

CITY OF CLERMONT

FINANCIAL REPORT

JUNE 30, 2005

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CITY OF CLERMONT

OFFICIALS

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Rodney Wagner	December 31, 2005
Mayor Pro-Tem	Maureen Johnson	December 31, 2005
Council Member	James Matt	December 31, 2007
Council Member	Randy Wiedenhoff	December 31, 2007
Council Member	Steve Baker	December 31, 2005
Council Member	Ardith Barnes	December 31, 2005
City Clerk	Jenean Niedert	Appointed
City Attorney	David Hanson	Appointed
Acting City Attorney	John Hofmeyer III	

**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS**

To the Honorable Mayor and
Members of the City Council
City of Clermont
Clermont, 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 City of Clermont, 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 of Clermont's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As permitted by the Code of Iowa, the accounting records of the City of Clermont have not been audited for the prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total net assets/fund balance at July 1, 2004.

As described in Note 1b, the City of Clermont prepares its financial statements on the modified cash basis which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Clermont as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1b.

As described in Note 8, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as amended and interpreted, as of June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2005, on our consideration of the City of Clermont's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 4 and pages 18 through 19, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 24, 2005

CITY OF CLERMONT
CLERMONT, IOWA

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

This discussion and analysis of the City of Clermont's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2005. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

Because the City of Clermont is implementing new reporting standards with significant changes in both content and structure, some of the information is not easily comparable to the reports provided in prior years. However, in future years, comparisons will be more meaningful and will also be more extensive with regard to explaining the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- Receipts of the City's FY 2005 governmental activities increased \$19,540 or approximately 5.24% from its FY 2004 receipts as reported on its 2004 unaudited state report. Property taxes for all purposes increased \$17,375.
- Program disbursements increased \$74,066.
- The City's total cash basis net assets are \$240,254. Of this amount, the governmental activities claim cash basis net assets of \$226,803.

USING THIS ANNUAL REPORT

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

- *Management's Discussion and Analysis* introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- Government-wide financial statements consist of a Statement of Net Assets-Cash Basis and a Statement of Activities and Net Assets-Cash Basis. These provide information about the activities of the City as a whole and provide an overall view of the City's finances.
- The fund financial statements reveal how governmental services were financed in the short term as well as what remains for future spending. The fund financial statements report the City's operations in greater detail than the government-wide statements by providing information about the most significant funds.
- Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Other supplementary information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Indebtedness provides details of various debts held by the City.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions that is asked about the City's finances is: "Is the City, as a whole, better or worse off as a result of this year's activities?" The Statement of Net Assets-Cash Basis and the Statement of Activities and Net Assets-Cash Basis report information to assist in answering this question. All of the current year's receipts and disbursements are accounted for in the Statement of Activities and Net Assets-Cash Basis when cash is received or paid.

The Statement of Net Assets-Cash Basis presents a picture of all of the City's net assets and liabilities with the difference between the two reported as the cash basis net assets. When using this as a comparison to the figure for cash basis net assets over a period of time, changes in the City's cash basis net assets may serve as a useful indicator as to whether the City's financial position is improving or deteriorating.

The Statement of Activities and Net Assets-Cash Basis presents information showing how the City's cash basis net assets changed during the most recent fiscal year. All changes in cash basis net assets are reported as soon as the cash is received or paid.

The Statement of Net Assets-Cash Basis and Statement of Activities and Net Assets-Cash Basis report two kinds of activities.

1. **Governmental Activities:** These include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects.
2. **Business-Type Activities:** These include the City's utilities which specifically are the water system (production, storage, transmission, distribution, treatment, and billing) and sewer system (collection, transmission, treatment, and discharge). These services are primarily characterized by their reliance on user charges as opposed to property or other general tax proceeds.

Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant funds and not the City as a whole. Some funds are required by State law while others are required by bond covenants or Council policy. The City's two kinds of funds - Governmental and Proprietary (Business-type) - are different by definition. These differences are summarized below.

Governmental Funds: Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The City's governmental funds include the general fund and the special revenue funds (i.e., tax increment financing funds and road use taxes).

The governmental funds required financial statements include a balance sheet-cash basis and a statement of cash receipts, disbursements and changes in cash balances.

