

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

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CITY OF ESTHERVILLE

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before December 2003)		
Lyle Hevern	Mayor	January, 2004
Harold Sawyer	Mayor Pro Tem	January, 2004
Susan Nelson	Council Member	January, 2004
Harold Sawyer	Council Member	January, 2004
Terry Nelson	Council Member	January, 2004
Joseph Swisher	Council Member	January, 2006
Larry W. Anderson	Council Member	January, 2006
C.L. Hackett	Council Member	January, 2006
Gene Haukoos	Council Member	January, 2006
Steven D. Woodley	City Administrator	Indefinite
Vaughn Brua	City Clerk/Finance Director/Treasurer	January, 2004
Connie Hanson	Deputy City Clerk	January, 2004
Forsyth Law Office	Attorney	January, 2004
(After December 2003)		
Lyle Hevern	Mayor	January, 2006
Harold Sawyer	Mayor Pro Tem	January, 2008
Susan Nelson	Council Member	January, 2008
Harold Sawyer	Council Member	January, 2008
Terry Nelson	Council Member	January, 2008
Joseph Swisher	Council Member	January, 2006
Larry W. Anderson	Council Member	January, 2006
Loralee Donovan	Council Member	November, 2005
Gene Haukoos	Council Member	January, 2006
Steven D. Woodley	City Administrator	Indefinite
Vaughn Brua	City Clerk/Finance Director/Treasurer	January, 2006
Connie Hanson	Deputy City Clerk	January, 2006
Forsyth Law Office	Attorney	January, 2006

City of Estherville

Johnson & Eckard CPAs, P.C.

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Estherville, Iowa 51334-2325
(712) 362-5891
FAX (712) 362-7172

1401 Hill Avenue
Spirit Lake, Iowa 51360-1333
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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Estherville, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Estherville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Estherville as of June 30, 2004, and the

respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 16, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated August 12, 2004 on our consideration of the City of Estherville’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 8 through 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Estherville’s basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 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.


Johnson & Eckard, CPAs, P.C.

August 12, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements.

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

2004 FINANCIAL HIGHLIGHTS

The City's total expenses exceeded total revenue by \$233,954 during fiscal year 2004.

The City's total expenditures declined from \$11,231,073 in fiscal year 2003 to \$10,620,514 in fiscal year 2004. This is a decrease of \$610,559 or 5.4%. The primary reason for this change is CAT grant funds of almost \$1,000,000 received in fiscal year 2003.

Reconstruction of the airport runway was completed during fiscal year 2004 with a total project cost of \$1,074,425. The Federal Aviation Administration will provide 90% of the funding through grants.

The undesignated General Fund balance declined by \$217,372 to an ending balance of \$726,591 on June 30, 2004. A portion of the decline was related to a reduction in state reimbursements of over \$118,000.

A sanitary sewer rate increase occurred during fiscal year 2004.

An increase in solid waste bags took place in fiscal year 2004 due to a 20% increase in the tipping fee.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as required by Governmental Accounting Standard Board Statement No. 34. The required information is:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental and proprietary funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information, which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, state assistance and grants finance most of these activities.
- Business Type Activities include the water, sanitary sewer, and electric systems. The airport operations is also included.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing Funds, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the water, sewer, electric, and airport funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$3.505 million to \$3.229 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Change in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, <u>2004</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 710
Operating grants, contributions and restricted interest	609
Capital grants, contributions and restricted interest	851
General receipts:	
Property tax levied for:	
General purposes	1,429
Tax increment financing	169
Debt service	300
Unrestricted investment earnings	65
Miscellaneous	136
Sale of Assets	1
Transfers, net	<u>1,270</u>
Total receipts and transfers	5,540
Disbursements:	
Public safety	916
Public works	1,659
Health and social services	5
Culture and recreation	536
Community and economic development	213
General government	692
Debt service	581
Capital projects	<u>1,214</u>
Total disbursements	5,816
Decrease in cash basis net assets	(276)
Cash basis net assets beginning of year	<u>3,505</u>
Cash basis net assets end of year	<u>\$ 3,229</u>

The City's cash balance for business type activities increased from \$3.455 million one year ago to \$3.497 million at year-end. The analysis that follows focuses on changes in business type activities.

Change in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, <u>2004</u>
Receipts and transfers:	
Program receipts:	
Charges for service	
Water	\$ 1,140
Sewer rental	1,008
Electric	3,874
Airport	50
General receipts:	
Unrestricted interest on investment	30
Miscellaneous	<u>14</u>
Total receipts	6,116
Disbursements and transfers:	
Water	797
Water emergency	35
Sewer rental	806
Electric	2,673
Electric emergency	333
Airport Revolving	0
Airport	50
Enterprise equipment revolving	110
Transfers	<u>1,270</u>
Total disbursements and transfers	6,074
Increase (decrease) in cash basis net assets	42
Cash basis net assets beginning of year	<u>3,455</u>
Cash basis net assets end of year	<u>\$ 3,497</u>

Since this is the first year to report activities using the new GASB 34 approach, a comparison to the prior year is not possible. However, in next year's discussion, this section will show a condensed financial comparison of revenues and expenses and provide explanations for significant differences.

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

For the year ending June 30, 2004, governmental funds totaled \$3,228,574. This is a decrease of \$276,797 from the June 30, 2003 balance of \$3,505,371.

