-	5,277	-	6,550
Inventories	68,169	-	-	-	68,169
Total current assets	361,716	380,482	131,708	143,851	1,017,757
Noncurrent assets:					
Capital assets:					
Nondepreciable:					
Land	65,026	-	266,690	-	331,716
Construction-in-progress	381,025	-	101,250	-	482,275
Depreciable:					
Buildings and improvements	1,132,527	71,000	25,000	-	1,228,527
Infrastructure	5,849,099	3,772,013	4,662,898	-	14,284,010
Machinery and equipment	655,492	150,570	-	-	806,062
Accumulated depreciation	(2,993,773)	(1,279,281)	(1,612,370)	-	(5,885,424)
Total noncurrent assets	5,089,396	2,714,302	3,443,468	-	11,247,166
Total assets	\$ 5,451,112	\$ 3,094,784	\$ 3,575,176	\$ 143,851	\$ 12,264,923
Liabilities and Net Assets					
Current liabilities:					
Accounts and contracts payable	\$ 131,750	\$ 15,728	\$ 18,849	\$ 27,817	\$ 194,144
Accrued liabilities	19,911	4,593	560	1,072	26,136
Deposits	28,836	-	-	-	28,836
Compensated absences	17,982	3,496	-	645	22,123
Due to other funds	-	1,273	4,352	-	5,625
Bonds payable	45,000	75,000	-	-	120,000
Total current liabilities	243,479	100,090	23,761	29,534	396,864
Noncurrent liabilities, bonds payable	95,000	240,000	-	-	335,000
Total liabilities	338,479	340,090	23,761	29,534	731,864
Net assets:					
Invested in capital assets, net of related debt	4,949,396	2,399,302	3,443,468	-	10,792,166
Unrestricted	163,237	355,392	107,947	114,317	740,893
Total net assets	5,112,633	2,754,694	3,551,415	114,317	11,533,059
Total liabilities and net assets	\$ 5,451,112	\$ 3,094,784	\$ 3,575,176	\$ 143,851	\$ 12,264,923

See Notes to Basic Financial Statements.

City of Clear Lake, Iowa

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2005**

	Water	Sewer Rental	Storm Water	Solid Waste	Total
Operating revenues, charges for services	\$ 708,817	\$ 297,826	\$ 78,372	\$ 385,125	\$ 1,470,140
Operating expenses:					
Personal services	300,547	92,575	27,217	16,633	436,972
Contractual services	144,482	18,354	10,220	334,142	507,198
Commodities	87,634	32,077	9,232	240	129,183
Depreciation	161,651	63,166	91,087	-	315,904
Total operating expenses	694,314	206,172	137,756	351,015	1,389,257
Operating income (loss)	14,503	91,654	(59,384)	34,110	80,883
Nonoperating income (expense):					
Investment earnings	8,810	7,466	1,729	1,583	19,588
Interest expense	(8,181)	(16,180)	-	-	(24,361)
Loss on sale of capital assets	(3,072)	-	-	-	(3,072)
Total nonoperating income (expense)	(2,443)	(8,714)	1,729	1,583	(7,845)
Income (loss) before capital contributions and transfers	12,060	82,940	(57,655)	35,693	73,038
Capital contributions and grants	45,536	36,174	3,200	-	84,910
Transfers in	26,746	21,895	177,458	-	226,099
Change in net assets	84,342	141,009	123,003	35,693	384,047
Total net assets, beginning of year	5,028,291	2,613,685	3,428,412	78,624	11,149,012
Total net assets, end of year	\$ 5,112,633	\$ 2,754,694	\$ 3,551,415	\$ 114,317	\$ 11,533,059

See Notes to Basic Financial Statements.

City of Clear Lake, Iowa

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds				Total
	Water	Sanitary Sewer	Storm Water	Solid Waste	Enterprise Funds
Cash flows from operating activities:					
Receipts from customers and users	\$ 715,150	\$ 298,869	\$ 75,827	\$ 385,116	\$ 1,474,962
Payments to suppliers	(127,067)	(38,814)	(12,621)	(334,231)	(512,733)
Payments to employees	(299,056)	(92,225)	(27,217)	(16,567)	(435,065)
Net cash provided by operating activities	289,027	167,830	35,989	34,318	527,164
Cash flows from noncapital financing activities:					
Transfers in	26,746	21,895	177,458	-	226,099
Proceeds from other funds	-	1,273	4,352	-	5,625
Payments to other funds	(1,273)	-	(5,277)	-	(6,550)
Net cash provided by noncapital financing activities	25,473	23,168	176,533	-	225,174
Cash flows from capital and related financing activities:					
Purchase of capital assets	(508,085)	(98,375)	(174,040)	-	(780,500)
Payment on debt	(40,000)	(70,000)	-	-	(110,000)
Interest paid on debt	(8,181)	(16,180)	-	-	(24,361)
Net cash (used in) capital and related financing activities	(556,266)	(184,555)	(174,040)	-	(914,861)
Cash flows provided by (used in) investing activities:					
Proceeds from sale and maturities of investments	431,830	327,161	75,184	65,444	899,619
Purchase of investments	(54,000)	(280,000)	(95,000)	(75,000)	(504,000)
Interest received	8,810	7,466	1,729	1,583	19,588
Net cash provided by (used in) investment activities	386,640	54,627	(18,087)	(7,973)	415,207
Increase (decrease) in cash and cash equivalents	144,874	61,070	20,395	26,345	252,684
Cash and cash equivalents, beginning of year	1,591	738	235	215	2,779
Cash and cash equivalents, end of year	\$ 146,465	\$ 61,808	\$ 20,630	\$ 26,560	\$ 255,463

(Continued)

