CITY OF EMMETSBURG, IOWA

ANNUAL FINANCIAL STATEMENTS

JUNE 30, 2004

CITY OF EMMETSBURG, IOWA

ANNUAL FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

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CITY OF EMMETSBURG, IOWA

CITY OFFICIALS

Official Title	Name	Term Expires
Mayor	Myrna Heddinger	January 2, 2008
Mayor Pro Tem	Bill Zeigler	January 2, 2008
Council member	Patrick Degen	January 2, 2008
Council member	Tim Harthan	January 2, 2008
Council member	Linda Koppie	January 2, 2006
Council member	Kirk Haack	January 2, 2006
Council member	Steve Finer	January 2, 2006
City Clerk	Jill R. Kliegl	
City Attorney	Brian W. Thul	
City Administrator	John Bird	

Burdorf, Parrott And Associates, P.C.
Certified Public Accountants

Edwin J. Burdorf, CPA
Patrick J. Parrott, CPA
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INDEPENDENT AUDITORS' REPORT

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 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.

Property, plant and equipment policies of component units (gas, water and sanitation) do not conform to generally accepted accounting policies as described in Note 1 to the financial statements. The effects on the financial statements of the preceding practice is not reasonably determinable.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Emmetsburg, Iowa, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated January 5, 2005 on our consideration of City of Emmetsburg, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, and regulations, contracts and

grants. That report is an integral part of an audit performed with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As noted in Note 17, the City of Emmetsburg, Iowa 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 of July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages 4 - 11 and page 41, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Emmetsburg, Iowa, basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of the omission described in the third paragraph above, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We previously audited, in accordance with the Standard referred 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 qualified opinions, except for the effects on the financial statements of the omissions described in the third paragraph of this report, in those financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

BURDORF, PARROTT AND ASSOCIATES, P.C.
Certified Public Accountants

January 5, 2005
Emmetsburg, Iowa

Management's discussion and Analysis

Our discussion and analysis of the City of Emmetsburg, Iowa's financial performance provides an overview of the City's financial activities for the year ended June 30, 2004. Please read it in conjunction with the City's financial statements, which follow.

Financial Highlights

- The City's primary government net assets increased $508,031 as a result of this year's operations. Net assets of our business-type activities of the primary government decreased by $26,368, or 6.1 percent, and net assets of our governmental activities increased by $534,399, or 34.3 percent. Net assets of our component units increased by $138,897, or 1.4 percent.

- The City's return on total ending assets was nearly 4.1%. The return on ending assets for the governmental activities was 10.6%, for the business-type activities the return was 6.3%, and for the component unit the return was 1.4 %.

- Total cost of all of the City's programs, including the component units was $5,906,685 in 2003 compared to $5,026,657 in 2004.

- During the year, the City had expenses for governmental activities that were $177,968 less than $1,753,182 generated in general revenues and other program revenues.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 12-13) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using

the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets-the difference between assets and liabilities-as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, franchise fees, fines, and state and federal grants finance most of these activities.

- Business-type activities include garbage pickup (solid waste) and the City's Cemetery. These activities are financed primarily by user charges.

- The Component Units, include the City's gas, water, and sanitation systems. The City is financially accountable for the Utilities although it is legally separate from the City. These activities are financed primarily by user charges.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begin of page 14. The fund financial statements also begin on page 14 and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes (like the Lake Project Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the state for housing rehabilitation for low and moderate income families). The City's two kinds of funds-governmental and proprietary-use different accounting approaches.

- 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 an accounting method called modified accrual accounting, which measures cash and all other

statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

- Proprietary funds account for the City's Enterprise Funds. When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

The City as a Whole

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

	Governmental Activities	Business-type Activities	Total
Beginning net assets	$ 1,557,742	430,996	1,988,738
Increases (decreases) in net assets	534,399	(26,368)	508,031
Ending net assets	$ 2,092,141	404,628	2,496,769

That reflects an increase of 34.3% for governmental activities and 6.1 percent decrease for business-type activities. Notice that this information does not include the City's Component Units.

Since this is the first year to report all activities on the accrual basis of accounting, a comparison to the prior year is not possible (with the exception of the above Comparison). However, in future years, this section will explain the differences between the current-and prior-years assets, liabilities, and changes in net assets.

Governmental Activities

Again, because this is the first year to report governmental activities on the accrual basis of accounting, a comparison to the prior year is not possible. However, in the 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 it is self-financing through user fees and grants. Some of the individual line item revenues reported for each function are:

Public safety	Police fees, Animal control charges
Public works	Airport charges, Road use tax funds from the State, State and Federal grants for the lake restoration.
Culture and recreation	Library charges, Park and recreation Fees, County library operating grants.
Community and economic development	Cemetery charges, CDBG for housing Rehabilitation.
General government	Administrative fees received from the Component Units.

All other governmental revenues are reported as general revenues. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

Business-type Activities

In reviewing the departmental net (expense)/revenue, it should be pointed out that it is unusual for the Cemetery Fund to have a profit before transfers. The fund has in the past, required transfers from the General Fund in order to operate. The difference this year compared to other years is the fact that the Cemetery Fund received $3,100 in donations from private individuals. This cannot be relied up in the future.

It should also be noted that the Solid Waste Fund had an operating loss before transfers of $34,878 for the current year ended. Last year the Solid Waste Fund showed a profit of $19,229 before transfers. Last years profit is a bit deceiving since there was a profit from the sale of the old garbage truck (packer) for $34,668. If that profit had not been included in last year's business, the Solid Waste Fund would have had an operating loss before transfers of $15,439. This might be the start of a trend of losses in the Solid Waste Fund. If this trend continues, the City will be required to raise fees.

Component Units

In reviewing the net changes in net assets of the various component units, the Gas Department needs to be examined more closely. While the Gas Department is showing a change in net assets of $61,438, it is down considerably from 2003 and 2002. The net change in assets for 2002 was $242,789 and the net change in assets for 2003 was

$329,194. Most of the decrease in revenue came about from a decrease in mcf's sold during 2004 and a decrease in gross margin in the sale of gas. The cost to purchase gas increased significantly during 2004. The average cost of gas purchases went from $5.25 per mcf to $6.00 per mcf. The gas department did not pass along the entire cost increase to its customers. The average gross margin per mcf in 2003 was $2.17. The average gross margin per mcf in 2004 was $1.78. This is a difference of $.39 per mcf that was not passed on to the customer. The net result of the decrease in mcf's sold and the decrease in margins created a decrease in net assets of $161,616.

The Gas Department has set a trend over the past several years of providing support to the Water and Sanitation Departments along with transferring funds to the Primary Government. The Gas Department will, in the future, be required to pass the entire increase in cost to its customers.

The City's Funds

With the implementation of two new accounting standards, an analysis of current-and prior-year governmental fund (in particular the general fund) balance sheets is difficult to do. In subsequent years, this section will discuss and analyze significant differences. However, some individual funds were not affected by these new accounting standards and a review of those funds follows.
Some of the funds have seen a decrease in fund balance due to various reasons. Most of the funds that reported a significant decrease in fund balance had built up of cash to start and or complete particular projects. The lake project is the only one that did not receive the federal and state grants that they anticipated receiving. This project will receive $50,000 in government grants in 2005. However, the lake project will be short of money for the June 30, 2005 year end. The City is continuing to search for other funding sources to complete the restoration.

The following schedule presents a summary of general, special revenue, capital projects, and debt service fund revenues and expenditures for the year ended June 30, 2004, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues:		Year ended June 30, 2004	Percent of Total	Increase (Decrease) From FYE June 30, 2003	Percent Increase (Decrease)
Taxes	$	1,322,582	56.14%	(77,430)	-5.53%
Special assessments		132,464	5.62%	99,917	306.99%
Licenses and permits		8,806	0.37%	(996)	-10.16%
Intergovernmental		663,115	28.15%	(72,386)	-9.84%
Use of money and property		46,966	1.99%	1,638	3.61%
Loan repayments			0.00%	(2,917)	-100.00%
Charges for services		85,757	3.64%	2,099	2.51%
Miscellaneous		96,025	4.08%	(86,418)	-51.82%
Total Revenues	$	2,355,715	100.00%	(136,493)	-5.51%

There was a new special assessment issued during the year. Many of the individuals assessed paid their assessments at the time of assessment.

Miscellaneous is down due to $78,947 received in 2003 for demutualization of an insurance company that was a one time receipt.

Expenditures		Year ended June 30, 2004	Percent of Total	Increase (Decrease) From FYE June 30, 2003	Percent Increase (Decrease)
Public safety	$	404,511	16.64%	16,986	4.38%
Public works		479,859	19.74%	(24,744)	-4.90%
Culture and recreation		236,516	9.73%	1,207	4.97%
Community and economic development		172,840	7.11%	(25,848)	-13.01%
General government		254,522	10.47%	1,173	0.46%
Debt Service		272,031	11.19%	(63,159)	-18.84%
Capital outlay		611,085	25.13%	(397,063)	-39.39%
Total Expenditures	$	2,431,364	100.00%	(481,448)	-16.53%

In 2003 Special assessment bonds were called and paid early. The amount of the early repayment was $75,000.

The capital projects funds are down from 2003 primarily due to the amount spent on the South Grand Project. There was $538,320 less spent on the South Grand Project in 2004. The other difference is the additional cost of a new project that was started in 2004. That project is the First Street Project which had $73,081 of cost through June 30, 2004. The rest of the difference is various project costs the City paid for this year, that it did not have in 2003.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the budget one time. This budget amendment was an increase to appropriations to cover unplanned expenditures/ expenses, and transfers. The budget was amended on January 26, 2004.

Capital Asset and Debt Administration

Capital Assets

At the end of June 30, 2004, the City had $1,786,257 invested in capital assets including police and fire equipment, buildings, park facilities, and infrastructure that was added during the year ended June 30, 2004. This does not include the Component units that had $6,547,576 invested in capital assets. Infrastructure prior to July 1, 2003 is not included

in the financial statements unless they were considered as construction in progress on July 1, 2003. See Note 7 for further details about the City's capital assets.

This year's major additions included:

Governmental activities:	
South Grand Project	$876,660
Cultural and recreation equipment	55,320
Public safety equipment	61,337
Construction in progress-First Street Project	73,081
Lake shore drive	15,000
Other public works equipment	58,402

Items included in additions above that were in work in progress at July 1, 2003 is South Grand in the amount of $743,043.

Business-type activities:
The only additions to these activities was Tiling and improvements at the cemetery for $6,956.

Component Units:
The major additions to these funds are evident from note 8. No further comment is required.

Debt

At year-end, the City primary government had $1,401,000 in outstanding bonds and notes compared to $1,154,000 last year. That is an increase of 21 percent. The only new debt issued this year was $475,000 general obligation corporate purpose notes for the South Grand Project.

The Component Unit-Sanitation Department, had $432,000 of loans outstanding at year-end, compared to $471,591 last year.