A number of funds have been designated as major funds based on fund balance, revenues or expenditures. They include:

- The General Fund cash balance decreased \$100,641 from the prior year to \$1,081,976. The general fund consists of three portions: the undesignated General Fund which decreased \$217,372, the designated Parks and Recreation revolving fund which increased \$50,948, and the designated Equipment Revolving-General which increased \$65,783. The decline in undesignated General Fund is a concern as this provides operational funding of all General Fund departments.
- The Road Use Tax Fund cash balance increased by \$108,420 to \$1,519,897 during the fiscal year. The City intends to use the money to continue maintenance of city streets.
- The Airport Runway Construction Fund balance declined from -0- on June 30, 2003, to a negative \$45,781 on June 30, 2004. Federal Aviation Administration grant funds of \$832,438 were received during the year. Reimbursement of \$45,224 in grant funds had not been authorized at year-end. The city will provide \$557 to close the fund upon authorization.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- The water fund cash balance increased by \$157,355 to \$568,894 on June 30, 2004. The funds will be used for improvements in the water plant and distribution system.
- The sanitary sewer fund cash balance increased by \$87,202 to \$271,285 on June 30, 2004. The increase is due primarily to a rate increase during the year.
- The electric fund cash balance increased by \$3,769 to \$956,798 on June 30, 2004.
- The electric emergency fund cash balance decreased by \$13,666 to \$1,207,621 on June 30, 2004.

BUDGETARY HIGHLIGHTS

During the year, the city amended the budget on two occasions. The first amendment was approved on November 3, 2003. The amendment authorized the expenditure of funds for a transportation agreement for an additional \$3,000 and an additional \$180,000 for capital projects. It had been originally anticipated the \$180,000 would be expended prior to June 30, 2003.

The second amendment was approved on May 3, 2004 to provide \$60,000 of expenditures for a Runway Lighting Project which the Federal Aviation Administration (FAA) approved mid-year. The FAA would provide 95% of the costs. The additional item approved was the calling of \$230,000 in bonds.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$1,970,000 in general obligation bonds/notes outstanding compared to \$2,435,000 last year. During the year the scheduled debt retirement payments were made and an additional \$230,000 in bonds were called for early payment. This early payment will save \$26,000 in future interest costs.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,970,000 is significantly below its constitutional debt limit of approximately \$8.1 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the upcoming fiscal year ending June 30, 2005, the City's budget is fairly consistent with this year. The property levy declines and less property tax revenue is anticipated. No utility rate increases are anticipated.

The budgeted cash balance decreases by approximately \$800,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Vaughn Brea, City Clerk, 2 North 7th Street, Estherville, Iowa 51334 or telephone (712)362-7771.

City of Estherville

Basic Financial Statements

CITY OF ESTHERVILLE
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2004

Functions/Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 916,293	\$ 31,136	\$ 34,823	\$ 3,000	\$ (847,334)	\$ -	\$ (847,334)
Public works	1,658,703	566,105	554,362	-	(538,236)	-	(538,236)
Health and social services	5,165	-	-	-	(5,165)	-	(5,165)
Culture and recreation	536,188	19,882	20,087	510	(495,709)	-	(495,709)
Community and economic development	212,978	-	-	14,670	(198,308)	-	(198,308)
General government	692,456	93,181	-	-	(599,275)	-	(599,275)
Debt service	580,835	-	-	-	(580,835)	-	(580,835)
Capital projects	1,214,255	-	-	832,438	(381,817)	-	(381,817)
Total governmental activities	<u>5,816,873</u>	<u>710,304</u>	<u>609,272</u>	<u>850,618</u>	<u>(3,646,679)</u>	<u>-</u>	<u>(3,646,679)</u>
Business type activities:							
Water	796,632	1,139,767	-	-	-	343,135	343,135
Water emergency	34,747	-	-	-	-	(34,747)	(34,747)
Sewer rental	806,286	1,008,441	-	-	-	202,155	202,155
Electric	2,673,458	3,874,234	-	-	-	1,200,776	1,200,776
Electric emergency	333,204	-	-	-	-	(333,204)	(333,204)
Airport revolving	173	-	-	-	-	(173)	(173)
Airport	49,562	50,226	-	-	-	664	664
Enterprise equipment revolving	109,579	-	-	-	-	(109,579)	(109,579)
Total business type activities	<u>4,803,641</u>	<u>6,072,668</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,269,027</u>	<u>1,269,027</u>
Total	<u>\$ 10,620,514</u>	<u>\$ 6,782,972</u>	<u>\$ 609,272</u>	<u>\$ 850,618</u>	<u>(3,646,679)</u>	<u>1,269,027</u>	<u>(2,377,652)</u>
General Receipts:							
Property tax levied for:							
General purposes					1,429,561	-	1,429,561
Tax increment financing					168,656	-	168,656
Debt service					299,831	-	299,831
Unrestricted interest on investments					65,346	30,018	95,364
Miscellaneous					135,563	13,598	149,161
Sale of assets					1,125	-	1,125
Transfers					1,269,800	(1,269,800)	-
Total general receipts and transfers					<u>3,369,882</u>	<u>(1,226,184)</u>	<u>2,143,698</u>
Change in cash basis net assets					(276,797)	42,843	(233,954)
Cash basis net assets beginning of year, as restated					3,505,371	3,454,549	6,959,920
Cash basis net assets end of year					<u>\$ 3,228,574</u>	<u>\$ 3,497,392</u>	<u>\$ 6,725,966</u>
Cash Basis Net Assets							
Restricted:							
Permanent fund:							
Expendable					\$ 27,389	\$ -	\$ 27,389
Nonexpendable					57,574	-	57,574
Unrestricted					3,143,611	3,497,392	6,641,003
Total cash basis net assets					<u>\$ 3,228,574</u>	<u>\$ 3,497,392</u>	<u>\$ 6,725,966</u>

CITY OF ESTHERVILLE
 Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Governmental Funds
 As of and for the year ended June 30, 2004