City of Clear Lake, Iowa

Statement of Cash Flows (Continued)
 Proprietary Funds
 For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds				Total Enterprise
	Water	Sanitary Sewer	Storm Water	Solid Waste	
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating (loss)	\$ 14,503	\$ 91,654	\$ (59,384)	\$ 34,110	\$ 80,883
Adjustments to reconcile operating income (loss) to net cash provided by operating activities, depreciation	161,651	63,166	91,087	-	315,904
Change in assets and liabilities:					
Receivables	(920)	1,043	(2,546)	(8)	(2,431)
Inventory	1,732	-	-	-	1,732
Deposits	7,253	-	-	-	7,253
Accounts payable and accrued liabilities	103,317	11,617	6,832	151	121,917
Deferred revenue	-	-	-	-	-
Claims payable	-	-	-	-	-
Compensated absences	1,491	350	-	65	1,906
Net cash provided by operating activities	\$ 289,027	\$ 167,830	\$ 35,989	\$ 34,318	\$ 527,164
Schedule of noncash items:					
Capital and related financing activities, donation construction by developers	\$ 45,536	\$ 36,174	\$ 3,200	\$ -	\$ 84,910

City of Clear Lake, Iowa

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies

Nature of operations:

The City of Clear Lake, Iowa (City) is located in Cerro Gordo County, Iowa and was incorporated in 1871. The form of City government is Mayor-Council, utilizing a professional City Administrator. The City of Clear Lake provides a wide variety of public services, including public safety, roads, sanitation, health, recreation, planning, zoning and general administrative services.

Reporting entity:

Accounting principles generally accepted in the United States of America require the financial reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City of Clear Lake, Iowa is a municipal corporation governed by a council, which is elected by the public and has the exclusive responsibility and accountability for the decisions it makes. The City has the statutory authority to adopt its own budget, to levy taxes and to issue bonded debt without the approval of another government. It has the right to sue and be sued and has the right to buy, sell, lease or mortgage property in its own name. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Clear Lake, Iowa and Clear Lake Library Foundation as its component unit. Although the Clear Lake Library Foundation (Foundation) is incorporated and is legally separate from the City, it is included in the City's reporting entity as a special revenue fund because of the significance of its operational and financial relationship with the City. The Foundation is reported in these financial statements as if it were a part of the City because its sole purpose is to help finance improvements made to the City library and to purchase property on its behalf. The Foundation also operates under a June 30 year-end. No separate external financial statements have been issued for the Foundation.

Basis of presentation:

Government-wide and fund financial statements: The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. There are no indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of fund financial statements is on major funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Fund accounting: The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net assets, revenues and expenditures or expenses, as appropriate. The City has the following funds:

Governmental fund types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance". The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the City's major governmental funds:

General Fund: The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Tax Increment Financing Fund: A special revenue fund used to account for the revenue collected to be used for economic development purposes.

Road Use Tax Fund: A special revenue fund used to maintain and improve the City's streets.

Employee Benefits Fund: A special revenue fund used to account for the employee group life and health insurance program.

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of resources for and the payment of, principal and interest on the City's general obligation and tax increment financing long-term debt.

Capital Projects Fund: The Capital Projects Fund is used to account for the acquisition or construction of major capital facilities.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

The other governmental funds of the City are considered nonmajor and are as follows:

Special Revenue Funds: Special revenue funds are used to account for revenues that are to be used for a specific purpose.

Northeast Tax Increment Financing Fund: To account for the revenue collected to be used for economic development purposes.

Willow Creek Tax Increment Financing Fund: To account for the revenue collected to be used for economic development purposes.

Firefighter Benefit Fund: To receive and administer funds that may be appropriated to recruit, retain and reward members of the volunteer fire department.

Library Fund: To account for donations which were restricted for the use of the library.

Lindstrom Flower Fund: To account for donations which are to be used for the purpose of planting flowers on City property.

Law Enforcement Fund: To receive and administer funds that may be confiscated or forfeited from drug operations or arrests.

Economic Development Revolving Loan Fund: To provide financial assistance loans to new and expanding businesses located in the City of Clear Lake, Iowa. Initial funds supplied by the state of Iowa.

Permanent Funds: are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs of the City.

Library Trust: endowment from Jones, Hines and Dorchester Trust.

Proprietary Fund Types: Proprietary fund types are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector (business-type activities). The measurement focus is upon income determination, financial position and cash flows.

Enterprise Funds: are used to account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the City has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements, including those issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

The following are the City's major enterprise funds:

Water Fund: To account for the operations of providing a safe and adequate water supply for fire protection, domestic and industrial use.

Sewer Rental Fund: To account for the operations of the City's sewer utility including the revenue from usage fees and operating costs associated with it.

Storm Water Fund: To account for the operations of the City's storm water utility including the revenue from fees and the operating costs associated with it.

Solid Waste Fund: To account for the operations of the City's recycling program, yard waste service and garbage removal services.

Measurement focus and basis of accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are measurable and available.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Property taxes are recognized at the time an enforceable legal claim is established. This is deemed to occur when the budget is certified. The current tax levy was certified on March 2005 based on the 2004 assessed valuations. These taxes are due in two installments, on September 1, 2005 and the following March 1, 2006 with a 1.5% per month penalty for delinquent payment. Since the 2005 tax levy is budgeted and levied for the fiscal year 2006, the revenue from this tax levy has been deferred. Revenue has been recognized for those taxes receivable which represent the prior year's delinquent taxes and which are expected to be collected within 60 days after year-end.

Special assessments are recognized at the time of the levy with the revenue deferred until the amounts become available in the fund financial statements. Revenue is recognized in the government-wide financial statements. Interest on special assessments is recognized when collected.

Substantially, all other shared revenue is recognized when received by the tax collecting authority.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 are 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 nonoperating revenues and expenses.

Summary of significant accounting policies:

The significant accounting policies followed by the City include the following:

Cash and investments: The City adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, during the current fiscal year. This statement modifies disclosure requirements for deposits and investments to address common deposit and investment risks related to credit risk, concentration risk, interest rate risk, and foreign currency risk. Accordingly, certain note disclosures have been revised to conform to the provisions of GASB Statement No. 40.