Proprietary (Business-Type) Funds: These account for the City's enterprise funds which are those for which rate payers or other customers pay for the services rendered. The City's enterprise funds include water and sewer funds only. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes for the benefit of the rate payers. The required financial statements for proprietary funds include a statement of net assets-cash basis and statement of activities and net assets-cash basis.

	<u>Condensed Statement of Net Assets - Cash Basis</u>		
	<u>Governmental</u>	<u>Business-type</u>	
	Activities	Activities	Total
Current and other cash assets	\$ 226,803	\$ 13,451	\$ 240,254
Cash basis net assets			
Unrestricted	\$ 226,803	\$ 13,451	\$ 240,254

The following analysis shows the change in net assets for the year ending June 30, 2005:

	Changes in Cash Basis Net Assets		
	Governmental Activities	Business-type Activities	Total
Receipts:			
Program receipts			
Charges for service	\$ 51,716	\$ 114,714	\$ 166,430
Capital grants	78,571	-	78,571
General receipts			
Property taxes	99,671	-	99,671
Tax increment financing collections	99,340	-	99,340
Other city taxes	4,429	-	4,429
Local option sales tax	36,422	-	36,422
Licenses and permits	1,560	-	1,560
Unrestricted investment earnings	4,307	-	4,307
Use of money and property	5,792	-	5,792
Miscellaneous	10,495	-	10,495
Proceeds from issuance of debt	23,600	-	23,600
Total receipts	415,903	114,714	530,617
Program disbursements:			
Public safety	46,077	-	46,077
Public works	180,731	-	180,731
Health & social services	358	-	358
Culture & recreation	42,492	-	42,492
Community & economic development	28,686	-	28,686
General government	73,675	-	73,675
Capital outlay	45,427	-	45,427
Other expenses	-	90,431	90,431
Total disbursements	417,446	90,431	507,877
(Decrease) Increase in cash basis net assets	(1,543)	24,283	22,740
Cash basis net assets beginning of year	228,346	(10,832)	217,514
Cash basis net assets end of year	\$ 226,803	\$ 13,451	\$ 240,254

Individual Major Fund Analysis

At the end of FY 04-05, the City reflected a combined cash basis net asset balance for its governmental funds of \$226,803. (See *Exhibit D* for details). This compares to \$228,346 for the combined cash basis net asset balance for governmental funds at the end of FY 03-04. This is a modest decrease of \$1,543.

The road use tax fund is within the special revenue fund of the City. The City intends to use the money generated in this fund for road construction and maintenance.

The tax increment financing (TIF) fund is within the special revenue fund of the City. This fund accounts for TIF revenue from the taxes authorized by ordinances for the six projects within their respective urban renewal districts from which such tax revenues were duly certified.

Proprietary Fund Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2005 with a cash basis net asset balance of \$1,495. This reflects a change of \$11,282 from the end of fiscal year 2004 when the cash basis net asset balance was \$(9,787).

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2005 with a cash basis net asset balance of \$11,956. This reflects a change of \$13,001 from the end of fiscal year 2004 when the cash basis net asset balance was \$(1,045).

Budgetary Highlights

Over the course of the year, the City amended its budget once. The amendment was approved on May 16, 2005. The amendment was to apply for the Community Attractions and Tourism Grant for the River Park, Streetscape, and Opera House Handicap Access projects and resulted in an increase of revenues of \$35,865 and expenditures by \$99,329.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

The future of our City will be affected by any number of changes that may occur within the economic environment of our state and nation. Baring any great change in those political environments the City of Clermont will consider first its fixed costs, then its aspirations for growth and development.

We shall define fixed costs as those things we need to pay to maintain the City services as they are and to provide for the growth in those costs as the City grows. We shall define growth costs as those costs related to adding new area for business and residential additions.

It is the policy of the City to collect no more tax than is needed for this purpose, but to be sure that the taxes which are collected are adequate to pay for the goods and services needed to operate the City.

As a result of those policies, the City dedicates a portion of the TIF funds to be for growth and a portion to be dedicated to reconstruction projects. All of these projects must fall within the guide lines as set out in the urban development plan of the City. While TIF is a good tool for the continued growth of the City, the monitoring and development of accounting systems that are easily understandable and accessible, to both those in government positions and those who are not, is essential for the careful and accurate management of ordinary revenues.