	General	Special Revenue Road Use Tax	Capital Projects Airport Runway Construction	Other Nonmajor Governmental Funds	Total
Receipts:					
Property tax	\$ 913,275	\$ -	\$ -	\$ 793,600	\$ 1,706,875
Tax increment financing collections	-	-	-	168,656	168,656
Other city tax	13,499	-	-	9,018	22,517
Licenses and permits	83,891	-	-	-	83,891
Use of money and property	62,283	-	-	18,351	80,634
Intergovernmental	52,436	554,362	832,438	14,670	1,453,906
Charges for service	537,278	-	-	-	537,278
Special assessments	-	79,995	-	-	79,995
Miscellaneous	18,755	15,926	20,090	81,753	136,524
Total receipts	<u>1,681,417</u>	<u>650,283</u>	<u>852,528</u>	<u>1,086,048</u>	<u>4,270,276</u>
Disbursements:					
Operating:					
Public safety	740,224	-	-	176,069	916,293
Public works	998,795	542,895	-	117,013	1,658,703
Health and social services	5,165	-	-	-	5,165
Culture and recreation	445,691	-	-	90,497	536,188
Community and economic development	840	-	-	212,138	212,978
General government	576,216	-	-	116,240	692,456
Debt service	-	-	-	580,835	580,835
Capital projects	-	-	995,270	218,985	1,214,255
Total disbursements	<u>2,766,931</u>	<u>542,895</u>	<u>995,270</u>	<u>1,511,777</u>	<u>5,816,873</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(1,085,514)</u>	<u>107,388</u>	<u>(142,742)</u>	<u>(425,729)</u>	<u>(1,546,597)</u>
Other financing sources (uses):					
Operating transfers in	999,873	1,032	96,961	496,135	1,594,001
Operating transfers out	(15,000)	-	-	(309,201)	(324,201)
Total other financing sources (uses)	<u>984,873</u>	<u>1,032</u>	<u>96,961</u>	<u>186,934</u>	<u>1,269,800</u>
Net change in cash balances	(100,641)	108,420	(45,781)	(238,795)	(276,797)
Cash balances beginning of year	1,182,617	1,411,477	-	872,897	3,466,991
Cash balances end of year	<u>\$ 1,081,976</u>	<u>\$ 1,519,897</u>	<u>\$ (45,781)</u>	<u>\$ 634,102</u>	<u>\$ 3,190,194</u>
Cash Basis Fund Balances					
Reserved:					
Debt Service	\$ -	\$ -	\$ -	\$ 33,235	\$ 33,235
Permanent fund	-	-	-	57,574	57,574
Unreserved:					
General fund	1,081,976	-	-	-	1,081,976
Special revenue funds	-	1,519,897	-	530,084	2,049,981
Capital projects funds	-	-	(45,781)	(14,180)	(59,961)
Permanent fund	-	-	-	27,389	27,389
Total cash basis fund balances	<u>\$ 1,081,976</u>	<u>\$ 1,519,897</u>	<u>\$ (45,781)</u>	<u>\$ 634,102</u>	<u>\$ 3,190,194</u>

See notes to financial statements.

City of Estherville

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

Exhibit C

Total governmental funds cash balances (page 17) \$ 3,190,194

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

The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The assets of the Garage Fund are included in governmental activities in the Statement of Net Assets.

38,380

Cash basis net assets of governmental activities (page 16) \$ 3,228,574

CITY OF ESTHERVILLE
 Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Proprietary Funds
 As of and for the year ended June 30, 2004

	Enterprise Funds						Internal Service Funds
	Water	Sewer Rental	Electric	Electric Emergency	Other Nonmajor Proprietary Funds	Total	
Operating receipts:							
Use of money and property	\$ -	\$ 500	\$ 20	\$ -	\$ 43,107	43,627	\$ -
Charges for service	1,139,767	1,007,941	3,874,214	-	10,026	6,031,948	235,310
Miscellaneous	-	-	-	-	10,690	10,690	3,881
Total operating receipts	<u>1,139,767</u>	<u>1,008,441</u>	<u>3,874,234</u>	<u>-</u>	<u>63,823</u>	<u>6,086,265</u>	<u>239,191</u>
Operating disbursements:							
Governmental activities:							
Public safety	-	-	-	-	-	-	32,025
Public works	-	-	-	-	-	-	128,832
Culture and recreation	-	-	-	-	-	-	12,707
General government	-	-	-	-	-	-	2,424
Business type activities	796,632	806,286	2,673,310	333,204	194,061	4,803,493	59,322
Total operating disbursements	<u>796,632</u>	<u>806,286</u>	<u>2,673,310</u>	<u>333,204</u>	<u>194,061</u>	<u>4,803,493</u>	<u>235,310</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>343,135</u>	<u>202,155</u>	<u>1,200,924</u>	<u>(333,204)</u>	<u>(130,238)</u>	<u>1,282,772</u>	<u>3,881</u>
Non-operating receipts (disbursements):							
Interest on investments	-	-	11,433	13,509	5,077	30,019	-
Non-program	-	-	-	-	-	-	(4,029)
Total non-operating receipts (disbursements)	<u>-</u>	<u>-</u>	<u>11,433</u>	<u>13,509</u>	<u>5,077</u>	<u>30,019</u>	<u>(4,029)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>343,135</u>	<u>202,155</u>	<u>1,212,357</u>	<u>(319,695)</u>	<u>(125,161)</u>	<u>1,312,791</u>	<u>(148)</u>
Operating transfers in	-	-	500	386,591	167,717	554,808	-
Operating transfers out	(185,780)	(114,953)	(1,209,088)	(80,562)	(234,225)	(1,824,608)	-
Net change in cash balances	157,355	87,202	3,769	(13,666)	(191,669)	42,991	(148)
Cash balances beginning of year	411,539	184,083	953,029	1,221,287	671,674	3,441,612	51,317
Cash balances end of year	<u>\$ 568,894</u>	<u>\$ 271,285</u>	<u>\$ 956,798</u>	<u>\$ 1,207,621</u>	<u>\$ 480,005</u>	<u>\$ 3,484,603</u>	<u>\$ 51,169</u>
Cash Basis Fund Balances							
Unrestricted	<u>\$ 568,894</u>	<u>\$ 271,285</u>	<u>\$ 956,798</u>	<u>\$ 1,207,621</u>	<u>\$ 480,005</u>	<u>\$ 3,484,603</u>	<u>\$ 51,169</u>
Total cash basis fund balances	<u>\$ 568,894</u>	<u>\$ 271,285</u>	<u>\$ 956,798</u>	<u>\$ 1,207,621</u>	<u>\$ 480,005</u>	<u>\$ 3,484,603</u>	<u>\$ 51,169</u>

See notes to financial statements.