The City maintains a cash and investment pool to maximize investment opportunities. Income from investments is recorded on a pro rata basis. Each fund's portion of total cash and investments is reported as such within this report. In addition, certain investments are separately held by several of the City's funds. Investments are reported at fair value. Securities traded on the national or international exchange are valued at the last reported sales price at current exchange rates.

Statement of cash flows: For purposes of the statement of cash flows for proprietary fund type funds, the City considers the pooled cash and investments to be cash equivalents as these pooled amounts have the same characteristics of demand deposits. Cash equivalents also include restricted cash and investments.

Accounts receivable: The City bills for its utility services on a monthly basis and accrues the unbilled portion of these services at year-end.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Inventories: Inventories consist of consumable supplies and are valued at cost using the first-in first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased. Inventories are recognized only in those funds in which they are material to the extent of affecting operations.

Capital assets: Capital assets, including land, buildings and improvements, infrastructure, machinery and equipment and construction-in-progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater.

Assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized in the current fiscal year.

Depreciation has been provided using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives for each capital asset type are as follows:

	<u>Years</u>
Buildings and improvements	25 to 70
Infrastructure	20 to 40
Machinery and equipment	5 to 20

The City's collection of works of art, library books, and other similar assets are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to City policy that requires proceeds from the sale of these items to be used to acquire other collection items.

Deferred revenues: In the governmental funds, deferred revenues represent amounts due, which are measurable, but not available, or grants and similar items received, but for which the City has not met all eligibility requirements imposed by the provider. In the statement of net assets, deferred revenues represent the deferral of property tax receivables which are levied for a future period and unearned grants.

Interfund transactions: Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective fund's operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" in the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Noncurrent portions of long-term inter-fund loan receivables are reported as advances within the governmental funds and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

Fund balance: Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Restrictions of fund balance are limited to outside third-party restrictions. Designations of fund balance represents tentative management plans that are subject to change.

Net assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All amounts not meeting these definitions are reported as unrestricted.

The City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Budgetary and legal appropriation and amendment policies: The City Council annually adopts a budget on or before March 15 of each year, which becomes effective July 1 and constitutes the City's appropriation for each program and purpose specified therein until amended. City budgets may be amended for specified purposes and budget amendments must be prepared and adopted in the same manner as the original budgets. The legal level of control (the level on which expenditures may not legally exceed appropriations) is the program level. Appropriations, as adopted and amended, lapse at the end of the fiscal year.

The City adopts its annual program budget which includes all funds on a modified accrual basis.

As allowed by GASB Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, the City presents budgetary comparison schedules as required supplementary information based on the program structure of nine functional areas as required by state statute for its legally adopted budget.

City of Clear Lake, Iowa

Notes to Basic Financial Statements

Note 2. Cash and Investments

As of June 30, 2005, the City's cash and investments were as follows:

Cash, cash equivalents and certificates of deposit	\$	4,678,798
Investments held by the Clear Lake Library Foundation		45,396

The City maintains a cash and investment pool for certain funds where the resources have been pooled in order to maximize investment opportunities. Income from investments is recorded on a pro rata basis.

Authorized investments: The City is authorized to invest public funds in interest bearing savings accounts, interest bearing money market accounts, interest bearing checking accounts, obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured Iowa depository institutions approved by the City Council and the Treasurer of the State of Iowa; Iowa Public Agency Investment Trust, prime bankers acceptances that mature within 270 days of purchase; commercial paper or other short-term corporate debt that matures within 270 days of purchase and is rated within the two highest classifications; perfected repurchase agreements and certain registered investment open-end management investment companies. The Clear Lake Library Foundation is authorized to invest funds in certificates of deposit, checking or savings accounts, money market funds investing in high quality instruments, corporate or government bonds and equity securities A rated or better by Standard and Poor's,

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with the City's investment policy, the City maximizes the market value risk of investments in the portfolio by structuring its investment portfolio so that securities mature to meet cash requirements for operations, thereby avoiding the need to sell securities in the open market prior to maturity.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Maturities	Fair Value
Corporate bond - General Motors	05/15/2017	\$ 5,853
Corporate bond - Hydro-Quebec	01/15/2027	12,800
Mutual fund - equity income	N/A	26,743

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

City of Clear Lake, Iowa

Notes to Basic Financial Statements

Note 2. Cash and Investments (Continued)

As of June 30, 2005, the City's investments were rated as follows:

Investment Type	Moody's Investor Services	Standard & Poor's
Corporate bond - General Motors	Ba2	BB
Corporate bond - Hydro Quebec	A1	A+
Mutual fund - equity income	Not Rated	

Concentration of credit risk: The City's investment policy seeks diversification to reduce overall portfolio risk while attaining market rates of return to enable the City to meet all anticipated cash requirements. The policy limits the City to holding no more than 10% of prime banker's acceptances at the time of purchase, no more than 5% of bankers' acceptances in one issuer and no more than 5% of all amounts invested in commercial paper and other short-term corporate debt. The City's investment portfolio includes certificates of deposit and cash equivalents for purposes of computing compliance with policy limits whereas this disclosure considers only those items categorized as investments on the balance sheet. Investments in any one issuer that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
General Motors	Corporate bond	\$ 5,853
Hydro-Quebec	Corporate bond	12,800

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2005, the City's investments were collateralized and, therefore, not subject to custodial credit risk. It is the City's policy to require that time deposits in excess of FDIC insurable limits be secured by collateral or private insurance to protect public deposits in a single financial institution if it were to default. Chapter 12c of the Code of Iowa requires all City funds be deposited into an approved depository and be either insured or collateralized. As of June 30, 2005, the City's deposits with financial institutions were entirely covered by federal depository insurance or insured by the state through pooled collateral, state sinking funds and by the state's ability to assess for lost funds.