Economic Factors and Next Year's Budget and Rates

Current economic factors affected decisions made by the City in setting its fiscal 2005 budget. The City of Emmetsburg, Iowa's budget has increased over fiscal 2004. Property taxes will increase by $37,389, tax increment financing taxes will increase by $33,896 and other City taxes will increase by $1,291. Intergovernmental revenues will decrease in fiscal 2005 by $354,086. The primary decrease will come from federal and state grants and reimbursements. The decrease in grant funds will have an effect on the amount that will be spent on the lake restoration project.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index (CPI) increase. The State's CPI increase was 3.2 percent for fiscal 2004 compared with the national rate of 3.4 percent. Inflation has been modest here also.

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

General levy	$ 8.10
Liability, property & self insurance	1.13574
Instrumental/Vocal Music levy	0.135
Ag land levy	3.00375
Emergency levy	0.27
Employee Benefits levy	3.16127
Debt Service levy	3.63002
Total	$ 19.43578

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa. You can also contact the City Administrator's Office for a separately issued report on the component units. That report is for the gas, water, and sanitation departments known as "Emmetsburg Municipal Utilities".

John Bird
City Administrator

City of Emmetsburg, Iowa
Statement of Net Assets
June 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Pooled cash, including time deposits	$ 1,839,376	162,681	2,002,057
Non-pooled cash, including time deposits	2,693		2,693
Investments	2,353		2,353
Special assessments receivable	162,514		162,514
Property taxes receivable	1,136,544		1,136,544
Accounts receivable	11,309	12,487	23,796
Other receivables			
Interest receivable	3,200		3,200
Interest receivable-primary government			
Receivable from component units	15,000		15,000
Receivable from primary government			
Intergovernmental receivables	46,034		46,034
Notes receivable, current	6,074		6,074
Accrued billings			
Inventories	5,167	7,920	13,087
Prepaid expense			
Restricted assets:			
Pooled cash, Including time deposits			
Assets whose use is limited:			
Pooled cash, Including time deposits		132,177	132,177
Notes receivable, non-current	1,250		1,250
Unamortized note discount	9,120		9,120
Capital assets:			
Land and construction in progress	88,081		88,081
Other capital assets,net of accumulated depreciation	1,698,176	101,447	1,698,176
Total assets	5,026,891	416,712	5,443,603
LIABILITIES			
Accounts payable	91,662	5,820	97,482
Payable to component units	78,000		78,000
Payable to primary government			
Interest payable to component units	739		739
Interest payable	7,830		7,830
Compensated absences, current	61,004	6,264	67,268
Current portion of long-term debt	253,000		253,000
Other liabilities	235		235
Deferred revenue	1,294,280		1,294,280
Liabilities payable from restricted assets			
Payable to primary government, non-current			
Long-term debt (net of current portion)			
Bonds payable, non-current	1,148,000		1,148,000
Total liabilities	2,934,750	12,084	2,946,834
NET ASSETS			
Invested in capital assets, net of related debt	385,257	101,447	486,704
Reserved for: Capital projects	1,537,874		1,537,874
Debt service	96,006		96,006
Unrestricted	73,004	303,181	376,185
Total net assets	$ 2,092,141	404,628	2,496,769

See accompanying notes to financial statements.

Component Units		
Gas Department	Water Department	Sanitation Department
723,611	82,669	(12,268)
165,026		36,407
10,948		3,387
1,658	678	127
1,098		
78,000		
29,329	20,383	20,389
15,575	15,303	14,533
30,762	5,645	
955,357	932,619	424,463
93,178		
1,039	98,788	133,932
857,800	1,761,214	3,694,803
2,963,381	2,917,299	4,315,773
56,608	72,423	25,851
5,000	5,000	5,000
		1,484
2,553	3,912	2,987
		25,000
8,263	5,224	2,795
30,762	5,645	
		407,000
103,186	92,204	470,117
858,839	1,860,002	3,396,735
2,001,356	965,093	448,921
2,860,195	2,825,095	3,845,656

City of Emmetsburg, Iowa
Statement of Activities
Year Ended June 30, 2004

Functions/Programs	Expense	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary government:					
Governmental activities:					
Public safety	$ 443,742	8,937			(434,805)
Public works	748,107	20,593	513,482	51,055	(162,977)
Culture and recreation	259,698	32,159	32,863		(194,676)
Community and economic development	172,840	1,280	2,000	27,210	(142,350)
General government	254,522	22,788			(231,734)
Interest on debt	52,241				(52,241)
Total governmental activities	1,931,150	85,757	548,345	78,265	(1,218,783)
Business-type activities:					
Solid waste	313,450	274,274			(39,176)
Cemetery	19,527	20,320			793
Total business-type activities	332,977	294,594			(38,383)
Total primary government	$ 2,264,127	380,351	548,345	78,265	(1,257,166)
Component units:					
Emmetsburg Municipal Utilities:					
Gas department	$ 1,896,316	2,083,226			186,910
Water department	417,363	429,846			12,483
Sanitation department	448,851	463,226			14,375
Total component units	$ 2,762,530	2,976,298			213,768

See notes to financial statements.

City of Emmetsburg, Iowa
Statement of Activities
Year Ended June 30, 2004

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Change in net assets:				
Net (expense) revenues	$ (1,218,783)	(38,383)	(1,257,166)	213,768
General revenues:				
Property tax levied for:				
General purpose	727,688		727,688	
Tax increment financing	97,240		97,240	
Debt service	229,101		229,101	
Special assessments	132,464		132,464	
Local option sales tax	205,750		205,750	
Other city tax	62,803		62,803	
Unrestricted grants and contributions	36,505		36,505	
Unrestricted investment income	50,166	5,515	55,681	38,261
Miscellaneous	104,832		104,832	
Transfers-internal activity	106,633	6,500	113,133	(113,132)
Total general revenues and transfers	1,753,182	12,015	1,765,197	(74,871)
Change in net assets	534,399	(26,368)	508,031	138,897
Net assets-beginning	1,557,742	430,996	1,988,738	9,407,049
Prior period adjustment				(15,000)
Net assets-ending	$ 2,092,141	404,628	2,496,769	9,530,946

See notes to financial statements.

City of Emmetsburg, Iowa
Balance Sheet-Governmental Funds
June 30, 2004

	General Fund	Special Revenue: Road Use Tax Fund	Special Revenue: Employee Benefit Fund
ASSETS			
Pooled cash, including time deposits	$ 616,560	286,744	101,343
Non-pooled cash	2,693		
Investments			
Receivables:			
Special assessments:			
Property taxes, net	566,645		378,086
Accounts	8,875		
Notes, current			
Interfund receivable	663		
Receivable from component units	15,000		
Intergovernmental receivables	1,044	25,870	
Inventory	5,167		
Notes receivable, non-current			
Total assets	$ 1,216,647	312,614	479,429
LIABILITIES			
Accounts payable	$ 20,258	33,439	
Interfund payable	23,368		
Loan payable to component units	78,000		
Interest payable to component units	739		
Compensated absences, current	42,672	16,008	
Other liabilities	235		
Deferred revenues	559,297		376,218
Total liabilities	724,569	49,447	376,218
FUND BALANCE			
Reserved for debt service			
Unreserved, reported in General fund	289,627		
Designated, General funds	202,451		
Unreserved, reported in Special revenue funds		263,167	103,211
Designated, reported in Special revenue funds			
Unreserved, reported in Capital projects funds			
Total fund balances	492,078	263,167	103,211
Total liabilities and fund balances	$ 1,216,647	312,614	479,429

See notes to financial statements.

		Debt Service		Capital Projects		Other	Total
Local Option Sales Tax Fund	ECDC Trust Fund	Debt Service Fund	Special Assessment Fund	Lake Project	So Grand Project	Governmental Funds	Governmental Funds
258,769	178,462	28,849	40,034	37,296	36,376	254,943	1,839,376
							2,693
	2,353						2,353
			162,514				162,514
		232,764				196	1,177,691
			1,065	1,250		119	11,309
						6,074	6,074
		23,368					24,031
							15,000
19,120							46,034
							5,167
						1,250	1,250
277,889	180,815	284,981	203,613	38,546	36,376	262,582	3,293,492
3,288	4,000			5,392	1,000	24,285	91,662
	663						24,031
							78,000
							739
				2,324			61,004
							235
		230,074	162,514			7,324	1,335,427
3,288	4,663	230,074	162,514	7,716	1,000	31,609	1,591,098
		54,907	41,099				96,006
							289,627
							202,451
274,601						136,094	777,073
	176,152						176,152
				30,830	35,376	94,879	161,085
274,601	176,152	54,907	41,099	30,830	35,376	230,973	1,702,394
277,889	180,815	284,981	203,613	38,546	36,376	262,582	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $1,332,790	1,786,257
Unamortized discount on bonds	9,120
Other long-term assets are not available to pay for current-period expenditures and therefore deferred in the funds:	
Accrued interest receivable	3,200
Long -term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued interest on bonds	(7,830)
Bonds and notes payable	(1,401,000)
Net assets of governmental activities	$ 2,092,141

City of Emmetsburg, Iowa
Statement of Revenues, Expenditures,
and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended June 30, 2004

	General	Special Revenue: Road Use Tax Fund	Special Revenue: Employee Benefit Fund	Special Revenue: Local Option Sales Tax Fund	Special Revenue: ECDC Trust Fund	Debt Service: Debt Service Fund	Debt Service: Special Assessment Fund	Capital Projects: Lake Project	Capital Projects: So Grand Project	Other Governmental Funds	Total Governmental Funds
REVENUES	$										
Property taxes	559,270		152,434			229,101				15,984	956,789
Tax increment financing										97,240	97,240
Other city tax	46,642		6,496	205,750		9,308				357	268,553
Licenses and permits	8,806										8,806
Use of money and property	27,846			4,752	5,834	529	360		2,544	5,101	46,966
Intergovernmental	100,233	327,121			2,136			186,361		47,264	663,115
Charges for services	84,477									1,280	85,757
Special assessments							27,924		104,540		132,464
Miscellaneous	22,624				42,882			32	14,086	16,401	96,025
Total revenues	849,898	327,121	158,930	210,502	50,852	238,938	28,284	186,393	121,170	183,627	2,355,715
EXPENDITURES											
Governmental activities											
Public safety	404,511										404,511
Public works	144,704	335,155						176,388		37,942	694,189
Culture and recreation	220,670				15,846						236,516
Community and economic development	53,052			21,790	19,731					78,267	172,840
General government	254,522										254,522
Debt service	2,345				10,701	249,211	1,975		7,799		272,031
Capital outlay	99,126			15,000	22,829			45,455	133,616	80,729	396,755
Total expenditures	1,178,930	335,155		36,790	69,107	249,211	1,975	221,843	141,415	196,938	2,431,364
Excess (deficiency) of revenues over expenditures	(329,032)	(8,034)	158,930	173,712	(18,255)	(10,273)	26,309	(35,450)	(20,245)	(13,311)	(75,649)
OTHER FINANCING SOURCES (USES)											
Bond proceeds									475,000		475,000
Discount on bonds									(9,500)		(9,500)
Transfers from other funds	404,741	51,769			19,000	34,303		815	20,000	164,560	695,188
Transfers to other funds	(39,040)		(213,435)	(151,391)					(23,368)	(161,321)	(588,555)
Total other financing sources (uses)	365,701	51,769	(213,435)	(151,391)	19,000	34,303		815	462,132	3,239	572,133
Net changes in fund balances	36,669	43,735	(54,505)	22,321	745	24,030	26,309	(34,635)	441,887	(10,072)	496,484
Fund balance (deficit), beginning	455,409	219,432	157,716	252,280	175,407	30,877	14,790	65,465	(406,511)	241,045	1,205,910
Fund balance, ending	$ 492,078	263,167	103,211	274,601	176,152	54,907	41,099	30,830	35,376	230,973	1,702,394

See notes to financial statements

City of Emmetsburg, Iowa
Statement of Revenues, Expenditures, and changes in Fund Balance (Deficit)
Governmental Funds
Year Ended June 30, 2004

Reconciliation of the change in fund balances-total governmental funds to the change in net assets of governmental activities:		
Net change in fund balances-total governmental funds	$	496,484
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		396,755
Depreciation		(116,332)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Accrued interest receivable		3,200
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Bonds paid		220,000
Notes paid		8,000
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets:		
Bonds issued		(475,000)
Discount on general obligation bonds		9,500
Amortization of discount recorded in interest		(380)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Accrued interest on debt		(7,830)
Rounding		2
Change in Net Assets of Governmental Activities	$	534,399

See notes to financial statements.