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

Exhibit E

Total enterprise funds cash balances (page 20) \$3,484,603

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The assets of the Garage Fund are included in business type activities in the Statement of Net Assets. 12,937

The Computer Clearing Fund is used by management to record customer checks returned due to non-sufficient funds. The assets of the Computer Clearing Fund are included in business type activities in the Statement of Net Assets. (148)

Cash basis net assets of business type activities (page 16) \$3,497,392

Net change in cash balances (page 20) \$ 42,991

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Computer Clearing Fund is used by management to record customer checks returned due to non-sufficient funds. The change in net assets of the Computer Clearing Fund is included in business type activities in the Statement of Net Assets. (148)

Change in cash balance of business type activities (page 16) \$ 42,843

CITY OF ESTHERVILLE
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Estherville is a political subdivision of the State of Iowa located in Emmet County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides electric, water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Estherville 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. City officials are members of the following boards and commissions: Emmet County Council of Governments and Emmet County E911 Service Board.

B. Basis of Presentation

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2004

Basis of Presentation – Continued

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

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

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

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

It is the City's policy to determine on a case by case basis whether to use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

The City reports the following major governmental funds:

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2004

Fund Financial Statements - Continued

Special Revenue:

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

Capital Projects:

The Airport Runway Construction Fund is used to account for all resources used in the construction of the airport runway project.

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

The Electric Fund accounts for the operation and maintenance of the City's electrical system.

The Electric Emergency Fund accounts for the accumulation of funds for expenditures for the City in case of an electrical emergency.

The City also reports the following additional proprietary funds:

Internal Service:

The Garage Fund is utilized to account for the financing of goods or services provided by one department of the City to other departments or agencies on a cost reimbursement basis.

The Computer Clearing Fund is utilized to account for customer checks returned due to non-sufficient funds.

C. Measurement Focus and Basis of Accounting

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2004

Measurement Focus and Basis of Accounting - Continued

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.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

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

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

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

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

Type	Carrying Amount	Fair Value
U. S. Government Securities	<u>\$57,015</u>	<u>\$59,278</u>

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2004

(3) Notes Payable

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

<u>Year Ending June 30,</u>	<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2005	135,000	90,296
2006	140,000	85,721
2007	175,000	80,541
2008	245,000	73,148
2009	155,000	61,133
2010	165,000	54,528
2011	175,000	47,253
2012	180,000	39,315
2013	110,000	30,870
2014	115,000	25,370
2015	120,000	19,505
2016	125,000	13,325
2017	130,000	6,825
Totals	<u>\$1,970,000</u>	<u>\$627,830</u>

(4) Pension and Retirement Benefits

IPERS

The City contributes to the Iowa Public Employees Retirements 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 firefighter employees, in which case the percentages are 5.93% and 8.90%, respectively, and police employees who are covered by the Municipal Fire and Police Retirement System of Iowa (see below).

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2004

IPERS - Continued

For the year ended June 30, 2003, the contribution rates for firefighter employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for firefighter employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$102,642, \$96,389, and \$98,455, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa

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

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 20.48% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2004, 2003, and 2002 were \$87,302, \$70,433, and \$69,230, respectively, which met the required minimum contribution for each year.

(5) Contracts Receivable

The City has contracts receivable as follows:

<u>Entity / Project</u>	<u>Balance</u>	<u>Interest Rate / Security</u>
Loaned to Estherville Industrial Development Corporation:		
Medieval Glass	\$28,329	7.00%/ Real Estate – Building
Loaned to Local Enterprises:		
Arts-Way Manufacturing Co., Inc.	6,250	4.00 / Equipment, Inventory And Accounts
Medieval Glass	82,067	6.00 / Real Estate – Building
Sherwood Forest Partnership	10,076	0.00 / Real Estate - Land

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2004

Contracts Receivable - Continued

The City has provided the funding for Tax Increment Financing (TIF) projects. The City will be repaid through the collection of real estate taxes which are generated by the projects funded. Outstanding receivables for TIF projects at June 30, 2004 are as follows:

<u>Project</u>	<u>Balance</u>	<u>Interest Rate / Security</u>
Industrial Park	\$228,729	5.00%/Unsecured
Morrell Demolition	481,946	6.00 /Unsecured
Hy-Vee	34,252	6.00 /Unsecured
GKN Armstrong Wheels	24,143	6.00 /Unsecured
Iowa Lakes Electric Cooperative	37,097	6.00 /Unsecured
WWTP Improvements	153,049	6.00 /Unsecured

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$105,346
Sick Leave	<u>408,210</u>
Total	<u>\$513,556</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(7) Related Party Transactions

The City had business transactions between the City and a jointly governed organization totaling \$199,595 during the year ended June 30, 2004.

(8) Risk Management

The City of Estherville 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.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2004

Risk Management - Continued

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.

(9) Lease

The City of Estherville entered into a twelve year operating lease agreement on May 31, 2001 with Estherville Housing, Inc. to lease office space. The lease amount is \$8,000 per year through June 30, 2004. The City's total rent expense for the year ending June 30, 2004 was \$8,000.

After June 30, 2004, the lease amount may be re-negotiated in three year intervals. The maximum increase in rent for any three year term shall not exceed twelve percent. The lease may be terminated by either party at any time upon three years written notice to the other party by registered mail or in person.