For the FY06 and FY07 budget, several economic factors will affect the process of development in the City of Clermont. The City is applying for a Community Attraction and Tourism Grant for the renovation of the Opera House, Business District improvements, and River Park improvements. If this grant is not obtained, the project timelines will be adjusted accordingly and will require a much longer time to complete.

The City is expecting a drop in local option sales tax revenue as well as road use tax revenue. The costs of heating fuel and gas have resulted in adjustments to the current budget and these expenses will continue to be examined. During fiscal year 2004-2005 the City increased water fees, garbage fees, and wastewater fees. The City also implemented additional fees and adjusted the rental charges for the Opera House.

The City will continue to monitor all of its resources and determine the need for program adjustments or fee increases accordingly.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Management's Discussion and Analysis Letter along with the financial report have been designed to present our current and prospective citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. It is our hope that such information will assist in assessing the City's achievements and challenges. If you have any questions or desire any additional information about this report, please contact Jenean Niedert, City Clerk, at (563) 423-7295 or visit the City Hall Offices at 505 Larrabee Street in Clermont, Iowa.

CITY OF CLERMONT

STATEMENT OF NET ASSETS - CASH BASIS
June 30, 2005

	Primary Government		Total
	Governmental Activities	Business-type Activities	
CASH ASSETS			
Cash and cash equivalents	\$ 132,916	\$ 13,451	\$ 146,367
Investments	93,887		93,887
Total assets	<u>\$ 226,803</u>	<u>\$ 13,451</u>	<u>\$ 240,254</u>
CASH BASIS NET ASSETS			
Unrestricted	\$ 226,803	\$ 13,451	\$ 240,254
Total cash basis net assets	<u>\$ 226,803</u>	<u>\$ 13,451</u>	<u>\$ 240,254</u>

See Notes to Financial Statements.

CITY OF CLERMONT

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
For the Year Ended June 30, 2005

Functions and Programs	Disbursements	Program Receipts and Sources		Net Cash Sources (Uses) and Changes in Net Assets		
		Fees, Fines and Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental activities						
Public safety	\$ 46,077			\$ (46,077)		\$ (46,077)
Public works	180,731			(180,731)		(180,731)
Health and social services	358			(358)		(358)
Culture and recreation	42,492			(42,492)		(42,492)
Community and economic development	28,686			(28,686)		(28,686)
General government	73,675	\$ 88,602	\$ 59,532	74,459		74,459
Capital outlay	45,427			(45,427)		(45,427)
Total governmental activities	417,446	88,602	59,532	(269,312)		(269,312)
Business-type activities						
Water utilities	50,640	61,922			\$ 11,282	11,282
Sewer utilities	39,791	52,792			13,001	13,001
Total business-type activities	90,431	114,714	-	-	24,283	24,283
Total primary government	\$ 507,877	\$ 203,316	\$ 59,532	(269,312)	24,283	(245,029)
General Receipts						
Property and other city taxes levied for:						
General purposes				99,671		99,671
Tax increment financing collections				99,340		99,340
Other city taxes				4,429		4,429
Local option sales tax				36,422		36,422
Investment earnings				4,307		4,307
Proceeds from issuance debt				23,600		23,600
Total general receipts, special items and transfers				267,769	-	267,769
Change in cash basis net assets				(1,543)	24,283	22,740
Cash basis net assets - beginning				228,346	(10,832)	217,514
Cash basis net assets - ending				\$ 226,803	\$ 13,451	\$ 240,254

See Notes to Financial Statements.

CITY OF CLERMONT

BALANCE SHEET - CASH BASIS

GOVERNMENTAL FUNDS

As of June 30, 2005

	General	Special Revenue		Total Governmental Funds
		Road Use Tax	Tax Incremental Financing	
ASSETS				
Cash and cash equivalents	\$ 40,621	\$ 20,450	\$ 71,845	\$ 132,916
Investments	93,887			93,887
Total assets	\$ 134,508	\$ 20,450	\$ 71,845	\$ 226,803
CASH BASIS FUND BALANCES				
Unreserved, reported in:				
Special revenue funds		\$ 20,450	\$ 71,845	\$ 92,295
General fund	\$ 134,508			134,508
Total cash basis fund balances	\$ 134,508	\$ 20,450	\$ 71,845	\$ 226,803

See Notes to Financial Statements.