City of Clear Lake, Iowa

Notes to Basic Financial Statements

Note 3. Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2005:

	Beginning Balance June 30, 2004	Additions	Deletions	Ending Balance June 30, 2005
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 2,351,294	\$ 41,628	\$ -	\$ 2,392,922
Construction-in-progress	740,173	292,809	673,005	359,977
Total capital assets, not being depreciated	3,091,467	334,437	673,005	2,752,899
Capital assets, being depreciated:				
Buildings and land improvements	4,681,406	158,888	-	4,840,294
Infrastructure	14,657,925	1,130,179	19,900	15,768,204
Machinery and equipment	2,768,655	17,991	20,886	2,765,760
Total capital assets, being depreciated	22,107,986	1,307,058	40,786	23,374,258
Less accumulated depreciation for:				
Buildings and land improvements	791,098	109,890	-	900,988
Infrastructure	7,165,028	313,858	19,900	7,458,986
Machinery and equipment	1,943,546	166,606	20,031	2,090,121
Total accumulated depreciation	9,899,672	590,354	39,931	10,450,095
Total capital assets, being depreciated, net	12,208,314	716,704	855	12,924,163
Governmental activities capital assets, net	\$ 15,299,781	\$ 1,051,141	\$ 673,860	\$ 15,677,062

City of Clear Lake, Iowa

Notes to Basic Financial Statements

Note 3. Capital Assets (Continued)

	Beginning Balance June 30, 2004	Additions	Deletions	Ending Balance June 30, 2005
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 328,516	\$ 3,200	\$ -	\$ 331,716
Construction-in-progress	132,822	482,275	132,822	482,275
Total capital assets, not being depreciated	461,338	485,475	132,822	813,991
Capital assets, being depreciated:				
Buildings and land improvements	1,228,527	-	-	1,228,527
Infrastructure	13,777,653	512,757	6,400	14,284,010
Machinery and equipment	806,062	-	-	806,062
Total capital assets, being depreciated	15,812,242	512,757	6,400	16,318,599
Less accumulated depreciation for:				
Buildings and land improvements	707,238	29,939	-	737,177
Infrastructure	4,595,582	266,328	3,328	4,858,582
Machinery and equipment	270,028	19,637	-	289,665
Total accumulated depreciation	5,572,848	315,904	3,328	5,885,424
Total capital assets, being depreciated, net	10,239,394	196,853	3,072	10,433,175
Business-type activities capital assets, net	\$ 10,700,732	\$ 682,328	\$ 135,894	\$ 11,247,166

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

Governmental Activities

General government	\$ 14,720
Culture and recreation	97,180
Public safety	60,784
Public works	417,670
	<u>\$ 590,354</u>

Business-Type Activities

Water	\$ 161,651
Sewer rental	63,166
Storm water	91,087
	<u>\$ 315,904</u>

City of Clear Lake, Iowa

Notes to Basic Financial Statements

Note 4. Bonded and Other Debt

The following is a summary of changes in bonded and other long-term debt for the year ended June 30, 2005:

General obligation loan notes:

	June 30, 2004	Increases and Issues	Decreases and Retirements	June 30, 2005	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 2,995,000	\$ -	\$ 450,000	\$ 2,545,000	\$ 405,000
Revenue bonds	65,000	-	65,000	-	-
Compensated absences	120,115	123,180	120,115	123,180	123,180
Total governmental activities	3,180,115	123,180	635,115	2,668,180	528,180
Business-type activities:					
General obligation bonds	565,000	-	110,000	455,000	120,000
Compensated absences	20,217	22,123	20,217	22,123	22,123
Total business-type activities	585,217	22,123	130,217	477,123	142,123
Total long-term debt	\$ 3,765,332	\$ 145,303	\$ 765,332	\$ 3,145,303	\$ 670,303

General obligation loan notes:

Nine issues of general obligation loan notes totaling \$3,000,000 are outstanding as of June 30, 2005. These notes bear interest with rates ranging from 2.25% to 5.05% and mature in varying annual amounts ranging from \$40,000 to \$195,000 through June 1, 2013.

Compensated absences:

Compensated absences attributable to governmental activities are generally liquidated by the General Fund.

Summary of principal and interest maturities:

Annual debt service requirements to service all outstanding indebtedness as of June 30, 2005 are as follows:

Year ending June 30:	Principal	Interest	Total
2006	\$ 525,000	\$ 127,888	\$ 652,888
2007	545,000	108,241	653,241
2008	565,000	86,860	651,860
2009	410,000	63,805	473,805
2010	240,000	45,150	285,150
2011 - 2013	715,000	66,500	781,500
	\$ 3,000,000	\$ 498,444	\$ 3,498,444

City of Clear Lake, Iowa

Notes to Basic Financial Statements

Note 4. Bonded and Other Debt (Continued)

Legal debt margin:

As of June 30, 2005, the outstanding general obligation debt of the City did not exceed its legal debt margin computed as follows:

Total assessed valuation	<u>\$ 554,128,522</u>
Debt limit, 5% of total actual valuation	\$ 27,706,426
Debt applicable to debt limit, debt service general obligation bonds	<u>3,000,000</u>
Legal debt margin	<u>\$ 24,706,426</u>

* 100% of assessed valuation including TIF increment.

Note 5. Interfund Receivables and Payables

Individual interfund receivables and payables balances as of June 30, 2005 were:

	Total	
	Interfund Receivables	Interfund Payables
Governmental Activities:		
Major governmental funds:		
General	\$ -	\$ 13,832
Road Use Tax	-	1,941
Nonmajor governmental funds, capital projects	14,848	-
Business-type Activities:		
Major business-type funds:		
Water	1,273	-
Storm Water	5,277	4,352
Sewer Rental	-	1,273
Total	<u>\$ 21,398</u>	<u>\$ 21,398</u>

City of Clear Lake, Iowa

Notes to Basic Financial Statements

Note 6. Interfund Transfers

The following is a schedule of transfers as included in the basic financial statements of the City:

	Transfers In	Transfers Out
Governmental activities:		
Major governmental funds:		
General	\$ 275,395	\$ 488,557
Debt Service	324,793	-
Tax Incremental Financing	-	518,569
Road Use Tax	-	295,569
Capital Projects	570,445	77,158
Nonmajor governmental funds	1,700	18,579
Total governmental activities	<u>1,172,333</u>	<u>1,398,432</u>
Business-type activities:		
Major business-type funds:		
Water	26,746	-
Sewer Rental	21,895	-
Storm Water	177,458	-
Total business-type activities	<u>226,099</u>	<u>-</u>
Total	<u>\$ 1,398,432</u>	<u>\$ 1,398,432</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them or (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 7. Pension and Retirement Systems

Iowa Public Retirement System:

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 and fire members in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$129,182, \$122,776, and \$118,142, respectively, equal to the required contributions for each year.