Future Minimum Rental Payments

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2005	\$ 8,000
2006	8,000
2007	8,000
2008	8,000
2009	8,000
2010 - 2013	<u>32,000</u>
Total	<u>\$72,000</u>

(10) Special Assessments Interest

The City of Estherville collects special assessments from property owners related to certain construction projects. Property owners may pay the assessment in full without interest by a certain date. Subsequently, annual payments are made which bear a stated interest rate.

(11) Joint Venture

On November 4, 1997, the City entered into a joint venture agreement pursuant to the provisions of Chapter 390 of the Code of Iowa with the Municipal Electric Utility of the City of Cedar Falls, Algona Municipal Utilities, the City of Ellsworth, Westfield Municipal Utilities, Montezuma Light and Power, and the City of Fonda.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2004

Joint Venture - Continued

This joint venture agreement is a collaborative effort of the parties above, the U.S. Department of Energy (“DOE”), and the Electric Power Research Institute (“EPRI”) to develop, construct and operate a wind-powered electric generation facility (Iowa Distributed Wind Generation Project – “IDWGP”). The project is partially funded by a grant from EPRI consisting of 47.42% of construction and operating expenses for 1999 and 2000 funded by EPRI.

The City of Estherville owns an 8% interest in the project. The energy produced by the IDWGP will be apportioned among the parties based on their percentages of ownership. Currently, Algona Municipal Utilities is purchasing the generated power at their avoided cost which has been determined to be \$.012130/KWH, effective January of 2004. The rate prior to January of 2004 was \$.01394/KWH. It has not been determined how long this arrangement will continue.

The City receives 8% of the income and pays 8% of the expenses generated by IDWGP. Generally, expenses exceed income.

(12) Interest Paid

During the year ended June 30, 2004, interest paid by the City on bonds and customer utility deposits totaled \$116,085.

(13) Commitments

The City committed \$1,000,000 toward the construction of a Regional Wellness Center in Estherville, Iowa. This was payable in equal installments over three years, beginning in the fiscal year ended June 30, 2002. The City paid its first installment of \$334,000 during the fiscal year ended June 30, 2002. The City paid its second installment of \$333,000 during the fiscal year ended June 30, 2003.

During the fiscal year ended June 30, 2004, the City paid \$333,000 as the third and final installment on the \$1,000,000 obligation toward the construction of the Regional Wellness Center. In conjunction with this commitment, the City suspended the one cent/kwh electric dividend credit for a minimum of three years beginning March, 2001. In conjunction with the application for a Vision Iowa grant for the Regional Wellness Center, the City guaranteed pledges of \$2,000,000 from the area-wide fund-raising campaign for the Regional Wellness Center. As of June 30, 2004, \$1,821,628 had been received in pledges and \$178,372 had yet to be collected.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2004

Commitments - Continued

During the fiscal year ended June 30, 2004, the City also approved a challenge grant of up to \$135,000 to the Regional Wellness Center for equipment where the City will match up to \$135,000 of contributions contributed by the community. As of June 30, 2004, the Regional Wellness Center had received \$169,496 in community pledges and of that \$124,730 had been collected. The City did not pay the matching challenge grant to the Regional Wellness Center until after June 30, 2004.

(14) General Fund – Designated Balance

The City had designated part of the balance of the general fund for specific future uses. The balance which has been designated as parks and recreation revolving is for the future resurfacing of the City's tennis courts and for a shelter house. The equipment revolving balance is for future purchases of equipment needed for the general fund.

<u>Designated Balances at June 30, 2004</u>	<u>Amount</u>
Parks and Recreation Revolving	\$124,248
Equipment Revolving	<u>231,136</u>
Total Designated Balances	<u>\$355,384</u>

(15) Deficit Fund Balances

The Capital Projects Funds - Airport Runway Lighting and Airport Runway Construction had deficit balances of \$14,180 and \$45,781, respectively, at June 30, 2004. The deficit balances were a result of project costs incurred prior to availability of funds. The deficit balances will be eliminated upon receipt of federal grants.

(16) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include 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.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2004

Accounting Change and Restatements - Continued

The government-wide financial statement reports the City's governmental and business type activities. Beginning net assets have been restated to include the allocation of the Internal Service Fund.

	Governmental Activities	Business Type Activities
Cash basis net assets June 30, 2003, as previously reported	\$3,466,991	\$3,441,612
Internal Service Fund	38,380	12,937
Cash basis net assets July 1, 2003, as restated	\$3,505,371	\$3,454,549

(17) Litigation

The City is subject to pending litigation seeking an unknown amount of damages. The City has forwarded the claim on to their insurance carrier. The City feels the claim holds no merit. The probability of loss, if any, is undeterminable.

(18) Construction Commitment

The City has entered into a contract totaling \$22,677 for treated water extension. As of June 30, 2004, costs of \$17,950 on the project have been paid. The balance remaining on the project at June 30, 2004 (\$4,727) will be paid as work on the project progresses.

The City has entered into a contract totaling \$170,472 for curb and gutter repair. As of June 30, 2004, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2004 (\$170,472) will be paid as work on the project progresses.

The City has entered into a contract totaling \$135,240 for airfield lighting. As of June 30, 2004, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2004 (\$135,240) will be paid as work on the project progresses.

The City has entered into a contract totaling \$238,000 for main lift station construction. As of June 30, 2004, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2004 (\$238,000) will be paid as work on the project progresses.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2004

Construction Commitment - Continued

The City has entered into a contract totaling \$246,319 for street resurfacing and paving. As of June 30, 2004, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2004 (\$246,319) will be paid as work on the project progresses.

(19) Interfund Transfers

The City had numerous interfund transfers during the year ended June 30, 2004. The transfers generally move resources from funds with available resources to those funds with expenses that need to be paid.