CITY OF CLERMONT

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2005

	General	Special Revenue		Other Nonmajor Governmental Funds	Total Governmental Funds
		Road Use Tax	Tax Incremental Financing		
Receipts					
Property taxes	\$ 81,215	\$ 18,456			\$ 99,671
Tax increment financing collections			\$ 99,340		99,340
Other city tax	2,949	1,480			4,429
Local option sales tax				\$ 36,422	36,422
Licenses and permits	1,560				1,560
Investment earnings	4,307				4,307
Use of money and property	5,792				5,792
Intergovernmental	19,039	59,532			78,571
Charges for services	51,716				51,716
Miscellaneous	10,495				10,495
Total receipts	177,073	79,468	99,340	36,422	392,303
Disbursements					
Operating					
Public safety	45,610			467	46,077
Public works	48,551	107,591	24,589		180,731
Health and social services	358				358
Culture and recreation	42,492				42,492
Community and economic development			28,686		28,686
General government	73,675				73,675
Capital projects				45,427	45,427
Total disbursements	210,686	107,591	53,275	45,894	417,446
Excess (deficiency) of receipts over disbursements	(33,613)	(28,123)	46,065	(9,472)	(25,143)
Other financing sources (uses)					
Proceeds from issuance of debt		23,600			23,600
Transfers in	57,613			45,427	103,040
Transfers out		(19,935)	(45,427)	(37,678)	(103,040)
Total other financing sources and uses	57,613	3,665	(45,427)	7,749	23,600
Net change in cash balances	24,000	(24,458)	638	(1,723)	(1,543)
Cash balances - beginning	110,508	44,908	71,207	1,723	228,346
Cash balances - ending	\$ 134,508	\$ 20,450	\$ 71,845	\$ -	\$ 226,803

See Notes to Financial Statements.

CITY OF CLERMONT

STATEMENT OF NET ASSETS - CASH BASIS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2005

	Enterprise Funds		Total
	Water	Sewer	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,495	\$ 11,956	\$ 13,451
Total assets	\$ 1,495	\$ 11,956	\$ 13,451
 Cash basis net assets			
Unrestricted	\$ 1,495	\$ 11,956	\$ 13,451
Total cash basis net assets	\$ 1,495	\$ 11,956	\$ 13,451

See Notes to Financial Statements.

CITY OF CLERMONT

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2005

	Enterprise Funds		Total
	Water	Sewer	
Operating Revenues			
Charges for services	\$ 61,922	\$ 52,792	\$ 114,714
Total operating revenues	<u>61,922</u>	<u>52,792</u>	<u>114,714</u>
Operating Expenses			
Personal services	19,231	19,232	38,463
Utilities	6,356	5,116	11,472
Repairs and maintenance	353	4,730	5,083
Supplies	7,314	5,284	12,598
Professional services		1,367	1,367
Other expenses	5,233	4,062	9,295
Total operating expenses	<u>38,487</u>	<u>39,791</u>	<u>78,278</u>
Operating income	<u>23,435</u>	<u>13,001</u>	<u>36,436</u>
Nonoperating Revenues (Expenses)			
Debt principal	(8,652)		(8,652)
Interest expense	(3,501)		(3,501)
Total nonoperating revenue (expenses)	<u>(12,153)</u>	<u>-</u>	<u>(12,153)</u>
Change in cash basis net assets	<u>11,282</u>	<u>13,001</u>	<u>24,283</u>
Cash basis net assets - beginning	<u>(9,787)</u>	<u>(1,045)</u>	<u>(10,832)</u>
Cash basis net assets - ending	<u>\$ 1,495</u>	<u>\$ 11,956</u>	<u>\$ 13,451</u>

See Notes to Financial Statements.

CITY OF CLERMONT

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The City of Clermont is a political subdivision of the State of Iowa located in Fayette County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under a Mayor-Council form of government with the Mayor and Council elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

b. Significant Accounting Policies

Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. A City official is a member of the following boards: Fayette County Assessor's Conference Board, Fayette County Emergency Management Commission, Fayette County Solid Waste Commission, and Fayette County Joint E911 Service Board.

Government-wide Financial Statements

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

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

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

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Government-wide Financial Statements (Continued)

The statement of activities and net assets - cash basis 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. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements

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

The City reports the following major governmental funds:

Governmental

General Fund

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

Special Revenue

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

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

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

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

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

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

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

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in the general government or business type activities functions.