City of Emmetsburg, Iowa
Statement of Net Assets-Proprietary Funds
June 30, 2004

	Business-type Activities		
	Solid Waste	Cemetery	Total
Assets			
Current assets:			
Pooled cash, including time deposits	$ 136,339	26,342	162,681
Accounts receivable	12,416	71	12,487
Inventories at cost	7,920		7,920
Total current assets	156,675	26,413	183,088
Assets whose use is limited,			
Pooled Cash, including time deposits	132,177		132,177
Capital assets:			
Land improvements		12,827	12,827
Building	21,096	2,795	23,891
Equipment and vehicles	186,648	6,973	193,621
Less: Accumulated depreciation	(122,944)	(5,948)	(128,892)
Net capital assets	84,800	16,647	101,447
Total assets	373,652	43,060	416,712
Liabilities			
Current liabilities:			
Accounts payable	5,548	272	5,820
Accrued Payroll	3,023		3,023
Accrued compensated absences	3,241		3,241
Total current liabilities	11,812	272	12,084
Net assets			
Investment in capital assets, net of related debt	84,800	16,647	101,447
Unrestricted	277,040	26,141	303,181
Total net assets	361,840	42,788	404,628
Total liabilities and net assets	$ 373,652	43,060	416,712

See notes to financial statements.

City of Emmetsburg, Iowa
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2004

	Business-type Activities		
	Solid Waste	Cemetery	Total
Operating Revenues:			
Charges for services:			
Sanitation fees	$ 274,274		274,274
Cemetery fees		11,600	11,600
Total charges for services	274,274	11,600	285,874
Sale of lots		5,120	5,120
Other		3,600	3,600
Total revenues	274,274	20,320	294,594
Operating expenses:			
Business-type activities:			
Solid waste-current operations	277,841		277,841
Cemetery-current operations		18,223	18,223
Depreciation	35,609	1,304	36,913
Total operating expense	313,450	19,527	332,977
Operating income (loss)	(39,176)	793	(38,383)
Non-operating revenue (expense):			
Interest income	4,298	1,217	5,515
Income (loss) before transfers	(34,878)	2,010	(32,868)
Transfers from other funds		6,500	6,500
Changes in net assets	(34,878)	8,510	(26,368)
Total net assets, beginning	396,718	34,278	430,996
Total net assets, ending	$ 361,840	42,788	404,628

See notes to financial statements.

City of Emmetsburg, Iowa
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
Proprietary Funds
Year Ended June 30, 2004

		Solid Waste	Cemetery	Total Enterprise Funds
Cash flows from operating activities:				
Cash received from customer	$	295,514	21,124	316,638
Cash payments for goods and services		(178,986)	(17,891)	(196,877)
Cash payments to employees and professionals		(100,728)	(1,278)	(102,006)
Net cash provided (use) by operating activities		15,800	1,955	17,755
Cash flows from non-capital financing activities:				
Transfers from other funds			6,500	6,500
Net cash provided (used) by non-capital financing activities			6,500	6,500
Cash flows from capital and related financing activities:				
Acquisition of capital assets			(6,954)	(6,954)
Net cash used for capital and related financing activities			(6,954)	(6,954)
Cash flows from investing activities:				
Interest income		5,048	1,256	6,304
Net cash provided by investing activities		5,048	1,256	6,304
Net increase (decrease) in cash and cash equivalents		20,848	2,757	23,605
Cash and cash equivalents, beginning		247,668	23,585	271,253
Cash and cash equivalents, ending	$	268,516	26,342	294,858

See notes to financial statements.

City of Emmetsburg, Iowa
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
Proprietary Funds
Year Ended June 30, 2004

	Solid Waste	Cemetery	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss) $	(39,176)	793	(38,383)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	35,609	1,304	36,913
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	21,240	804	22,044
(Increase) decrease in inventory	(875)		(875)
Increase (decrease) in accounts payable	(2,962)	(946)	(3,908)
Increase (decrease) in accrued payroll	1,031		1,031
Increase (decrease) in compensated absences	933		933
Net cash provided (used) by operating activities $	15,800	1,955	17,755

1. Reporting Entity, Nature of Operations, Description of Funds, and Significant Accounting Policies

General Statement

The proprietary activities, including the component unit, apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements in which case, GASB prevails.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reporting entity

For financial reporting purposes, City of Emmetsburg has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Emmetsburg (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. Complete financial statements of the individual component units, which issued separate financial statements as noted below, can be obtained from their respective administrative offices.

Jointly Governed Organizations

The City also participates in one jointly governed organization for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. The Mayor and Police Chief are members of the Palo Alto County Joint E911

Service Board. The City also participated with Iowa Lakes Community College in the operation of the Community Library and Wellness Center. The City has recorded its share of the expense in the Governmental Fund. The Wellness Center and Library is an asset of the College and its audit is included in the College audit.

Discretely Presented Component Units - The Emmetsburg Municipal Utilities (gas, water and sanitation) is presented in separate columns to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The information reported in these financial statements is the data of the primary government. The data of the component units necessary to report in accordance with GAAP are not included. A five-member board appointed by the City Council governs the Utility and Utility's operating budget is subject to the approval of the City Council. The Utilities is accounted for as a proprietary fund in these financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Utilities meets the definition of a component unit which should be discretely presented.

Nature of operations

The City of Emmetsburg was incorporated in 1877 under the provision of the State of Iowa and operates under the Home Rule provision of the Iowa Constitution. The City operates under the mayor-council form of government and provides numerous services to citizens including:

> Public safety, Public works, Culture and recreation, Community and economic development, and general government services. It also operates the gas, water, and sanitation utilities, which is a discrete component unit as explained above.

Basis of presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of Interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

A Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

> Invested in capital assets, net of related debt- which consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - which 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 - which consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental, and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are a least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Project Funds

The Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes several individual Capital Project Funds and they are used to account for the acquisition of capital assets. Not all of the funds expended in these funds will be capitalized as City assets since the projects they are expended on are not on City property. An example of this is the lake dredging project. The lake belongs to the State of Iowa, not the City of Emmetsburg.

Debt Service Funds

The Debt Service Funds accounts for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the city other than debt service payments made by enterprises funds.

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user chares and the measurement of financial activity focuses on net income measurement similar to the private sector.

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Fund	**Brief Description**
Major:	
General	See above for description.
Special Revenue Funds:	
Road Use Tax	Accounts for the state revenue allocated to the City, which is used to maintain and improve the City's streets.
Employee Benefit Fund	Accounts for property taxes levied to finance the payment of payroll taxes including IPERS, group insurance, medical reimbursements, workmen's compensation and unemployment compensation.

Local Option Sales Tax Fund	Accounts for the revenues from the tax authorized by referendum and use 80% for infrastructure and 20% for community betterment.
ECDC Trust Fund	Accounts for the assets donated by the community for economic development and lake improvements.
Debt Service	See above for description.
Special Assessment Fund (a debt service fund)	See debt service fund above.
Capital Projects Funds	
Lake Project	Accounts for the revenues and expenditures for Five Island Lake improvements.
So. Grand Project	See Capital projects description above.
Nonmajor	
Special Revenue Funds	
Emergency Fund	Accounts for a special $.27/1,000 tax levy.
South TIF Fund	Accounts for tax increment revenues used to pay for certain public improvements within the Urban Renewal area.
North TIF Fund	See South TIF Fund description above.
TIF North Set Aside Fund	Accounts for amounts set aside for low-and moderate-income housing assistance.
CDBG Housing Rehab. Fund	Accounts for federal and local funds used to assist low-and moderate-income families for housing rehabilitation.
Revolving ECDC Loan Fund	Account for money loaned to local businesses.
Perpetual Care Fund	Accounts for money accumulated by law for the operations of the cemetery.
Capital Project Funds:	For all the funds that follow see description for Capital Projects funds above.
Revolving Fund	
First Street Fund	
Rail Road Surface Fund	
Sewell Park Project	
CDBG Sewer Project	

Significant accounting policies

Measurement Focus and Basis of accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Basis of accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible with in the current period or within sixty days after the end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting.

Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Investments are not material and are carried at cost.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term Interfund loans are reported as "Interfund receivables and payables." Long-term Interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowance for uncollectible accounts are not recorded. The City and Utilities uses the direct write off method. Based upon historical trends and the City's and Utilities monitoring of accounts receivables, the amount that should be recorded in the allowance for uncollectible accounts, if any, are not material. The City and Utilities writes off what has been determined to be uncollectible at year-end.

Inventories

Inventories are valued at cost using the first-in/first-out method.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2003.

Prior to July 1, 2003, governmental funds' infrastructure assets and other fixed assets were not capitalized. Other fixed assets such as rolling stock and major equipment with a value of $5,000 or more were capitalized at estimated historical costs.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Machinery and Equipment	5 - 15 years
Vehicles	5 – 15 years
Improvements	15 - 20 years
Infrastructure	50 years
Buildings	20 - 50 years

Component Units

Structure and Plant	20 – 50 years
Distribution System	50 years
Equipment, Meters and Mains	5 - 50 years

No detailed depreciation schedule or continuing property record is maintained for the component units. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of plant and equipment. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expense and overhead should be capitalized.

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash, including time deposits of the component units that are legally restricted as to their use. The restricted assets are related to utility meter deposits.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities for the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property tax receivable and other receivables not collected within sixty days after the year end, and special assessments not collected.

Deferred revenue in the Statement of Net Assets consists primarily of special assessments that are not available, succeeding year property tax, and tax increment financing that will not be recognized as revenue until the year for which they are levied.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists of notes and bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The City's polices regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as current in the government-wide statements since historical trends indicate none are long-term. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, which in this case is the same as the government-wide figures. The proprietary funds report the liability as it is incurred.