Required Supplementary Information

CITY OF ESTHERVILLE
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property tax	\$ 1,706,875	\$ -	\$ -	\$ 1,706,875	\$ 1,698,941	\$ 1,698,941	\$ 7,934
Tax increment financing collections	168,656	-	-	168,656	155,730	155,730	12,926
Other city tax	22,517	-	-	22,517	29,001	29,001	(6,484)
Licenses and permits	83,891	-	-	83,891	10,500	10,500	73,391
Use of money and property	80,634	73,646	-	154,280	162,892	162,892	(8,612)
Intergovernmental	1,453,906	-	-	1,453,906	2,195,176	2,283,676	(829,770)
Charges for service	537,278	6,267,258	235,310	6,569,226	6,304,130	6,304,130	265,096
Special assessments	79,995	-	-	79,995	16,571	16,571	63,424
Miscellaneous	136,524	14,571	3,881	147,214	207,850	207,850	(60,636)
Total receipts	4,270,276	6,355,475	239,191	10,386,560	10,780,791	10,869,291	(482,731)
Disbursements:							
Public safety	916,293	32,025	32,025	916,293	1,288,965	1,288,965	372,672
Public works	1,658,703	128,832	128,832	1,658,703	1,771,175	1,771,175	112,472
Health and social services	5,165	-	-	5,165	3,350	6,350	1,185
Culture and recreation	536,188	12,707	12,707	536,188	551,175	551,175	14,987
Community and economic development	212,978	-	-	212,978	439,290	439,290	226,312
General government	692,456	2,424	2,424	692,456	736,600	736,600	44,144
Debt service	580,835	-	-	580,835	350,748	583,748	2,913
Capital projects	1,214,255	-	-	1,214,255	1,055,082	1,295,082	80,827
Business type activities	-	4,862,815	59,322	4,803,493	5,477,150	5,477,150	673,657
Non-program	-	4,029	4,029	-	-	-	-
Total disbursements	5,816,873	5,042,832	239,339	10,620,366	11,673,535	12,149,535	1,529,169
Excess (deficiency) of receipts over (under) disbursements	(1,546,597)	1,312,643	(148)	(233,806)	(892,744)	(1,280,244)	1,046,438
Other financing sources, net	1,269,800	(1,269,800)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(276,797)	42,843	(148)	(233,806)	(892,744)	(1,280,244)	1,046,438
Balances beginning of year	3,466,991	3,492,929	108,891	6,851,029	5,742,082	6,902,346	(51,317)
Balances end of year	\$ 3,190,194	\$ 3,535,772	\$ 108,743	\$ 6,617,223	\$ 4,849,338	\$ 5,622,102	\$ 995,121

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$476,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in any function.

Other Supplementary Information

CITY OF ESTHERVILLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2004

Special Revenue											
	Group Insurance	Police Retirement	FICA & IPERS	Economic Development	Industrial Park TIF	Homestead TIF	Oakridge TIF	Subdivision Construction	C.A.T. Grant	Morrell TIF	Hy-Vee TIF
Receipts:											
Property tax	\$ 273,552	\$ 104,565	\$ 118,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	-	-	97,904	26,478	-	-	-	21,681	22,593
Other city tax	3,647	1,393	696	-	-	-	-	-	-	-	-
Use of money and property	-	-	-	8,690	-	-	-	2	-	-	-
Intergovernmental	-	-	-	-	-	-	-	14,670	-	-	-
Miscellaneous	-	-	-	53,576	2,150	-	-	-	-	-	-
Total receipts	277,199	105,958	119,630	62,266	100,054	26,478	-	2	14,670	21,681	22,593
Disbursements:											
Operating:											
Public safety	84,116	87,303	4,650	-	-	-	-	-	-	-	-
Public works	79,082	-	37,931	-	-	-	-	-	-	-	-
Culture and recreation	56,099	-	29,399	-	-	-	-	-	-	-	-
Community and economic development	-	-	-	1,000	123,217	9,887	10,507	136	14,670	27,627	25,094
General government	69,168	-	47,072	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-	-	-	-
Total disbursements	288,465	87,303	119,052	1,000	123,217	9,887	10,507	136	14,670	27,627	25,094
Excess (deficiency) of receipts over (under) disbursements	(11,266)	18,655	578	61,266	(23,163)	16,591	(10,507)	(134)	-	(5,946)	(2,501)
Other financing sources (uses):											
Operating transfers in	-	-	-	104,199	123,217	-	80,562	-	-	23,291	25,094
Operating transfers out	-	(21,000)	-	(61,563)	(100,054)	(16,591)	(70,055)	-	-	(17,345)	(22,593)
Total other financing sources (uses)	-	(21,000)	-	42,636	23,163	(16,591)	10,507	-	-	5,946	2,501
Net change in cash balances	(11,266)	(2,345)	578	103,902	-	-	-	(134)	-	-	-
Cash balances beginning of year	159,847	40,873	52,301	186,089	-	-	-	239	-	-	-
Cash balances end of year	\$ 148,581	\$ 38,528	\$ 52,879	\$ 289,991	\$ -	\$ -	\$ -	\$ 105	\$ -	\$ -	\$ -
Cash Basis Fund Balances											
Reserved:											
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Permanent fund	-	-	-	-	-	-	-	-	-	-	-
Unreserved:											
Special revenue funds	148,581	38,528	52,879	289,991	-	-	-	105	-	-	-
Capital project fund	-	-	-	-	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 148,581	\$ 38,528	\$ 52,879	\$ 289,991	\$ -	\$ -	\$ -	\$ 105	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
 Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Nonmajor Governmental Funds
 As of and for the year ended June 30, 2004