Assets, Liabilities and Net Assets

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

Cash, Pooled Cash and Investments

The City's cash is commingled in a single bank account. Each fund has a separate cash ledger balance.

The cash balances of some city funds are pooled and invested with other funds of the City of Clermont. Interest earned on investments is recorded in each fund. The interest income is allocated to each fund based on the fund's balance in the pool. All of the investments carried in the financial statement, which consist of certificates of deposits, are stated at fair value. Cost approximates fair value at June 30, 2005.

Compensated Absences

City employees earn vacation leave at the following rates:

Years of Service	Vacation Earned Per Year
1	1 week
2-4	2 weeks
5-9	3 weeks
10	4 weeks

Full time regular employees, after one year of service, also earn five days of sick leave per fiscal year. Vacation and sick leave are not recognized as disbursements by the City until used or paid. Unused vacation may not carry over from one fiscal year to the next but is paid upon termination, retirement, or death. Unused sick leave does not carry over and is not paid upon termination. Accordingly, the City's liability for vacation and sick leave at June 30, 2005, relating primarily to the General Fund, was zero.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets (Continued)

Net Assets

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets. The City has not recorded any capital assets at this time.

Restricted net assets consist of net assets with constraints placed on their use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net assets are used first when an expense is incurred for purposes for both restricted and unrestricted net cash assets.

Unrestricted net assets consist of net assets with no constraints placed on their use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Property Taxes

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax period July 1, 2004 through June 30, 2005 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2004.

2. Cash and Pooled Investments

The City's deposits at June 30, 2005, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2005, the City had the following investments:

<u>Account</u>	<u>Amount</u>	<u>Balance Sheet Classification</u>
Cash	\$ 146,367	Cash
Certificates of deposit	93,887	Investments
	<u>\$ 240,254</u>	

NOTES TO FINANCIAL STATEMENTS

2. Cash and Pooled Investments (Continued)

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

3. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Balance June 30, 2004	Issued	(Paid)	Balance June 30, 2005
Governmental activities				
General obligation bonds	\$ 60,488		\$ (8,652)	\$ 51,836
Banks notes payable	47,467	\$ 23,600	(3,567)	67,500
28E agreement	181,709		(45,428)	136,281
	<u>\$ 289,664</u>	<u>\$ 23,600</u>	<u>\$ (57,647)</u>	<u>\$ 255,617</u>

a. General Obligation Bonds Payable at June 30, 2005

\$51,836 1997 General Obligation Water Note, due semi-annually from December 2005 through June 2010 plus interest at 6.00%.

\$ 51,836

b. Notes Payable

During November 2004, the City borrowed money from Kerndt Brothers Savings Bank on a fixed rate commercial promissory note for a tractor. The note is due in annual installments of \$5,413 beginning November 11, 2005, including interest at 4.75%. The note which is secured by the tractor had a balance of \$23,600 at June 30, 2005.

During July 1995, the City borrowed money from Kerndt Brothers Savings Bank on a fixed rate commercial promissory note for a fire truck. The note is due in annual installments of \$6,512 plus interest at 6.0% through April 2014. The note which is secured by the fire had a balance of \$43,900 at June 30, 2005.

c. 28E Agreement

During October 2003, the City entered into a 28E agreement with Fayette County to help finance the reconstruction of a bridge for \$181,709. The City will repay the County in four \$45,427 installments. The balance is \$136,281 as of June 30, 2005.

d. Debt Payment Schedule

A summary of the principal and interest maturities by type of debt is as follows:

Year Ending June 30,	Bonded		Notes Payable		28E Agreement
	Principal	Interest	Principal	Interest	Principal
2006	\$ 9,179	\$ 2,974	\$ 8,080	\$ 3,845	\$ 45,427
2007	9,738	2,415	8,519	3,406	45,427
2008	10,331	1,822	8,983	2,943	45,427
2009	10,960	1,193	9,471	2,454	
2010	11,628	526	9,987	1,938	
2011-2014			22,460	3,587	
	<u>\$ 51,836</u>	<u>\$ 8,930</u>	<u>\$ 67,500</u>	<u>\$ 18,173</u>	<u>\$ 136,281</u>

NOTES TO FINANCIAL STATEMENTS

4. 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 3.7% of their annual salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2005, 2004, and 2003 were \$4,933, \$4,974, and \$4,528, respectively, equal to the required contributions for each year.

5. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer To	Transfer From	Amount
General	Special revenue Road use	\$ 19,935
General	Local option sales tax	37,678
Capital projects	Tax increment financing	<u>45,427</u>
		<u>\$ 103,040</u>

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

6. Related Party Transactions

The City had business transactions between the City and City employees and officials, totaling \$39,863 during the year ended June 30, 2005.

7. Risk Management

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

NOTES TO FINANCIAL STATEMENTS

8. Accounting Change and Restatements

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments; Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule-Perspective Differences, were implemented during the year ended June 30, 2005. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business-type activities.

9. Construction Commitments

As of June 30, 2005, the City has outstanding construction commitments of \$94,392. These commitments will be funded by tax increment financing and road use tax collections.

CITY OF CLERMONT

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
 As of June 30, 2005

	Governmental	Proprietary	Net	Budgeted Amounts		Variance with
	Funds	Funds		Original	Final	Final Budget
	Actual	Actual				Positive (Negative)
Receipts:						
Property taxes	\$ 99,671		\$ 99,671	\$ 95,845	\$ 95,845	\$ 3,826
Tax increment financing collections	99,340		99,340	100,000	100,000	(660)
Other city tax	40,851		40,851	41,483	41,483	(632)
Licenses and permits	1,560		1,560	1,575	1,575	(15)
Investment earnings	4,307		4,307			4,307
Use of money and property	5,792		5,792	7,400	9,030	(3,238)
Intergovernmental	78,571		78,571	75,999	78,251	320
Charges for services	51,716	\$ 114,714	166,430	170,405	168,370	(1,940)
Miscellaneous	10,495		10,495	5,825	10,815	(320)
Total receipts	392,303	114,714	507,017	498,532	505,369	1,648
Disbursements:						
Public safety	46,077		46,077	51,115	54,657	8,580
Public works	180,731		180,731	140,100	192,130	11,399
Health and social services	358		358	350	360	2
Culture and recreation	42,492		42,492	41,880	43,988	1,496
Community and economic development	28,686		28,686	30,000	30,000	1,314
General government	73,675		73,675	69,250	76,433	2,758
Capital projects	45,427		45,427	40,000	45,428	1
Business type activities		90,431	90,431	118,055	118,055	27,624
Total disbursements	417,446	90,431	507,877	490,750	561,051	53,174
Excess (deficiency) of receipts over disbursements	(25,143)	24,283	(860)	7,782	(55,682)	54,822
Other financing sources, net	23,600	-	23,600	-	-	23,600
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(1,543)	24,283	22,740	7,782	(55,682)	78,422
Balances beginning of year	228,346	(10,832)	217,514	190,565	190,565	26,949
Balances end of year	\$ 226,803	\$ 13,451	\$ 240,254	\$ 198,347	\$ 134,883	\$ 105,371

See Notes to Required Supplementary Information.

CITY OF CLERMONT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
June 30, 2005

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Capital Projects, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues and other sources by \$35,865 and expenditures by \$99,329. This budget amendment is reflected in the final budgeted amounts.

HACKER, NELSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
and BUSINESS CONSULTANTS

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**INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION**

To the Honorable Mayor and
Members of the City Council
City of Clermont
Clermont, Iowa

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clermont's basic financial statements. The schedule of indebtedness and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of indebtedness and combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 24, 2005

CITY OF CLERMONT

COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	<u>Local Option Sales Tax</u>	<u>Police Trust Fund</u>	<u>Capital Projects</u>	<u>Total</u>
RECEIPTS				
Local option sales tax	\$ 36,422			\$ 36,422
Total receipts	<u>36,422</u>			<u>36,422</u>
DISBURSEMENTS				
Operating				
Public safety		\$ 467		467
Capital projects			\$ 45,427	45,427
Total disbursements		<u>467</u>	<u>45,427</u>	<u>45,894</u>
Excess (deficiency) of receipts over disbursements	<u>36,422</u>	<u>(467)</u>	<u>(45,427)</u>	<u>(9,472)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in			45,427	45,427
Transfers out	<u>(37,678)</u>			<u>(37,678)</u>
Total other financing sources and uses	<u>(37,678)</u>		<u>45,427</u>	<u>7,749</u>
Net change in cash balances	(1,256)	(467)		(1,723)
Cash balances - beginning	<u>1,256</u>	<u>467</u>	<u>-</u>	<u>1,723</u>
Cash balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report on the Supplementary Information.