Fund Equity

In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Budgets and Budgetary Accounting

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

Revenues, Expenditures, and Expenses

Property Taxes
Under State law, municipalities are limited in their ability to levy a property tax. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1 ½ % per month penalty for delinquent payments; is based on January 1 2002 assessed property valuations; is for the accrual period July 1, 2003 through June 30, 2004 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2003. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Due to the immaterial amount of any additional property taxes receivable after the 60-day period, no additional accrual is made in the government-wide financial statements.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as Interfund transfers. For the purpose of the Statement of Activities, all Interfund transfers between individual governmental funds have been eliminated.

Other accounting policies and accounting and reporting practices
Cash management and investments

The primary government maintains one primary demand deposit account and the discrete component unit maintains another demand deposit account through which the majority of its cash resources are processed. Both the primary government and component unit each have investment activities carried on in an investment pool. The earnings on the pooled investments are allocated to the funds on a systematic basis.

Assets Whose Use Is Limited

Assets whose use is limited include assets set aside by the Board of Trustees or City Council specifically designated for future capital improvements or other special future expenses, over which the Board or City Council retains control and may at its discretion subsequently use for other purposes.

2. Cash and Investments

The City's deposits 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; and certain joint investment trusts, and warrants or improvement certificates of a drainage district. The City's investments at June 30 consist primarily of Certificates of Deposit and savings accounts, all of which are recorded in cash. The City was given a donation of insured registered corporate stock with a book value and market value of $2,041, which is held, in the name of the City.

3. Component Units - Notes Receivable

The Utilities loaned $50,000 to a local business to be used for expansion on September 2, 1999. The note bears interest at five percent over a fifteen-year amortization schedule with one balloon payment due at the end of five years. Interest only was paid the first two years on a quarterly basis, with principal and interest due after the first two years on a monthly basis. The current balance of the $50,000 loan is $43,178. On June 6, 2002, the Utilities entered into a loan agreement with a local Manufacturing business to loan the business $50,000, bearing interest at five percent. The Utilities advanced the company $26,302 as of June 30, 2002, and the remainder was advanced as of June 30, 2003. The current balance at June 30, 2004 is $50,000.

4. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the City of Emmetsburg, Iowa is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by State statue. The City of Emmetsburg contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were $66,972, $66,138 and $62,189, respectively, equal to the required contributions for each year.

5. Deferred Compensation Plan

The City, exclusive of the Emmetsburg Municipal Utilities, offers a Deferred Compensation Plan for its employees under IRS Code Section 457. The City has executed a Declaration of Trust of the ICMA Retirement Trust, intending that the execution is to be operative with respect to any retirement or deferred compensation plan established by the City. All the assets of the plan are invested in the ICMA Retirement Trust.

6. Other Employee Benefits

The City maintains hospitalization and life insurance coverage for all of its full-time employees. The City pays all costs of the basic insurance. The City also partially self-insures a portion of the health insurance through a medical reimbursement plan. The City had no material claims incurred but not reported as of June 30, 2004.

7. Capital Assets

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

Governmental Activities:	Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
Machinery and equipment	$ 1,491,618	162,115		1,653,733
Buildings	487,630	12,945		500,575
Infrastructure		876,657		876,657
Construction in Progress	743,043	88,081	(743,043)	88,081
Total assets costs	2,722,291	1,139,798	(743,043)	3,119,046
Less accumulated depreciation				
Machinery and equipment	1,065,794	91,145		1,156,939
Infrastructure		13,150		13,150
Buildings	150,664	12,037		162,701
Total accumulated depreciation	1,216,458	116,332		1,332,790
Governmental activities capital assets,	$ 1,505,833	1,023,466	(743,043)	1,786,256

	Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
Business-type activities:				
Land and improvements	$ 5,871	6,956		12,827
Machinery and equipment, vehicles	193,622			193,622
Building	23,891			23,891
Total assets costs	223,384	6,956		230,340
Less accumulated depreciation				
Land and improvements		232		232
Machinery and equipment, vehicles	85,430	36,014		121,444
Building	6,550	667		7,217
Total accumulated depreciation	91,980	36,913		128,893
Business-type assets, net	$ 131,404	(29,957)		101,447

*Depreciation expense was charged to governmental activities as follows:

Public safety	$ 39,232
Public works	53,918
Cultural and recreation	23,182
Total depreciation expense	$ 116,332

Component Units:

	Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
Gas Department:	$			
Land	1,039			1,039
Structures & plant	362,700	25,145		387,845
Distribution system	1,075,348			1,075,348
Equipment, meters & mains	743,547	8,919		752,466
Total assets costs	2,182,634	34,064		2,216,698
Less accumulated depreciation	1,282,769	75,090		1,357,859
Gas Department assets, net	$ 899,865	(41,026)		858,839
Water Department:				
Land	$ 67,067			67,067
Structures & plant	517,471			517,471
Distribution system	1,517,813	225,120		1,742,933
Equipment, meters & mains	957,009	4,076		961,085
Construction in progress	193,521	31,721	(193,521)	31,721
Total assets costs	3,252,881	260,917	(193,521)	3,320,277
Less accumulated depreciation	1,388,390	71,885		1,460,275
Water Department assets, net	$ 1,864,491	189,032	(193,521)	1,860,002
Sanitation Department:				
Land	$ 84,542			84,542
Structures & plant	4,292,247	29,703		4,321,950
Distribution system	1,068,332	243,968		1,312,300
Equipment, meters & mains	526,454	1,939		528,393
Construction in progress	216,698	49,390	(216,698)	49,390
Total assets costs	6,188,273	325,000	(216,698)	6,296,575
Less accumulated depreciation	2,330,593	137,247		2,467,840
Sanitation Department assets, net	$ 3,857,680	187,753	(216,698)	3,828,735

8. Changes in long-term debt

The following is a summary of debt transactions of the City Primary Government for the year ended June 30, 2004:

	Governmental Activities		
	General Obligation	Assessment Notes	Notes Payable
Debt payable at June 30, 2003	$ 1,055,000	35,000	64,000
Deb issued	475,000		
Debt retired	(195,000)	(25,000)	(8,000)
Debt payable at June 30, 2004	$ 1,335,000	10,000	56,000

Bonds payable at June 30, 2004 comprise the following individual issue:

General obligation street improvement notes: $1,060,000 notes due in annual installments of $65,000, $70,000, $75,000, $80,000, $85,000, $90,000, $95,000, $105,000, $110,000, and $115,000 to June 1, 2009; interest from 4.50% to 5.45%	$ 520,000
General obligation corporate purpose notes: $665,000 notes due in annual installments of $60,000, $55,000, $65,000, $70,000, $75,000 and $80,000 to June 1, 2008; interest from 4.05% to 4.55%	$ 300,000
Special assessment street improvement notes: $235,000 notes due in annual installments of $20,000 and $25,000 to December 1, 2007; interest from 4.20% to 4.80%	$ 10,000
General obligation corporate purpose notes: $205,000 notes due in annual installments of $20,000, $30,000, $35,000 and $40,000 to June 1, 2005; interest from 4.2% to 4.7%	$ 40,000
General obligation corporate purpose notes: $475,000 notes due in annual installments of $40,000, $45,000, $50,000 and $55,000 to June 1, 2014; interest from 1.50% to 3.85%	$ 475,000

Notes Payable:
The City has obtained a Promissory note in the amount of $72,000, that is due in annual principal payments of $8,000 plus interest at the rate of 5% per annum. Payments are due each July 1 with a due date of July 1, 2010. The lender agrees that if she should depart this life prior to the full payment of the debt , all remaining sums, including accrued interest shall be forgiven as of the date of her death. $ 56,000

The annual requirement to retire general long-term debt as of June 30, 2004 are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	$ 253,000	62,025	315,025
2006	218,000	48,490	266,490
2007	242,000	39,823	281,823
2008	242,000	27,331	269,331
2009	168,000	17,743	185,743
2010-14	287,000	28,250	315,250
	$ 1,410,000	223,662	1,633,662

The following is a summary of debt transactions for the component units for the year ended June 30, 2004:

Long-Term debt

The Utilities entered into a Loan and Disbursement Agreement with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as part of the Iowa Sewage Treatment Works Financing Program, as a means of financing the construction of certain wastewater treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities agrees, during the term of the loan, to provide the Department with certain reports and other information as required.

$202,000 Sludge Digestion Improvement series 1998B bonds due in annual payments of $6,000, $7,000, $8,000, $9,000, $10,000, $13,000, $14,000 and $15,000 to June 1, 2018; interest at 3.92%.

$358,000 Sewer Revenue Bonds Series 1998A due in annual payments of $13,000, $10,000, $15,000, $20,000 and $25,000 to June 1, 2018; interest 4.23%.

Annual debt service requirements related to the loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	$ 25,000	17,802	42,802
2006	25,000	16,776	41,776
2007	30,000	15,749	45,749
2008	30,000	14,511	44,511
2009	30,000	13,273	43,273
2010-18	292,000	63,144	355,144
	$ 432,000	141,255	573,255

9. Assets whose use is limited

The composition of assets whose use is limited at June 30, 2004 is in the following table:

	Gas	Water	Sanitation
By Board for:			
Capital improvements and replacement	$ 902,754	899,399	386,625
Medical reimbursement	39,733	4,138	4,137
Industrial Development	12,870	29,082	33,701
	$ 955,357	932,619	424,463

10. Interfund receivables and payables

Interfund receivables and payable are documented on the Balance Sheet-Governmental Funds. These balances will be repaid from future revenue.

11 Loan receivable - General Fund

The Utilities loaned the General Fund of the City of Emmetsburg $160,000. The interest rate is equivalent to the rate of return received by the Utilities on their invested funds to be determined on January 1 and July 1 of each year and shall be applied retroactively for the previous six months. The loan must be repaid no later than April 1, 2007. The principal balance at June 30, 2004 is $78,000 with accrued interest of $1,098.