	Capital Projects			Permanent	Total
	Debt Service	Airport Runway Lighting	Wastewater Construction	Library Trust	
Receipts:					
Property tax	\$ 296,549	\$ -	\$ -	\$ -	\$ 793,600
Tax increment financing collections	-	-	-	-	168,656
Other city tax	3,282	-	-	-	9,018
Use of money and property	3,795	-	390	5,474	18,351
Intergovernmental	-	-	-	-	14,670
Miscellaneous	-	-	26,027	-	81,753
Total receipts	<u>303,626</u>	<u>-</u>	<u>26,417</u>	<u>5,474</u>	<u>1,086,048</u>
Disbursements:					
Operating:					
Public safety	-	-	-	-	176,069
Public works	-	-	-	-	117,013
Culture and recreation	-	-	-	4,999	90,497
Community and economic development	-	-	-	-	212,138
General government	-	-	-	-	116,240
Debt service	580,835	-	-	-	580,835
Capital projects	-	15,755	203,230	-	218,985
Total disbursements	<u>580,835</u>	<u>15,755</u>	<u>203,230</u>	<u>4,999</u>	<u>1,511,777</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(277,209)</u>	<u>(15,755)</u>	<u>(176,813)</u>	<u>475</u>	<u>(425,729)</u>
Other financing sources (uses):					
Operating transfers in	91,055	1,575	47,142	-	496,135
Operating transfers out	-	-	-	-	(309,201)
Total other financing sources (uses)	<u>91,055</u>	<u>1,575</u>	<u>47,142</u>	<u>-</u>	<u>186,934</u>
Net change in cash balances	(186,154)	(14,180)	(129,671)	475	(238,795)
Cash balances beginning of year	219,389	-	129,671	84,488	872,897
Cash balances end of year	<u>\$ 33,235</u>	<u>\$ (14,180)</u>	<u>\$ -</u>	<u>\$ 84,963</u>	<u>\$ 634,102</u>
Cash Basis Fund Balances					
Reserved:					
Debt Service	\$ 33,235	\$ -	\$ -	\$ -	\$ 33,235
Permanent fund	-	-	-	57,574	57,574
Unreserved:					
Special revenue funds	-	-	-	-	530,084
Capital project fund	-	(14,180)	-	-	(14,180)
Permanent fund	-	-	-	27,389	27,389
Total cash basis fund balances	<u>\$ 33,235</u>	<u>\$ (14,180)</u>	<u>\$ -</u>	<u>\$ 84,963</u>	<u>\$ 634,102</u>

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds
As of and for the year ended June 30, 2004

	Airport Revolving	Airport	Water Emergency	Sewer Emergency	Enterprise Equipment Revolving	Total
Operating receipts:						
Use of money and property	\$ -	\$ 40,306	\$ 2,801	\$ -	\$ -	43,107
Charges for service	-	10,026	-	-	-	10,026
Miscellaneous	-	-	10,690	-	-	10,690
Total operating receipts	-	50,332	13,491	-	-	63,823
Operating disbursements:						
Business type activities	173	49,562	34,747	-	109,579	194,061
Total operating disbursements	173	49,562	34,747	-	109,579	194,061
Excess (deficiency) of operating receipts over (under) operating disbursements	(173)	770	(21,256)	-	(109,579)	(130,238)
Non-operating receipts:						
Interest on investments	222	-	3,758	1,097	-	5,077
Total non-operating receipts	222	-	3,758	1,097	-	5,077
Excess (deficiency) of receipts over (under) disbursements	49	770	(17,498)	1,097	(109,579)	(125,161)
Operating transfers in	-	15,000	32,560	1,700	118,457	167,717
Operating transfers out	(79,961)	(20,375)	(86,747)	(47,142)	-	(234,225)
Net change in cash balances	(79,912)	(4,605)	(71,685)	(44,345)	8,878	(191,669)
Cash balances beginning of year	79,912	19,506	352,851	98,629	120,776	671,674
Cash balances end of year	\$ -	\$ 14,901	\$ 281,166	\$ 54,284	\$ 129,654	\$ 480,005
Cash Basis Fund Balances						
Unrestricted	\$ -	\$ 14,901	\$ 281,166	\$ 54,284	\$ 129,654	480,005
Total cash basis fund balances	\$ -	\$ 14,901	\$ 281,166	\$ 54,284	\$ 129,654	480,005

CITY OF ESTHERVILLE
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes:									
Pension	February 1, 1994	4.40 - 6.70 %	\$ 250,000	\$ 30,000	\$ -	\$ 30,000	\$ -	\$ 2,010	\$ -
Sewer	September 1, 1994	4.80 - 6.20	895,000	425,000	-	305,000	120,000	25,633	-
Wastewater Treatment	June 1, 2002	2.75 - 5.25	1,465,000	1,390,000	-	75,000	1,315,000	64,810	-
Library	October 1, 2002	2.75 - 4.40	590,000	590,000		55,000	535,000	22,095	-
Total				\$ 2,435,000		\$ 465,000	\$ -	\$ 114,548	\$ -

CITY OF ESTHERVILLE
Bond and Notes Maturities
June 30, 2004

General Obligation Notes

Year Ending June 30,	Sewer Issued September 1, 1994		Wastewater Treatment Issued June 1, 2002		Library Issued October 1, 2002		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	5.95 %	\$ -	3.70 %	\$ 75,000	3.00 %	\$ 60,000	\$ 135,000
2006	6.05	-	4.00	80,000	3.30	60,000	140,000
2007	6.10	25,000	4.15	85,000	3.60	65,000	175,000
2008	6.20	95,000	4.30	85,000	3.80	65,000	245,000
2009	-	-	4.45	90,000	4.00	65,000	155,000
2010	-	-	4.60	95,000	4.15 0	70,000	165,000
2011	-	-	4.75	100,000	4.25 53	75,000	175,000
2012	-	-	4.90	105,000	4.40	75,000	180,000
2013	-	-	5.00	110,000	-	-	110,000
2014	-	-	5.10	115,000	-	-	115,000
2015	-	-	5.15	120,000	-	-	120,000
2016	-	-	5.20	125,000	-	-	125,000
2017	-	-	5.25	130,000	-	-	130,000
		<u>\$ 120,000</u>		<u>\$1,315,000</u>		<u>\$ 535,000</u>	<u>\$1,970,000</u>