Notes to Basic Financial Statements

Note 7. Pension and Retirement Systems (Continued)

Employee Benefits Fund:

The City also has a single-employer defined benefit plan which pays benefits to one retired employee. There are no other participants in the plan and the plan is closed to new entrants. This plan is accounted for in the employee benefits special revenue fund.

Currently, the Plan is funded through a property tax levy and the City expects to continue to levy the tax as long as the benefit is required to be paid. The Plan has not had an actuarial computation performed in the current year; therefore, information relating to funding progress is not available. Information as to the annual fair value of plan assets, property tax receipts and benefits paid is as follows:

	Fair Value of Net Assets	Property Tax Receipts	Benefits Paid
2005	\$ 101,281	\$ 36,500	\$ 27,328
2004	97,442	31,000	26,145
2003	97,842	28,000	25,009

Note 8. Vacation and Sick Leave

City employees accumulate vacation and sick leave hours for subsequent use. For proprietary fund types and the government-wide statements, vacations are recorded as expenses and liabilities of the appropriate fund and activity in the fiscal year earned. For governmental fund types, the amount of accumulated unpaid vacation, which is payable from available resources, is recorded as a liability of the respective fund if they have matured; for example, as a result of employee retirements and resignations. The accumulated sick leave hours do not vest and, therefore, are not recognized as a liability of the City until used or paid. The City's contingent liability as of June 30, 2005 for the unvested employee sick leave hours totals approximately \$516,391.

Note 9. Iowa Department of Economic Development Revolving Loan Fund

Under contract agreement with Iowa Department of Economic Development, the City, as the loan manager of a \$150,000 economic loan made by the State to Cole Sewell Corporation, has agreed to establish a revolving loan fund on behalf of the Iowa Department of Economic Development. Under the agreement, all principal and interest collections on the loan, as received by the City from Cole Sewell Corporation, are to be used to fund this revolving loan fund. The balance of the loan was paid in fiscal year 1998. A plan to reuse the proceeds in the revolving loan fund has been submitted to and approved by the Iowa Department of Economic Development.

Note 10. Litigation

The City is a defendant in several claims and lawsuits. In the opinion of the City Attorney and management, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Notes to Basic Financial Statements

Note 11. Risk Management

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

Note 12. Commitments

The City was involved in various construction projects throughout the year. Remaining contractual amounts on these projects total \$531,451 as of June 30, 2005. In addition, the City has a contract to purchase a new rescue vehicle with a cost of \$439,337 which will be completed in the year ending June 30, 2006.

Note 13. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the City. The statements which might impact the City are as follows:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, issued November 2003, will be effective for the City beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, was issued April 2004. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance. The provisions of this Statement will be effective for the City beginning with its year ending June 30, 2009.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, issued May 2004, will be effective for the City beginning with its year ending June 30, 2006. This Statement improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model required by Statement No. 34 and related statements.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the City beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34, issued December 2004, will be effective for the City beginning with its year ending June 30, 2006. The purpose of Statement No. 46 is to help the governments determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in the financial statements when there are changes in the circumstances surrounding such legislation.

Note 13. New Pronouncements (Continued)

GASB Statement No. 47, *Accounting for Termination Benefits*, issued June 2005, will be effective for the City beginning with its year ending June 30, 2006. This Statement establishes accounting standards for termination benefits. In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (early retirement incentives) when the offer is accepted and the amount can be estimated. A liability for involuntary termination benefits (severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

The City's management has not yet determined the effect these Statements will have on the City's financial statements.

City of Clear Lake, Iowa

Budgetary Comparison Schedule
Budget and Actual - All Governmental Funds and Proprietary Funds
Required Supplementary Information
For the Year Ended June 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
Revenues:			
Property tax	\$ 3,186,780	\$ -	\$ 3,186,780
Other taxes	1,070,150	-	1,070,150
Special assessments	270,686	-	270,686
Licenses and permits	86,559	-	86,559
Intergovernmental	903,733	-	903,733
Charges for services	75,545	1,470,140	1,545,685
Fines and forfeitures	39,330	-	39,330
Use of money and property	103,934	19,588	123,522
Miscellaneous	91,005	-	91,005
Total revenues	5,827,722	1,489,728	7,317,450
Expenditures/Expenses:			
Public safety	1,430,640	-	1,430,640
Public works	747,266	-	747,266
Health and social services	19,074	-	19,074
Culture and recreation	627,879	-	627,879
Community and economic development	336,317	-	336,317
General government	566,647	-	566,647
Debt service	644,899	-	644,899
Capital outlay	1,150,076	-	1,150,076
Business-type	-	1,413,618	1,413,618
Total expenditures/expenses	5,522,798	1,413,618	6,936,416
Excess (deficiency) of revenues over (under) expenditures/expenses	304,924	76,110	381,034
Other financing sources, net	(226,099)	307,937	81,838
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	78,825	384,047	462,872
Balances, beginning of year	3,809,526	11,149,012	14,958,538
Balances, end of year	\$ 3,888,351	\$ 11,533,059	\$ 15,421,410

See Note to Required Supplementary Information.