12. Interfund operating transfers

Fund	Transfers In	Transfers Out
Major Funds:		
General Fund:		
Employee Benefits Fund	$ 161,666	
Emergency Fund	16,145	
TIF North Set Aside	36,400	
Local Option Sales Tax Fund	50,252	
ECDC Trust fund		6,000
Capital Improvements Revolving Fund	25,336	25,725
Capital Improvement Lake Project		815
Cemetery Fund		6,500
Component Unit - Gas Department	104,942	
Component Unit - Water Department	5,000	
Component Unit - Sanitation Department	5,000	
Total General Fund	404,741	39,040
Road Use Tax Fund:		
Employee Benefits Fund	51,769	
Employee Benefits Fund:		
General Fund		161,666
Road Use Tax Fund		51,769
Total Employee Benefits Fund		213,435
Local Option Sales Tax Fund:		
General Fund		50,252
Capital Projects Fund - First Street		75,000
Capital Projects Fund - South Grand Project		20,000
Capital Projects Fund - Sewell Park Project		6,139
Total Local Option Sales Tax Fund		151,391
ECDC Trust Fund:		
General Fund	6,000	
Capital Improvement Revolving Fund	5,000	
Component Unit - Gas Department	6,000	
Component Unit - Water Department	1,000	
Component Unit - Sanitation Department	1,000	
Total ECDC Trust Fund:	19,000	

Fund	Transfers In	Transfers Out
Debt Service Fund:		
TIF North Fund	$ 10,935	
Capital Projects Fund - South Grand Project	23,368	
Total Debt Service Fund	34,303	
Capital Projects Fund - Lake Project:		
General Fund	815	
Capital Projects Fund - South Grand Project		
Local Option Sales Tax Fund	20,000	
Debt Service Fund		23,368
Total Capital Projects Fund - South Grand Project	20,000	23,368
Other Governmental Funds (Nonmajor)		
Emergency Fund:		
General Fund		16,145
TIF North Set Aside Fund:		
General Fund		36,400
Rail Road Surface Fund		15,396
TIF North	42,300	
Total TIF North Set Aside Fund	42,300	51,796
TIF North Fund:		
TIF North Set Aside Fund		42,300
Debt Service		10,935
Component Unit - Sanitation Department		4,897
Total TIF North Fund:		58,132
Capital Improvement Revolving Fund:		
General Fund	25,725	25,336
ECDC Trust Fund		5,000
Total Capital Improvement Revolving Fund	25,725	30,336
Capital Projects Fund First Street Project:		
Local Option Sales Tax Fund	75,000	
Capital Projects Fund - Rail Road Surface:		
TIF North Set Aside Fund	15,396	

Fund	Transfers In	Transfers Out
Capital Projects Fund - Sewell Park Project:		
Local Option Sales Tax Fund	$ 6,139	
Capital Projects Fund - CDBG Sewer Project		
Component Unit - Sanitation Department		4,912
Enterprise Funds:		
Cemetery Fund:		
General Fund	6,500	
Component Units:		
Component Unit - Gas Department:		
Sanitation Department		35,000
General Fund		104,942
ECDC Trust Fund		6,000
Total Component Unit - Gas Department		145,942
Component Unit - Water Department:		
General Fund		5,000
ECDC Trust Fund		1,000
Total Component Unit - Water Department		6,000
Component Unit - Sanitation Department:		
Gas Department	35,000	
General Fund		5,000
ECDC Trust Fund		1,000
TIF North Fund	4,898	
Capital Projects Fund - EDBG Sewer Project	4,912	
Total Component Unit - Sanitation Department	44,810	6,000
	$ 746,498	746,497

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

13. Interfund receivables and payables

The details of inter fund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund		Amount
General	ECDC Trust Fund	$	663
Debt Service Fund	General Fund		23,368
Total		$	24,031

These balances result from recording income in the wrong fund and payments made out of incorrect funds. They will be repaid in the next fiscal year.

14. Risk Management

The City of Emmetsburg is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the purchase of Commercial Insurance. There have been no significant reductions in insurance coverage during the fiscal year 2004. Settled claims have not exceeded commercial excess coverage in any of the past three years.

15. Construction in Progress

The Primary government has entered into a contract for First Street Improvements with Godbersen-Smith Construction for $980,181 on June 23, 2004. No cost have been incurred on the contract with Godbersen-Smith Construction as of June 30,2004.

The Component Units portion of construction in progress represents accumulated cost for the First Street Improvements project mentioned above. The breakdown of the cost to date and future costs are as follows:

Water Department	
Cost incurred through June 30, 2004	$31,721
Estimated cost to complete	119,340
Sanitation Department	
Cost incurred through June 30, 2004	4,616
Estimated cost to complete	90,350

The Sanitation Department has also entered into a sewer outfall improvement contract after June 30, 2004. The cost incurred through June 30, 2004 was for engineering fees. Those cost were $42,441. The estimated cost of the contract plus engineering fees is $997,733. This costs includes the cost incurred as of June 30, 2004. The Sanitation Department will be receiving $451,000 in grant funds towards the cost of the project. This leaves a cost of $546,733 to be paid for with local government funds.

16. Accounting change and restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absences liabilities are recorded under the modified accrual basis of accounting.

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

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

Beginning capital assets for governmental activities of $0.00 were restated to $1,505,833, net of accumulated depreciation of $1,216,458.

The restatement resulted from adding capital assets for the governmental funds.

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

Primary Government:	
Governmental activities:	
Net assets June 30, 2003, as previously reported	$ 1,205,910
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of $1,126,458	1,505,833
Rounding	(1)
Long-term Liabilities	(1,154,000)
Net assets June 30, 2003 as restated	$ 1,557,742

17. Prior Period Adjustment component Units

Prior period adjustment represents a payable that should have been established during the year ended June 30, 2003 to the primary government.

City of Emmetsburg, Iowa
Budgetary Comparison Schedule of Revenues, Expenditures/expenses
and Changes in Fund Balances- Budget and Actual-Governmental Funds and Proprietary Funds,
Year Ended June 30, 2004

	Actual		
	Governmental Funds	Proprietary Funds	Total
Revenues:			
Property taxes	$ 956,789		956,789
Tax increment financing	97,240		97,240
Other city tax	268,553		268,553
Licenses and permits	8,806		8,806
Use of money and property	46,966	5,515	52,481
Intergovernmental	663,115		663,115
Charges for services	85,757	290,994	376,751
Special assessments	132,464		132,464
Miscellaneous	96,025	3,600	99,625
Total Revenues	2,355,715	300,109	2,655,824
Expenditures			
Public safety	404,511		404,511
Public works	694,189		694,189
Culture and recreation	236,516		236,516
Community and economic development	172,840		172,840
General government	254,522		254,522
Debt service	272,031		272,031
Business type		332,977	332,977
Capital outlay	396,755		396,755
Total expenditures	2,431,364	332,977	2,764,341
Excess (deficiency) of revenues over expenditures	(75,649)	(32,868)	(108,517)
Other Financing Sources (Uses)			
Bond proceeds	475,000		475,000
Discount on bonds	(9,500)		(9,500)
Transfers from other funds	695,188	6,500	701,688
Transfers to other funds	(588,555)		(588,555)
Total other financing sources (uses)	572,133	6,500	578,633
Net changes in fund balances	496,484	(26,368)	470,116
Fund balance (deficit), beginning	1,205,910	430,996	1,636,906
Fund balance (deficit), ending	$ 1,702,394	404,628	2,107,022

* This should not be considered over expended since this is a capital project for lake restoration. The lake is the property of the State of Iowa and therefore, was not shown as capital outlay in the financial statements.

See notes to financial statements.

Budget			
Original	Final	Final to Actual Variance	
956,157	956,157	632	
97,000	97,000	240	
228,628	228,628	39,925	
15,985	15,985	(7,179)	
96,523	96,523	(44,042)	
1,463,489	1,454,344	(791,229)	
328,025	328,025	48,726	
154,185	176,060	(43,596)	
117,102	117,102	(17,477)	
3,457,094	3,469,824	(814,000)	
464,466	507,221	(102,710)	
522,695	545,261	148,928	*
353,342	367,132	(130,616)	
325,364	354,614	(181,774)	
257,727	289,362	(34,840)	
389,425	389,425	(117,394)	
352,166	353,196	(20,219)	
1,494,102	1,551,703	(1,154,948)	
4,159,287	4,357,914	(1,593,573)	
(702,193)	(888,090)	779,573	
990,000	1,014,702	(539,702)	
		(9,500)	
787,666	912,499	(210,811)	
(787,666)	(912,499)	323,944	
990,000	1,014,702	(436,069)	
287,807	126,612	343,504	
10,370,294	10,370,294	(8,733,388)	
10,658,101	10,496,906	(8,389,884)	

City of Emmetsburg, Iowa
Combining Balance Sheet- Nonmajor Governmental Funds
June 30, 2004

	Special Revenue			
	Emergency Fund	South TIF Fund	TIF North Set Aside Fund	TIF North Fund
ASSETS				
Pooled cash, including time deposits	$	21,245	24,085	8,192
Receivables:				
Property taxes, net	16,262			130,896
Accounts				119
Notes, current				
Notes receivable, non-current				
Total assets	16,262	21,245	24,085	139,207
LIABILITIES				
Accounts payable				
Deferred revenues	16,066			130,896
Total liabilities	16,066			130,896
Fund Balances				
Unreserved, Undesignated				
Reported in Special revenue	196	21,245	24,085	8,311
Reported in Capital projects				
Total fund balances	196	21,245	24,085	8,311
Total liabilities and fund balances	$ 16,262	21,245	24,085	139,207

See notes to financial statements.

Special Revenue			Capital Projects				Total Nonmajor
CDBG Housing Rehab Fund	Revolving ECDC Loan Fund	Perpetual Care Fund	Revolving Fund	First Street Project	Rail Road Surface	Sewell Park Project	Governmental Funds
1,194	18,558	62,505	78,744	21,661	12,901	5,858	254,943
							147,158
							119
241	5,833						6,074
	1,250						1,250
1,435	25,641	62,505	78,744	21,661	12,901	5,858	409,544
				19,731	4,554		24,285
241	7,083						154,286
241	7,083			19,731	4,554		178,571
1,194	18,558	62,505					136,094
			78,744	1,930	8,347	5,858	94,879
1,194	18,558	62,505	78,744	1,930	8,347	5,858	230,973
1,435	25,641	62,505	78,744	21,661	12,901	5,858	409,544

City of Emmetsburg, Iowa
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2004

	Special Revenue				
	Emergency Fund	South TIF Fund	TIF North Set Aside Fund	TIF North Fund	CDBG Housing Rehab Fund
REVENUES	$				
Property taxes	15,984				
Tax increment financing				97,240	
Other city tax	357				
Use of money and property		223	191	166	98
Intergovernmental					27,210
Charges for services					
Miscellaneous					
Total revenues	16,341	223	191	97,406	27,308
EXPENDITURES					
Governmental activities:					
Public works					
Community and economic development				45,060	33,207
Capital outlay					
Total expenditures				45,060	33,207
Excess (deficiency) of revenues over expenditures	16,341	223	191	52,346	(5,899)
OTHER FINANCING SOURCES (USES)					
Transfers from other funds			42,300		
Transfers to other funds	(16,145)		(51,796)	(58,132)	
Total other financing sources (uses)	(16,145)		(9,496)	(58,132)	
Net changes in fund balances	196	223	(9,305)	(5,786)	(5,899)
Fund balance, beginning		21,022	33,390	14,097	7,093
Fund balance, ending	$ 196	21,245	24,085	8,311	1,194

See notes to financial statements.