CITY OF ESTHERVILLE
 Schedule of Receipts By Source and Disbursements By Function -
 All Governmental Funds
 For the Last Four Years

Schedule 5

	2004	2003	2002	2001
Receipts:				
Property tax	\$ 1,706,875	\$ 1,636,194	\$ 1,478,584	\$ 1,409,732
Tax increment financing collections	168,656	179,225	251,292	369,388
Other city tax	22,517	28,199	26,002	21,033
Licenses and permits	83,891	66,002	68,249	68,278
Use of money and property	80,634	145,136	259,440	234,934
Intergovernmental	1,453,906	2,037,598	799,337	724,459
Charges for service	537,278	463,147	463,627	460,452
Special assessments	79,995	51,232	65,860	17,856
Miscellaneous	136,524	247,303	139,536	111,614
Total	<u>\$ 4,270,276</u>	<u>\$ 4,854,036</u>	<u>\$ 3,551,927</u>	<u>\$ 3,417,746</u>
Disbursements:				
Operating:				
Public safety	\$ 916,293	\$ 884,005	\$ 766,389	\$ 759,155
Public works	1,658,703	1,484,713	2,037,301	1,196,441
Health and social services	5,165	2,296	3,486	3,507
Culture and recreation	536,188	519,666	496,403	476,867
Community and economic development	212,978	1,442,675	127,166	174,140
General government	692,456	642,890	650,038	602,320
Debt service	580,835	1,023,149	218,751	221,299
Capital projects	1,214,255	567,381	1,085,754	245,941
Total	<u>\$ 5,816,873</u>	<u>\$ 6,566,775</u>	<u>\$ 5,385,288</u>	<u>\$ 3,679,670</u>

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

Schedule 6

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S. Department of Transportation: Airport Improvement Program	20.106		\$ 892,629
U.S. Department of Justice: Public Safety Partnership and Community Policing Grants (COPS Universal Hiring Program)	16.710		15,016
Indirect:			
U.S. Department of Transportation: Iowa Department of Public Safety: Governor's Traffic Safety Bureau: Safety Incentive Grants for Use of Seatbelts	20.604	04-157, TASK 54	<u>3,000</u>
Total			<u>\$ 910,645</u>

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

See accompanying independent auditor's report.

City of Estherville

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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Estherville, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 12, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

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

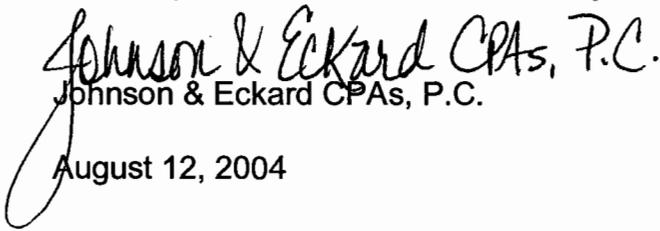
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Estherville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted 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 Estherville'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 in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item II-A-04, the reportable condition described above, is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Estherville and other parties to whom the City of Estherville may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Estherville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Johnson & Eckard CPAs, P.C.

August 12, 2004

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

City of Estherville

Johnson & Eckard CPAs, P.C.

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

To the Honorable Mayor and
Members of the City Council:

Compliance

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

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

In our opinion, the City of Estherville complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

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

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

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


Johnson & Eckard CPAs, P.C.

August 12, 2004

CITY OF ESTHERVILLE
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

- a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- c) The audit did not disclose any non-compliance which is material to the financial statements.
- d) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- e) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- f) The major program was CFDA Number 20.106 – Airport Improvement Program.
- g) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- h) The City of Estherville did not qualify as a low-risk auditee.

CITY OF ESTHERVILLE
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that employees who handle cash receipts are also involved with the preparation of bank reconciliations.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will make every effort to comply.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCE OF NON-COMPLIANCE:

**CFDA Number 20.106: Airport Improvement Program
Grant Number: 3-19-0032-03-2003
Federal Award Year: 2003
U.S. Department of Transportation**

III-A-04 Construction Contract – The construction contract does not include the required Davis-Bacon Act provisions, requiring the payment of “prevailing wages.”

Recommendation – The City should implement procedures to prevent omissions such as the Davis-Bacon Act provisions in all construction contracts in excess of \$2,000 funded by federal monies.

Response – The City will make every effort to comply.

Conclusion – Response accepted.

CITY OF ESTHERVILLE
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Part III: Findings and Questioned Costs for Federal Awards (Continued) :

REPORTABLE CONDITIONS:

No matters were noted.

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget – City disbursements during the year ended June 30, 2004 did not exceed the amount budgeted.
- IV-C-04 Questionable Disbursements – A certain disbursement was noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. This disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
City Employee	Dinner and a movie	\$ 8.00

According to the opinion, it is possible for such a disbursement to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by this disbursement before authorizing any further payment. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

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

CITY OF ESTHERVILLE
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting (Continued):

IV-E-04 Business Transactions – Business transactions between the City and a jointly governed organization is detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Emmet County Council Of Governments, Jointly Governed Organization	Solid Waste disposal and recycling, per contract	\$199,595

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the jointly governed organization do not appear to represent conflicts of interest since the transactions were entered into through a contract.

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

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

IV-H-04 Deposit and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy.

IV-I-04 Financial Condition – The Capital Projects Funds - Airport Runway Lighting and Airport Runway Construction had deficit balances at June 30, 2004 of \$14,180 and \$45,781, respectively.

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

Response – The deficits were due to construction costs incurred prior to the receipt of federal grants. The deficits were subsequently eliminated.

Conclusion – Response accepted.