Budgeted Amounts		Final to Actual Variance - Positive (Negative)
Original	Final	
\$ 3,053,517	\$ 3,183,482	\$ 3,298
1,260,848	989,248	80,902
135,000	255,000	15,686
60,080	66,050	20,509
1,218,400	1,494,650	(590,917)
1,560,300	1,567,400	(21,715)
27,500	30,000	9,330
102,825	103,142	20,380
51,500	345,000	(253,995)
7,469,970	8,033,972	(716,522)
1,730,505	1,573,325	142,685
1,016,530	845,733	98,467
22,714	22,690	3,616
712,138	693,403	65,524
221,635	1,082,718	746,401
627,439	630,004	63,357
859,516	979,899	335,000
1,364,500	2,057,000	906,924
2,151,915	2,470,570	1,056,952
8,706,892	10,355,342	3,418,926
(1,236,922)	(2,321,370)	2,702,404
950,000	1,527,000	(1,445,162)
(286,922)	(794,370)	1,257,242
8,805,466	9,934,415	5,024,123
\$ 8,518,544	\$ 9,140,045	\$ 6,281,365

City of Clear Lake, Iowa

**Note to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2005**

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds, except agency funds. The budget basis of accounting is in accordance with accounting principles generally accepted in the United States of America. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital outlay and business-type. During the year, a budget amendment increased budgeted expenditures by \$1,648,450. The budget amendment was primarily due to changes in capital projects and community and economic development.

City of Clear Lake, Iowa

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2005

	Special Revenue			
	Northeast Tax Increment Financing	Willow Creek Tax Increment Financing	Firefighter Benefit	Library
Assets				
Cash and cash equivalents	\$ -	\$ 1,140	\$ 344	\$ 23,113
Certificates of deposit	-	-	55,000	90,000
Investments	-	-	-	45,396
Receivables, net of allowances for uncollectible amounts:				
Property taxes	26,840	62,025	-	-
Other	-	-	-	-
Total assets	\$ 26,840	\$ 63,165	\$ 55,344	\$ 158,509
Liabilities and Fund Balances				
Liabilities:				
Accounts and contracts payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue	26,840	61,773	-	-
Total liabilities	26,840	61,773	-	-
Fund Balances:				
Reserved for endowments	-	-	-	-
Unreserved, reported in special revenue funds	-	1,392	55,344	158,509
Total liabilities and fund balances	\$ 26,840	\$ 63,165	\$ 55,344	\$ 158,509

Special Revenue

Lindstrom Flower	Law Enforcement	Economic Development Revolving Loan	Permanent Library	Total
\$ 729	\$ 46	\$ 1,076	\$ 2,000	\$ 28,448
-	-	203,000	-	348,000
-	-	-	-	45,396
-	-	-	-	88,865
6,000	-	-	-	6,000
<u>\$ 6,729</u>	<u>\$ 46</u>	<u>\$ 204,076</u>	<u>\$ 2,000</u>	<u>\$ 516,709</u>
\$ 1,930	\$ -	\$ -	\$ -	\$ 1,930
-	-	-	-	88,613
<u>1,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,543</u>
-	-	-	2,000	2,000
4,799	46	204,076	-	424,166
<u>4,799</u>	<u>46</u>	<u>204,076</u>	<u>2,000</u>	<u>426,166</u>
<u>\$ 6,729</u>	<u>\$ 46</u>	<u>\$ 204,076</u>	<u>\$ 2,000</u>	<u>\$ 516,709</u>

City of Clear Lake, Iowa

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended June 30, 2005

	Willow Creek Tax Increment Financing	Firefighter Benefit	Library	Lindstrom Flower
Revenues:				
Property taxes	\$ 19,876	\$ -	\$ -	\$ -
Use of money and property	95	1,233	5,441	6
Miscellaneous	-	-	6,398	5,614
Total revenue	19,971	1,233	11,839	5,620
Expenditures:				
Current:				
Public safety	-	3,250	-	-
Culture and recreation	-	-	5,788	-
Community and economic development	-	-	-	4,899
Total expenditures	-	3,250	5,788	4,899
Excess of revenues over (under) expenditures	19,971	(2,017)	6,051	721
Other financing sources (uses):				
Transfers in	-	1,000	-	700
Transfers out	(18,579)	-	-	-
Total other financing sources	(18,579)	1,000	-	700
Net change in fund balance	1,392	(1,017)	6,051	1,421
Fund balances, beginning of year	-	56,361	152,458	3,378
Fund balances, end of year	\$ 1,392	\$ 55,344	\$ 158,509	\$ 4,799

	Law Enforcement	Economic Development Revolving Loan	Permanent Library	Total
\$	-	\$ -	\$ -	\$ 19,876
	-	8,376	-	15,151
	-	-	-	12,012
	-	8,376	-	47,039
	-	-	-	3,250
	-	-	-	5,788
	-	-	-	4,899
	-	-	-	13,937
	-	8,376	-	33,102
	-	-	-	1,700
	-	-	-	(18,579)
	-	-	-	(16,879)
	-	8,376	-	16,223
	46	195,700	2,000	409,943
\$	46	\$ 204,076	\$ 2,000	\$ 426,166

City of Clear Lake, Iowa

Government-Wide Expenses By Function
Last Ten Fiscal Years (1)
(Unaudited)

Fiscal Year	Public Safety	Public Works	Health and Social Services	Culture and Recreation	Community and Economic Development	General Government	Interest on Long-Term Debt
2004	\$ 1,411,957	\$ 1,040,968	\$ 14,411	\$ 658,881	\$ 641,594	\$ 637,908	\$ 150,918
2005	1,454,035	1,199,597	19,074	714,333	536,133	580,841	128,062

(1) Fiscal year 2004 was the first year of government-wide statements

Source: City records.