Special Revenue		Capital Projects					Total Nonmajor Governmental Funds
Revolving ECDC Loan Fund	Perpetual Care Fund	Revolving Fund	First Street Project	Rail Road Surface	Sewell Park Project	CDBG Sewer Project	
							15,984
							97,240
							357
4,330			11	75	7		5,101
				4,938	5,854	9,262	47,264
	1,280						1,280
		14,895			1,506		16,401
4,330	1,280	14,895	11	5,013	7,367	9,262	183,627
				33,592		4,350	37,942
							78,267
			73,081		7,648		80,729
			73,081	33,592	7,648	4,350	196,938
4,330	1,280	14,895	(73,070)	(28,579)	(281)	4,912	(13,311)
		25,725	75,000	15,396	6,139		164,560
		(30,336)				(4,912)	(161,321)
		(4,611)	75,000	15,396	6,139	(4,912)	3,239
4,330	1,280	10,284	1,930	(13,183)	5,858		(10,072)
14,228	61,225	68,460		21,530			241,045
18,558	62,505	78,744	1,930	8,347	5,858		230,973

City of Emmetsburg, Iowa
Schedule of Revenues by Source and Expenditures by Function-
All Governmental Funds
For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Property taxes	$ 956,789	1,079,243	1,012,996	1,026,436
Tax increment financing revenue	97,240	81,653	183,862	94,289
Other city tax	268,553	239,116	259,009	133,878
Licenses and permits	8,806	9,802	9,643	7,051
Use of money and property	46,966	45,267	55,992	84,727
Intergovernmental	663,115	735,501	704,663	542,222
Charges for services	85,757	27,438	26,766	19,185
Special assessments	132,464	32,547	37,320	44,517
Miscellaneous	96,025	225,993	115,057	111,127
Total	2,355,715	2,476,560	2,405,308	2,063,432
Expenditures:				
Operating:				
Public safety	404,511	396,117	427,509	391,320
Public works	694,189	477,027	451,063	338,959
Culture and recreation	236,516	278,924	315,845	228,779
Community and economic development	172,840	198,688	511,684	260,216
General government	254,522	258,911	254,828	235,498
Debt service	272,031	343,988	254,967	404,833
Capital projects	396,755	959,157	73,742	139,309
Total	$ 2,431,364	2,912,812	2,289,638	1,998,914

Burdorf, Parrott And Associates, P.C.
Certified Public Accountants

Edwin J. Burdorf, CPA
Patrick J. Parrott, CPA
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Emmetsburg, Iowa 50536
Phone: 712-852-3347
Fax: 712-852-3348

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City of Emmetsburg, Iowa's basic financial statements and have issued our report thereon dated January 5, 2005. In our report our opinion was qualified because the property, plant and equipment policies of the component units (gas, water and sanitation) do not conform to generally accepted accounting policies. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 Emmetsburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for an apparent violation of Chapter 362.5(10) conflict of interest transactions.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Emmetsburg's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Emmetsburg's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. These are the same reportable conditions discussed in the prior years report.

This report is intended for the information and use of the officials, management, others with in the organization, and federal and state awarding agencies and pass-through entities, and citizens of the City of Emmetsburg, and 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 Emmetsburg 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.

BURDORF, PARROTT AND ASSOCIATES, P.C.
Certified Public Accountants

January 5, 2005
Emmetsburg, Iowa

City of Emmetsburg, Iowa

Schedule of Findings

Year ended June 30, 2004

REPORTABLE CONDITIONS:

04-I-A Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the City's financial statements. We noted that one individual at the Utilities office has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that the limited number of office employees, segregation of duties is difficult. However, the City and Utilities should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We have reviewed procedures and have determined that our policy of involvement of the City council and various boards along with the administration's monitoring of transactions, is the best we can do.

Conclusion - Response accepted.

Other findings Related to Required Statutory Reporting:

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

04-II-B Certified Budget – The Primary Governments Expenditures during the year ended June 30, 2004 was not exceeded for the year.

04-II-C Questionable Expenditures – There were no questionable expenditures that fell outside its established policy on such costs.

04-II-D Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees was noted.

04-II-E Business Transactions - Business transactions between the City and city officials or employees are as follows:

Name, Title and Business Connection	Description of Transaction	Amount
Paul Saxton, Utility Trustee Saxton's Greenhouse	Grass seed	$ 180
	Memorials and recognitions	
John O'Leary O'Leary Plumbing & Heating	Furnace and Plumbing repairs	4,070
Steve Finer, Council person Jensvold Motor Company	Auto repairs and parts	1,145

In accordance with Chapter 362.5(10) of the Code of Iowa, those transactions appear to represent conflict of interest since transactions were more than $1,500.

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

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

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

04-II-I Revenue Bonds - The City has complied with all requirements of the Loan and Disbursement agreements.

EMMETSBURG MUNICIPAL UTILITIES

EMMETSBURG, IOWA

COMPONENT UNIT FINANCIAL STATEMENTS

JUNE 30, 2004

EMMETSBURG MUNICIPAL UTILITIES

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EMMETSBURG MUNICIPAL UTILITIES

OFFICIALS

Name	Title	Term Expires
Dan Cooper	Board Member	Dec. 31, 2004
John Wright	Board Member	Dec. 31, 2005
Nick Steinkamp	Board Member	Dec. 31, 2006
Ronald Ludwig	Board Member	Dec. 31, 2007
Paul Saxton	Board Member	Dec. 31, 2009
John Bird	City Administrator/Superintendent	
Kathy Gunderson	Administrative Assistant	
John D. Brown	Attorney	

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the component unit financial statements of the Emmetsburg Municipal Utilities (a component unit of the City of Emmetsburg, Iowa) as of and for the year ended June 30, 2004. These component unit financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Capital assets policies do not conform to generally accepted accounting principles as described in Note 1D to the financial statements. The effects on the financial statements of the preceding practice is not reasonably determinable.

As discussed in Note 1, the financial statements present only the Gas, Water, and Sanitation funds referred to as the Emmetsburg Municipal Utilities and do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa, as of June 30, 2004, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with generally accepted accounting principles generally accepted in the United States of America.

In our opinion, except for the effects, if any, of the matters discussed in the third paragraph, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Emmetsburg Municipal Utilities as of June 30, 2004 and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13, the Emmetsburg Municipal Utilities has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 37, Basic Financial Statements-and Manager's Discussion and Analysis-for State and Local Governments, as of July 1, 2003.

In accordance with government Auditing Standards, we have also issued our report dated January 3, 2005 on our consideration of the Emmetsburg Municipal Utilities internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Emmetsburg Municipal Utilities, basic financial statements. The combining schedule of operating expenses on page 23 is presented for the 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 the audit of the basic financial statements and, in our opinion, except for the effects, if any, of the matters discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BURDORF, PARROTT AND ASSOCIATES, P.C.
Certified Public Accountants

January 3, 2005
Emmetsburg, Iowa

Management's Discussion and Analysis

Our discussion and analysis of the Emmetsburg Municipal Utilities financial performance provides an overview of the Utilities financial activities for the year ended June 30, 2004. Please read it in conjunction with the Utilities financial statements, which follow.

Financial Highlights

- The Utilities net assets increased $138,897 as a result of this year's operations. This is 1.5 percent increase.
- The Utilities return on total ending assets was nearly 1.4 %.
- The Utilities total revenues were $2,976,298 in 2004 compared to $3,075,096 in 2003.
- During the year ended June 30, 2004, the Utilities had total expenses, excluding depreciation, of $2,458,350.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on Pages 9 and 10) provide information about the activities of the Utilities as a whole. Fund financial statements report the Utilities operations in more detail than the government-wide statements by providing information about each of the Utilities funds.

Reporting the Funds Maintained by the Utilities as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the funds maintained by the Utilities as a whole begins on page 5. One of the most important questions asked about the Utilities finances is, "Is the Utilities as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and Statement of Activities report information about the Utilities as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities net assets and changes in them. You can think of the Utilities net assets-the difference between assets and liabilities-as one way to measure the Utilities financial health, or financial position. Over time, increases or decreases in the Utilities net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the Utilities infrastructure, to assess the overall health of the Utilities.

In the Statement of Net Assets and the Statement of Activities, we show one kind of activity: a business-type activity.

Business-type activities show revenues earned, resources provided for, and expenses incurred for the provision of gas, water and sewer services to the City of Emmetsburg.

Reporting the Most Significant Funds Maintained by the Utilities

Fund Financial Statements

All the funds are major funds. The fund financial statements begin on page 11 and provide detailed information about the most significant funds-not the Utilities as a whole. The Utilities funds use the following accounting approaches.

Proprietary funds- all of the Utilities expenses incurred are for the provision of gas, water and sewer services reported in a proprietary fund. When the City charges customers for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Utilities enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

The Funds maintained by the Utilities as a Whole

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

		Business-type Activities
Beginning net assets	$	9,407,049
Prior year's adjustments		(15,000)
Increases in net assets		138,897
Ending net assets	$	9,530,946

June 30, 2004 was the first period that GASB Statement 34 was applied. The Utilities was not required to restate the prior periods for purposes of providing comparative data. However, our analysis below will focus on key elements of the totals for the year ended June 30, 2004. In future years, when prior year information is available, a comparative analysis of the funds maintained by the Utilities will be presented.

Table 1

Net Assets June 30, 2004	
Current assets	$ 1,128,853
Non-current assets	171,178
Restricted assets	36,407
Assets whose use is limited	2,312,439
Capital assets	6,547,576
Total assets	10,196,453
Current liabilities	222,100
Other liabilities	36,407
Long-term liabilities	407,000
Net assets:	
Invested in capital assets, Net of debt	6,115,576
Unrestricted	3,415,370
Total net assets	$ 9,530,946

Table 2

Changes in Net Assets June 30, 2004

Business-type activities:	Expenses	Charges for Services	Net Revenue
Gas Department	$ 1,896,316	2,083,226	186,910
Water Department	417,363	429,846	12,483
Sanitation Department	448,851	463,226	14,375
Total	2,762,530	2,976,298	213,768
General revenue			
Interest			38,261
Transfer from Primary Government			9,810
Transfer to Primary Government			122,942)
Increase in net assets			$ 138,897

For the funds maintained by the Utilities, total revenues decreased by $98,798, from total revenues for the year ended June 30, 2003.

In addition, total expenses increased by $112,617 from the prior year. This resulted from higher cost of natural gas purchased and considerable cost for tank maintenance.

In reviewing the net changes in net assets of the various departments, the Gas Department needs to be examined more closely. While the Gas Department is showing a change in net assets of $61,438, it is down considerably from 2003 and 2002. The net change in assets for 2002 was $242,789 and the net change in assets for 2003 was $329,194. Most of the decrease in revenue came about from a decrease in mcf's sold during 2004 and a decrease in gross margin in the sale of gas. The cost to purchase gas increased

significantly during 2004. The average cost of gas purchases went from $5.25 per mcf to $6.00 per mcf. The gas department did not pass along the entire cost increase to its customers. The average gross margin per mcf in 2003 was $2.17. The average gross margin per mcf in 2004 was $1.78. This is a difference of $.39 per mcf that was not passed on to the customer. The net result of the decrease in mcf's sold and the decrease in margins created a decrease in net assets of $161,616.

The Gas Department has set a trend over the past several years of providing support to the Water and Sanitation Departments along with transferring funds to the Primary funds. The Gas Department will, in the future, be required to pass the entire increase in cost to its customers.