CITY OF CLERMONT

SCHEDULE OF INDEBTEDNESS
For the Year Ended June 30, 2005

Bonded Indebtedness	Interest Rate	Issue Date	Final Maturity Date	Outstanding June 30, 2004	Issued in 2005	Paid in 2005	Outstanding June 30, 2005	Interest Paid
GENERAL OBLIGATION								
G.O. Revenue Bond Series 1995	6.00	7-10-95	6-01-10	\$ 60,488		\$ 8,652	\$ 51,836	\$ 3,501
OTHER LONG-TERM INDEBTEDNESS								
Kerndt Brothers Savings Bank								
Special Revenue - Road Use Equipment Tractor	4.75	11-15-04	11-15-09		\$ 23,600		23,600	
Special Revenue - Road Use Equipment Truck	6.00	7-09-04	4-01-14	47,467		3,567	43,900	2,945
28E Agreement		10-20-03	6-01-08	181,709		45,428	136,281	
				<u>229,176</u>	<u>23,600</u>	<u>48,995</u>	<u>203,781</u>	<u>2,945</u>
				<u>\$ 289,664</u>	<u>\$ 23,600</u>	<u>\$ 57,647</u>	<u>\$ 255,617</u>	<u>\$ 6,446</u>

See Independent Auditor's Report on the Supplementary Information.

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 Clermont
Clermont, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Clermont as of and for the year ended June 30, 2005, which collectively comprise the City of Clermont's basic financial statements and have issued our report thereon dated August 24, 2005. As discussed in Note 1b, the City of Clermont prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Clermont's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Clermont'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.

Overlapping Duties

The City's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize that the City is not large enough to permit a segregation of duties for effective internal controls, we believe that it is important that the Board be aware that this condition does exist.

Response

The City Council is cognizant of this limitation.

Conclusion

Response acknowledged.

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 cause by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Clermont'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we have reported to management of City of Clermont in a separate letter dated August 24, 2005.

This report is intended solely for the information and use of the Mayor and City Council, management, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 24, 2005

MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council
City of Clermont
Clermont, Iowa

In planning and performing our audit of the financial statements of the City of Clermont for the year ended June 30, 2005, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the City's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1-8 below are compliance comments required by the Iowa Auditor of State. A separate report dated August 24, 2005 contains our report on reportable conditions in the City's internal controls. This letter does not affect our report dated August 24, 2005, on the basic financial statements of the City of Clermont. Prior audit comments have all been resolved except item 5 below. These comments are not intended to and do not constitute legal opinions.

1. Official Depositories

A resolution naming official depository banks has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

2. Certified Budget

Disbursements for the year ended June 30, 2005 did not exceed the amounts budgeted.

3. Questionable Disbursements

We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

4. Travel Expense

No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

5. Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Steve Baker, Council Member, Baker Concrete	Retail purchases	\$ 38,852
Randy Wiedenhoff, Council Member, Out Back Repair	Retail purchases	\$ 1,011

The transactions listed above in excess of \$1,500 may be in violation of Iowa Code Section 362.5 since cumulative purchases exceeded \$1,500 during the fiscal year. Of the purchases from Baker Concrete, the City paid \$1,726 for jobs not competitively bid.

Recommendation

We recommend the City seek advice from their attorney to determine if there has been a violation of the Code of Iowa in regards to the transactions with the above stated board members, and if so, what action is needed. The City should consider a policy to monitor these transactions to maintain Code Compliance.

Response

We will consult with the City Attorney to determine if any violations have occurred regarding the noted transactions.

Conclusion

Response accepted.

6. Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

7. Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not. However, the minutes did not include a summary of receipts.

Recommendation

We recommend that the Council minutes include a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Response

Beginning in January 2006, the minutes will include the receipts.

Conclusion

Response accepted.

8. Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City's investment policy.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Clermont during the course of our examination.

If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

Hacker, Nelson & Co., P. C.

Decorah, Iowa
August 24, 2005