	Water	Sewer Rental	Solid Waste	Storm Water	Total
\$	631,386	\$ 186,202	\$ 339,271	\$ 104,232	\$ 5,817,728
	705,567	222,352	351,015	137,756	6,048,765

City of Clear Lake, Iowa

Government-Wide Revenues
Last Ten Fiscal Years (1)
(Unaudited)

Fiscal Year	Charges for Sales and Service	Operating Grants and Contributions	Capital Grants and Contributions	Taxes
2004	\$ 2,174,690	\$ 731,530	\$ 902,573	\$ 4,256,351
2005	2,032,501	776,161	237,495	4,256,930

(1) Fiscal year 2004 was the first year of government-wide statements

Source: City records

Intergovernmental	Investment Earnings	Miscellaneous	Total
\$ 17,867	\$ 79,155	\$ 2,088	\$ 8,164,254
-	107,497	-	7,410,584

City of Clear Lake, Iowa

Expenditures and Expenses, Other Than Depreciation, by Program, All Funds

Fiscal Year	Public Safety	Public Works	Health and Social Services	Culture and Recreation	Community and Economic Development
2002 - 03 *	\$ 1,302,038	\$ 827,812	\$ 18,004	\$ 575,603	\$ 427,583
2003 - 04	1,392,137	917,542	14,412	594,090	349,367
2004 - 05	1,430,640	747,266	19,074	627,879	336,317

* The state changed the programs required to be reported from four to nine for the year ended June 30, 2003.

	General Government	Capital Projects	Debt Service	Enterprise Funds	Total
\$	586,441	\$ 2,129,756	\$ 517,208	\$ 962,626	\$ 7,347,071
	621,862	1,417,538	632,828	924,924	6,864,700
	566,647	1,150,076	644,899	1,073,353	6,596,151

City of Clear Lake, Iowa

Revenue by Source, All Funds

Fiscal Year	Property Taxes	Licenses and Permits	Intergovern- mental	Charges for Services	Fines and Forfeitures
1995-96	\$ 1,971,160	\$ 97,462	\$ 1,262,948	\$ 1,023,193	\$ 32,712
1996-97	2,045,480	98,989	963,458	1,037,639	44,144
1997-98	2,180,829	103,828	821,711	1,027,475	38,487
1998-99	2,131,979	102,049	812,065	1,000,629	40,285
1999-00	2,266,121	107,083	1,117,502	1,018,009	36,462
2000-01	2,238,112	119,751	967,376	1,022,087	30,900
2001-02	2,347,408	63,723	1,475,741	1,147,929	29,831
2002-03	2,620,791	71,877	999,014	1,398,599	35,639
2003-04	2,789,357	73,152	1,236,882	1,583,864	40,728
2004-05	3,186,780	86,559	903,733	1,545,685	39,330

	Use of Money and Property	Special Assessments	Miscel- laneous and Other Taxes	Total
\$	198,788	\$ 89,174	\$ 1,084,420	\$ 5,759,857
	317,463	56,078	1,289,555	5,852,806
	409,230	53,107	1,310,662	5,945,329
	311,354	86,973	1,418,406	5,903,740
	558,435	198,490	1,603,635	6,905,737
	424,186	137,850	1,451,948	6,392,210
	125,219	105,631	1,624,734	6,920,216
	111,044	733,831	1,556,060	7,526,855
	100,901	351,697	1,624,016	7,800,597
	123,522	270,686	1,161,155	7,317,450

City of Clear Lake, Iowa

Assessed Valuation of Property

Levy Year	Collection Year	Assessed Valuation* Real Property
1996	1996/97	\$ 278,620,570
1997	1997/98	288,396,450
1998	1998/99	343,771,951
1999	1999/00	362,279,093
2000	2000/01	384,172,487
2001	2001/02	419,099,346
2002	2002/03	449,312,733
2003	2003/04	470,777,591
2004	2004/05	494,501,415
2005	2005/06	544,087,002

* Does not include utility property assessed values.

City of Clear Lake, Iowa

Property Tax Rates Per \$1,000 of Taxable Valuation

Levy Year	Collection Year	School District	City of Clear Lake	Cerro Gordo County
1996	1996/97	\$ 11.98784	\$ 9.48608	\$ 5.67330
1997	1997/98	13.93380	9.48702	5.48671
1998	1998/99	13.83670	8.32973	5.47804
1999	1999/00	13.21620	8.10782	5.43260
2000	2000/01	13.33615	8.10782	5.74088
2001	2001/02	12.85907	7.82587	5.28549
2002	2002/03	12.94453	8.23096	5.21866
2003	2003/04	12.82648	8.41204	5.10724
2004	2004/05	13.45400	8.97902	5.80297
2005	2005/06	12.64447	9.35600	6.72232

	North Iowa Area Community College	Sanitation	Total	Ratio of City of Clear Lake to Total
\$	0.48565	\$ 1.73431	\$ 29.36718	32.3%
	0.50619	1.80746	31.22118	30.4
	0.50619	1.81821	29.96887	27.8
	0.53536	1.82390	29.11588	27.8
	0.53329	1.80734	29.52548	27.5
	0.52425	1.80814	28.30282	27.7
	0.59547	1.75731	28.74693	28.6
	0.61307	1.69731	28.65614	29.4
	0.62599	1.67071	30.53269	29.4
	0.62330	1.67071	31.01680	30.2

City of Clear Lake, Iowa

**Ratio of General Long-Term Debt to Assessed Value and
General Long-Term Debt Per Capita**

Fiscal Year	Population	Assessed *	General Long-Term Debt	Ratio of General Long-Term Debt To Assessed Value	General Long-Term Debt Per Capita
1995-96	8,183	\$ 289,607,879	\$ 1,850,000	0.64%	\$ 226.08
1996-97	8,183	302,373,354	2,345,000	0.78	286.57
1997-98	8,183	358,371,679	2,345,000	0.65	286.57
1998-99	8,183	378,581,007	2,715,000	0.72	331.79
1999-00	8,183	393,556,978	2,370,000	0.60	289.62
2000-01	8,161	428,164,692	2,015,000	0.47	246.91
2001-02	8,161	463,593,800	3,950,000	0.85	484.01
2002-03	8,161	479,861,942	4,215,000	0.88	516.48
2003-04	8,161	503,831,037	3,625,000	0.72	444.19
2004-05	8,161	554,128,522	3,000,000	0.54	367.60

* Includes utility property assessed values.