Capital Asset and Debt Administration

Capital Assets

At the end of June 30, 2004, the Utilities had new additions of $209,762 invested in capital assets from those funds maintained by the Utilities.

		Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
Gas Department:	$				
Land		1,039			1,039
Structures & plant		362,700	25,145		387,845
Distribution system		1,075,348			1,075,348
Equipment, meters & mains		743,547	8,919		752,466
Total assets costs		2,182,634	34,064		2,216,698
Less accumulated depreciation		1,282,769	75,090		1,357,859
Gas Department assets, net	$	899,865	(41,026)		858,839
Water Department:					
Land	$	67,067			67,067
Structures & plant		517,471			517,471
Distribution system		1,517,813	225,120		1,742,933
Equipment, meters & mains		957,009	4,076		961,085
Construction in progress		193,521	31,721	(193,521)	31,721
Total assets costs		3,252,881	260,917	(193,521)	3,320,277
Less accumulated depreciation		1,388,390	71,885		1,460,275
Water Department assets, net	$	1,864,491	189,032	(193,521)	1,860,002
Sanitation Department:					
Land	$	84,542			84,542
Structures & plant		4,292,247	29,703		4,321,950
Distribution system		1,068,332	243,968		1,312,300
Equipment, meters & mains		526,454	1,939		528,393
Construction in progress		216,698	49,390	(216,698)	49,390
Total assets costs		6,188,273	325,000	(216,698)	6,296,575
Less accumulated depreciation		2,330,593	137,247		2,467,840
Sanitation Department assets, net	$	3,857,680	187,753	(216,698)	3,828,735

Depreciation expense for each department is found on page 12 .

Debt

The Sanitation Department, had $432,000 of loans outstanding at year-end, compared to $471,591 last year.

Economic Factors and Next Year's Budget and Rates

Current economic factors did not affected decisions made by the Utilities in setting its fiscal 2005 budget. The Utilities budget has increased over fiscal 2004.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index (CPI) increase. The State's CPI increase was 3.2 percent for fiscal 2004 compared with the national rate of 3.4 percent. Inflation has been modest here also.

Contacting the Utilities Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities finances and to show the Utilities accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa.

John Bird
City Administrator/Superintendent

EMMETSBURG MUNICIPAL UTILITIES

Statement of Net Assets

June 30, 2004

Assets	Business-type Activities
Current assets:	
Cash, including time deposits	$ 794,012
Accounts receivable	201,433
Other receivables	6,903
Accrued billing	70,101
Accrued interest receivable	2,463
Accrued interest receivable- Primary Government	1,098
Prepaid expenses	45,411
Total current assets	1,121,421
Noncurrent assets:	
Loan receivable - Primary Government	78,000
Notes receivable	93,178
	171,178
Restricted assets-cash, including time deposits	36,407
Assets whose use is limited, cash, including time deposits	2,312,439
Capital assets:	
Land	152,648
Structures and plant	5,227,266
Distribution system	4,130,581
Equipment, meters and mains	2,241,944
Construction in progress	81,111
	11,833,550
Less: Accumulated depreciation	(5,285,974)
Net capital assets	6,547,576
Total assets	$ 10,189,021

See notes to the financial statements.

	Business-type Activities
Liabilities	
Current liabilities:	
Accounts payable	$ 154,882
Other liabilities payable	8,850
Current portion of long-term debt	25,000
Accrued vacation pay	9,452
Accrued interest payable	1,484
Due to Primary Government	15,000
Total current liabilities	214,668
Noncurrent liabilities:	
Customer deposits	36,407
Long-term debt (net of current portion above	407,000
Total liabilities	658,075
Net assets	
Investment in capital assets, net of related debt	6,115,576
Unrestricted	3,415,370
Total net assets	9,530,946
Total liabilities and net assets	$ 10,189,021

EMMETSBURG MUNICIPAL UTILITIES

Statement of Activities

Year Ended June 30, 2004

Business-type activities:		Expenses	Charges for Services	Net Revenue
Gas Department	$	1,896,316	2,083,226	186,910
Water Department		417,363	429,846	12,483
Sanitation Department		448,851	463,226	14,375
Total		2,762,530	2,976,298	213,768
General Revenues:				
Interest income				38,261
Transfer from primary government				9,810
Transfer to primary government				(122,942)
Change in net assets				138,897
Net assets at beginning of year				9,407,049
Prior year's adjustment				(15,000)
Net assets at ending of year				$ 9,530,946

See notes to the financial statements.

EMMETSBURG MUNICIPAL UTILITIES
Combining Statement of Net Assets
Proprietary Funds
June 30, 2004

Assets	Gas Department	Water Department	Sanitation Department	Total 2004
Current assets:				
Cash, including time deposits	$ 723,611	82,669	(12,268)	794,012
Accounts receivable	165,026		36,407	201,433
Other receivables	6,903			6,903
Accrued billing	29,329	20,383	20,389	70,101
Accrued interest receivable	1,658	678	127	2,463
Accrued interest receivable- Primary Government	1,098			1,098
Interfund receivable	4,045		3,387	7,432
Prepaid expenses	15,575	15,303	14,533	45,411
Total current assets	947,245	119,033	62,575	1,128,853
Noncurrent assets:				
Loan receivable - Primary Government	78,000			78,000
Notes receivable	93,178			93,178
	171,178			171,178
Restricted assets-cash, including time deposits	30,762	5,645		36,407
Assets whose use is limited, cash, including time deposits	955,357	932,619	424,463	2,312,439
Capital assets:				
Land	1,039	67,067	84,542	152,648
Structures and plant	387,845	517,471	4,321,950	5,227,266
Distribution system	1,075,348	1,742,933	1,312,300	4,130,581
Equipment, meters and mains	752,466	961,085	528,393	2,241,944
Construction in progress		31,721	49,390	81,111
	2,216,698	3,320,277	6,296,575	11,833,550
Less: Accumulated depreciation	(1,357,859)	(1,460,275)	(2,467,840)	(5,285,974)
Net capital assets	858,839	1,860,002	3,828,735	6,547,576
Total assets	$ 2,963,381	2,917,299	4,315,773	10,196,453

See notes to the financial statements.

Liabilities	Gas Department	Water Department	Sanitation Department	Total 2004
Current liabilities:				
Accounts payable	$ 56,608	72,423	25,851	154,882
Other liabilities payable	8,263	581	6	8,850
Current portion of long-term debt			25,000	25,000
Accrued vacation pay	2,553	3,912	2,987	9,452
Accrued interest payable			1,484	1,484
Interfund payable		4,643	2,789	7,432
Due to Primary Government	5,000	5,000	5,000	15,000
Total current liabilities	72,424	86,559	63,117	222,100
Noncurrent liabilities:				
Customer deposits	30,762	5,645		36,407
Long-term debt (net of current portion above			407,000	407,000
Total liabilities	103,186	92,204	470,117	665,507
Net assets				
Investment in capital assets, net of related debt	858,839	1,860,002	3,396,735	6,115,576
Unrestricted	2,001,356	965,093	448,921	3,415,370
Total net assets	2,860,195	2,825,095	3,845,656	9,530,946
Total liabilities and net assets	$ 2,963,381	2,917,299	4,315,773	10,196,453

EMMETSBURG MUNICIPAL UTILITIES
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Proprietary Funds
Year Ended June 30, 2004

	Business-type Activities			
	Gas Department	Water Department	Sanitation Department	Total 2004
Operating revenues:				
Utility service charges	$			
Residential	1,024,953	164,793	199,088	1,388,834
Commercial	697,720	137,659	88,797	924,176
Public authority	173,125	13,210	13,296	199,631
Customer fees	138,600	104,580	154,764	397,944
Interfund services provided	30,782	3,083	2,384	36,249
Penalties	3,081			3,081
Other	14,965	6,521	4,897	26,383
Total operating revenues	2,083,226	429,846	463,226	2,976,298
Operating expenses:				
Personal services	136,036	117,133	115,692	368,861
Contractual	74,411	51,152	59,779	185,342
Materials, supplies & maintenance	1,573,638	136,222	59,992	1,769,852
Utilities	4,336	25,822	27,910	58,068
Depreciation	75,090	71,885	137,247	284,222
Uncollected accounts	5,399	26	32	5,457
Interfund services used	8,572	15,123	29,075	52,770
Other	18,000			18,000
Total operating expenses	1,895,482	417,363	429,727	2,742,572
Operating income (loss)	187,744	12,483	33,499	233,726
Non-operating revenues and (expenses):				
Interest income	20,470	13,610	4,181	38,261
Interest expense	(834)		(19,124)	(19,958)
Total non-operating revenues (expenses)	19,636	13,610	(14,943)	18,303
Income before contributions and transfers	207,380	26,093	18,556	252,029
Transfer from gas department			35,000	35,000
Transfer to sanitation department	(35,000)			(35,000)
Transfer from primary government			9,810	9,810
Transfer to primary government	(110,942)	(6,000)	(6,000)	(122,942)
Change in net assets	61,438	20,093	57,366	138,897
Net assets at beginning of year	2,803,757	2,810,002	3,793,290	9,407,049
Prior years adjustment	(5,000)	(5,000)	(5,000)	(15,000)
Net assets at end of year	$ 2,860,195	2,825,095	3,845,656	9,530,946

See notes to the financial statements.

EMMETSBURG MUNICIPAL UTILITIES

Combining Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2004

	Gas Department	Water Department	Sanitation Department	Total 2004
Cash flows from operating activities:				
Cash received from customers	$ 2,033,789	419,014	448,803	2,901,606
Cash payments to suppliers for goods and services	(1,660,708)	(187,316)	(160,628)	(2,008,652)
Cash payments to employees for services	(137,542)	(115,983)	(115,528)	(369,053)
Cash received for interfund services provided	30,782	3,083	2,384	36,249
Cash paid for internal services used	(8,572)	(15,123)	(29,075)	(52,770)
Other income	14,965	6,521	4,897	26,383
Other expense	(18,000)			(18,000)
Net cash provided by operating activities	254,714	110,196	150,853	515,763
Cash flows from noncapital financing activities:				
Cash from or to primary Government funds	26,072	551	3,810	30,433
Cash from or for interfund transactions	(23,546)	179	31,500	8,133
Transfers to primary government funds	(110,942)	(6,000)		(116,942)
Net cash provided (used) by noncapital financing activities	(108,416)	(5,270)	35,310	(78,376)
Cash flows from capital and related financing activities:				
Loan and lease payments			(39,591)	(39,591)
Interest paid	(834)		(20,040)	(20,874)
Acquisition and construction of capital assets	(34,064)	(67,396)	(108,302)	(209,762)
Net cash provided (used) for capital and related financing activities	(34,898)	(67,396)	(167,933)	(270,227)
Cash flows from investing activities:				
Interest on investments	20,004	13,603	4,121	37,728
Collection of loan to others	2,314			2,314
Net cash provided (used) by investing activities	22,318	13,603	4,121	40,042
Net increase (decrease) in cash and cash equivalents	133,718	51,133	22,351	207,202
Cash, including time deposits beginning of year	1,576,012	969,800	389,844	2,935,656
Cash, including time deposits, end of year	$ 1,709,730	1,020,933	412,195	3,142,858
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 187,744	12,483	33,499	233,726
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	75,090	71,885	137,247	284,222
Changes in assets and liabilities:				
(Increase) decrease in accounts and other receivable	430	1,251	(2,292)	(611)
(Increase) decrease in accrued billing	(3,969)	(3,428)	(4,818)	(12,215)
(Increase) decrease in prepaid expenses	(8,836)	(4,889)	(700)	(14,425)
Increase(decrease) in other liabilities	(6,312)	136		(6,176)
Increase (decrease) in accounts payable	6,825	30,633	(12,247)	25,211
Increase (decrease) in customer deposits	5,248	975		6,223
Increase (decrease) in accrued vacation pay	(1,506)	1,150	164	(192)
	$ 254,714	110,196	150,853	515,763

See notes to the financial statements.