City of Clear Lake, Iowa

Computation of Direct and Overlapping Debt
June 30, 2005

Name of governmental unit:	Net General Obligation Debt Outstanding	Percent Applicable to the City of Clear Lake	City of Clear Lake Share of Debt	Net General Obligation Debt Per Capita
Direct, City of Clear Lake	\$ 2,930,492	100.00%	\$ 2,930,492	\$ 359.08
Indirect:				
Cerro Gordo County	755,000	18.38	138,769	17.00
Clear Lake School District	5,185,000	71.57	3,710,905	454.71
North Iowa Area Community College	7,775,000	77.05	5,990,638	734.06
Sanitary District	5,540,000	6.55	362,870	44.46
	<u>19,255,000</u>		<u>10,203,182</u>	<u>1,250.23</u>
	<u>\$ 22,185,492</u>		<u>\$ 13,133,674</u>	<u>\$ 1,609.31</u>

City of Clear Lake, Iowa

Miscellaneous Statistical Data

June 30, 2005

Location	Junction of Interstate 35 and U.S. Hwy 18, nine miles west of Mason City, 130 miles south of Minneapolis, 120 miles north of Des Moines
Year of incorporation	1871
Form of government	Mayor-Council
Housing starts, 2004-2005	20 single family 3 multi family
Fire protection:	
Number of stations	1
Number of employees:	
Part-time	1
Volunteers	24
Police protection:	
Number of stations	1
Number of employees	18
Recreation, number of parks:	
City	12
State	2
Churches	14
Employees as of June 30, 2005	42 full-time, 22 part-time, 29 seasonal
Population:	
1940	3,764
1950	4,977
1960	6,158
1970	6,430
1980	7,458
1990	8,183
2000	8,161
Major commercial employers (approximate):	
TeamQuest	90
Pella Storm Door Division	325
Opportunity Village	500
Serta Mattress Company	90
Oakwood Care Center	90
Kingland Systems	60

McGladrey & Pullen

Certified Public Accountants

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

To the Honorable Mayor and
Members of the City Council
City of Clear Lake, Iowa
Clear Lake, Iowa

We have audited the financial statements of the City of Clear Lake, Iowa as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Clear Lake, Iowa'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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Clear Lake, Iowa's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below.

05-II-A

Finding: A good internal control system contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: The individual responsible for billing is also responsible for collecting money, making deposits and recording transactions in the general ledger.

The data processing function is not segregated from the authorization of transactions.

Effect: Transaction errors could occur and not be detected in a timely manner.

Recommendation: We recommend segregating the duties of collecting from reconciling and recording of the cash receipts to prevent mismanagement of receipts.

Response and Corrective Action Plan: The City is aware of the limited segregation of duties and will continue to look for opportunities to realign or reassign duties when possible.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Clear Lake, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 an instance of noncompliance or other matters 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, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the basic 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 interpretation of those statutes.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
September 30, 2005

City of Clear Lake, Iowa

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

Initial Year Reported	Summary	Status
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Reportable conditions:

1993	The City does not have an adequate segregation of duties over billing, collecting, depositing, and recording of miscellaneous and utility receipts. The data processing function is not segregated from the authorization of transactions.	Unresolved, as a similar finding was reported in current year. See 05-II-A.
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City of Clear Lake, Iowa

Schedule of Required Statutory Reporting
Year Ended June 30, 2005

Other Findings Related to Required Statutory Reporting

05-IV-A Official Depositories - A resolution naming official depositories has been adopted by City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year.

05-IV-B Certified Budget - Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted.

05-IV-C 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.

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

05-IV-E Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name	Transaction Description	Amount
Yohn Enterprises	Construction, per bid	\$ 544,820

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Yohn Enterprises does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

05-IV-F 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.

05-IV-G Council Minutes - We noted no transactions requiring council approval which had not been approved in the Council minutes.

05-IV-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

05-IV-I Revenue Notes - Currently, the City does not have revenue notes.

05-IV-J Payment of General Obligation Bonds - The City appears to be in compliance with Chapter 384.4 of the Code of Iowa.

05-IV-K Economic Development - We noted no instance of noncompliance with Chapter 15A of the Code of Iowa.

05-IV-L Notice of Public Hearing for Public Improvements - We noted no instance of noncompliance with Chapters 384.102 and 362.3 of the Code of Iowa.

05-IV-M Sales Tax - We noted no instance of noncompliance with Sections 701-26.71 and 701-26.72 of the Iowa Department of Revenue and Finance Administrative Rules and Regulations.

05-IV-N Financial Condition – The following fund had a deficit fund balance/net assets as of June 30, 2005:

Capital Projects (3703)

Response and Corrective Action Plan: The City will fund the deficit.

Conclusion: Response and corrective action plan accepted.

05-IV-O Unclaimed Property – The City has not completed and filed its unclaimed property reports per Chapter 556.1(10) of the Code of Iowa.

Response and Corrective Action Plan: The City will complete and file its unclaimed property reports.

Conclusion: Response and corrective action plan accepted.

City of Clear Lake, Iowa

**Corrective Action Plan
Year Ended June 30, 2005**

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
05-II-A	The City did not have an adequate segregation of duties over receipts and data processing functions.	See response and corrective action plan at 05-II-A.	Ongoing	Scott Flory
05-IV-N	The capital projects fund had a deficit fund balance of \$3,703 as of June 30, 2005.	See response and corrective action plan at 05-IV-N.	June 2006	Scott Flory
05-IV-O	Unclaimed property - the City has not completed and filed its unclaimed property reports per Chapter 556.1(10) of the Code of Iowa.	See response and corrective action plan at 05-IV-O.	June 2006	Scott Flory