Emmetsburg Municipal Utilities

Notes To The Financial Statements

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Emmetsburg Municipal Utilities is the component unit of the City of Emmetsburg, Iowa. It consists of three funds, the Gas department, the Water department and the Sanitation department. The Emmetsburg Utilities do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa as of June 30, 2004, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with generally accepted accounting principles generally accepted in the United States of America.

Basic Financial Statements-Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information on all of the component unit activities. For the most part, the effect of Interfund activity has been removed from these statements. Net assets are normally reported in three categories.

Invested in capital assets, net of related debt- which 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 improvements of those assets.

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

Unrestricted net assets-which consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

This government-wide focus is more on the sustainability of the Utilities net assets resulting from the current year's activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function.

Accounting Policies

The Utilities apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements in which case, GASB prevails.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies of Emmetsburg Municipal Utilities conform to generally accepted accounting principles as applicable to governments except as noted below. The following is a summary of the significant policies:

A. Fund Accounting

The accounts of Emmetsburg Municipal Utilities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in the report, under the one fund category as follows:

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining cost as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred.

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

B. Cash and Investments (Cash Equivalents)

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

The Utilities maintains a cash and investment pool that is available for use by all funds. Certificates of deposit are separately held by each of the Utility's funds. Deposits are stated at cost.

The carrying amount of the Utility's deposits at June 30, 2004 was $3,142,858 and the bank balance was $3,160,480. The bank balance was covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Utilities 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 Utility Board and the treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and, certain joint investment trusts. The Utilities currently invests only in certificates of deposit, which are included in cash.

C. Accounts Receivable

No allowance for uncollectible accounts has been provided for at June 30, 2004.

D. Capital Assets and Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with Utilities activity are included on their Statement of Assets. The Utilities reported net assets are segregated into Investment in capital assets, net of related debt and Unrestricted.

No detailed depreciation schedule or continuing property record is maintained. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of plant and equipment. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expenses and overhead should be capitalized.

Depreciation of all exhaustible property, plant and equipment used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method as follows:

Structure & Plant	20 – 50 years
Distribution System	50 years
Equipment, Meters & Mains	5 – 50 years

E. Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the board of trustees specifically designated for future capital improvements or other special future expenses, over which the board retains control and may at its discretion subsequently use for other purposes.

F. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the year ended June 30, 2004 was $18,009, equal to the required contributions for the year.

G. Vacation and Sick Pay

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation pay is recorded as an accrued liability when earned and sick pay is not recognized as an expense until paid.

H. Budgets

The Emmetsburg Municipal Utilities follows these procedures in establishing their annual budget:

1. The City Administrator/Superintendent and Administrative Assistant submit to the Utility Board and City Council a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenses and the means of financing them.

2. Public hearings are conducted at the City Hall to obtain taxpayer comments.

3. The budget is filed by March 15 of the commencing year along with the City of Emmetsburg budget.

4. The City Administrator/Superintendent, with the approval of the Board of Trustees and City Council in certain circumstances, is authorized to transfer budgeted amounts between departments within any fund or program; however, revisions that alter the total expenses of any program require a formal budget amendment.

5. All appropriations lapse at year end.

2. Note Receivable

The Utilities loaned $50,000 to a local business to be used for expansion on September 2, 1999. The note bears interest at five percent over a fifteen-year amortization schedule with one balloon payment due at the end of five years. Interest only will be paid the first two years on a quarterly basis, with principal and interest due after the first two years on a monthly basis. The current balance at June 30, 2004 is $43,178. On June 6, 2002, the Utilities entered into a loan agreement with a local Manufacturing business to loan the business $50,000, bearing interest at five percent. The Utilities advanced the company $26,302 as of June 30, 2002 and the remainder as of June 30, 2003. The current balance at June 30, 2004 is $50,000.

3. Loan Receivable - General Fund

The Utilities loaned the General Fund of the City of Emmetsburg $160,000. The interest rate is equivalent to the rate of return received by the Utilities on their invested funds to be determined on January 1 and July 1 of each year and shall be applied retroactively for the previous six months. The loan must be repaid no later than April 1, 2007. The current balance of this loan is $78,000.

4. Assets Whose Use is Limited

The composition of assets whose use is limited at June 30, 2004 is in the following table:

		Gas	Water	Sanitation
By Board for Capital Improvements and Replacement:				
Cash in bank	$	151,503	124,720	111,625
Certificates of deposit		751,251	774,679	275,000
By Board for Medical Reimbursement:				
Cash in bank		39,733	4,138	4,137
By Board for Industrial Development:				
Cash in bank		3,370	29,082	33,701
Certificates of deposit		9,500		
	$	955,357	932,619	424,463

5. Restricted Assets

Restricted assets are comprised of cash in bank and certificates of deposit that can be used only to repay customer deposits.

6. Changes in Property, Plant and Equipment

A summary of changes in capital assets follows:

		Balance 7/1/03	Additions	Deletions	Balance 6/30/04
Land	$	152,648			152,648
Structures & plant		5,172,418	54,848		5,227,266
Distribution system		3,661,493	469,088		4,130,581
Equipment, meters & mains		2,227,010	14,934		2,241,944
Construction in progress		410,219		329,108	81,111
Total	$	11,623,788	538,870	329,108	11,833,550

7. Capital Lease

The Sanitation Department acquired a tractor under the provisions of a long-term lease. For financial reporting purposes minimum lease payments relating to the tractor have been capitalized. The lease expired in July 2003.

8. Long-Term Debt

The Utilities entered into a Loan and Disbursement Agreement with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as part of the Iowa Sewage Treatment Works Financing Program, as a means of financing the construction of certain wastewater treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities agrees, during the term of the loans, to provide the Department with certain reports and other information as required. Original loans are detailed as follows:

$202,000 Sludge Digestion Improvement series 1998B bonds due in annual payments of $6,000, $7,000, $8,000, $9,000, $10,000, $13,000, $14,000 and $15,000 to June 1, 2018; interest at 3.92%.

$358,000 Sewer Revenue Bonds Series 1998A due in annual payments of $13,000, $10,000, $15,000, $20,000 and $25, 000 to June 1, 2018; interest at 4.23%.

Annual debt service requirements related to the loans are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	25,000	17,802	42,802
2006	25,000	16,776	41,776
2007	30,000	15,749	45,749
2008	30,000	14,511	44,511
2009	30,000	13,273	43,273
2010-2018	292,000	63,144	355,144
	$ 432,000	141,255	573,255

9. Employee Benefits - Health Insurance (Partial Self-Insurance)
The Utilities have purchased a health insurance policy with a $1,500 deductible per individual and a $3,000 per family co-insurance clause. The Utilities then self-insures $1,250 of the $1,500 deductible.

10. Risk Management

The Utilities 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 Utilities 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.

11. Construction in Progress

Construction in progress represents accumulated cost for the First Street project that are being shared with the primary government. The breakdown of the cost to date and future costs are as follows:

Water Department	
Cost incurred through June 30, 2004	$ 31,721
Estimated Cost to complete	119,390

Water Department	
Cost incurred through June 30, 2004	$ 4,616
Estimated Cost to complete	90,350

The Utilities has also entered into a sewer outfall improvement contract in the sanitation department. The cost incurred through June 30, 2004 was for engineering fees. Those costs were $42,441. The contract was entered into after June 30, 2004 for the improvements. The estimated cost of that contract plus engineering fees is $ 997,733. This cost includes the cost incurred as of June 30, 2004. The Utilities will be receiving $451,000 in grant funds towards the cost of the project. This leaves a cost of $546,733 to be paid for with local government funds.

12. Prior Years Adjustment

Prior years adjustment represents a payable that should have been established during the year ended June 30, 2003 to the primary government.

13. Accounting changes

Governmental Accounting Standards Board Statement No. 34 Basic Financial Statements Management's Discussion and Analysis-for State and Local Governments: Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus: Statement No. 38 Certain Financial Statements 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 Utilities component financial activities.

EMMETSBURG MUNICIPAL UTILITIES
Budgetary Comparison Schedule of Revenues, Expenses
and Changes in Balances- Budget and Actual- Proprietary Funds,
Year Ended June 30, 2004

	Actual	Budget	
	Proprietary Funds	Original and Final	Final to Actual Variance
Revenues:			
Charges for services	2,976,298	2,994,226	(17,928)
Miscellaneous	38,261	28,000	10,261
Total Revenues	3,014,559	3,022,226	(7,667)
Expenses			
Business-type			
Gas	1,896,316	1,832,085	(64,231)
Water	417,363	410,241	(7,122)
Sanitation	448,851	479,269	30,418
Total expenses	2,762,530	2,721,595	(40,935)
Income before contributions and transfers	252,029	300,631	48,602
Other Financining Sources (Uses)			
Transfers from primary government	9,810		9,810
Transfers to primary government	(122,942)	(102,942)	(20,000)
Total other financing sources (uses)	(113,132)	(102,942)	(10,190)
Net changes in fund balances	138,897	197,689	(58,792)
Fund balance (deficit), beginning	9,407,049	9,407,049	
Prior period adjustments	(15,000)		(15,000)
Fund balance (deficit), ending	9,530,946	9,604,738	(73,792)

See notes to the financial statements.

EMMETSBURG MUNICIPAL UTILITIES
Combining Schedule of Operating Expenses
Year Ended June 30, 2004

	Gas Department	Water Department	Sanitation Department	Total 2004
Personal services				
Trustee fees	$ 2,925	975	975	4,875
Administrative salaries	11,718	12,056	11,586	35,360
Office salaries	14,393	14,317	14,276	42,986
Plant labor	79,634	66,510	66,020	212,164
Extra labor	4,293	4,293	4,293	12,879
Overtime	7,038	5,494	5,109	17,641
IPERS	6,740	5,647	5,623	18,010
Payroll taxes	9,295	7,841	7,810	24,946
	136,036	117,133	115,692	368,861
Contractual				
Advertising	1,612	1,066	1,051	3,729
Professional	3,935	5,013	2,535	11,483
Insurance	8,933	14,526	17,551	41,010
Health insurance and risk fund	23,529	25,867	23,349	72,745
Analytical testing and contract		1,046	12,847	13,893
Drug testing	669			669
Electric study expense	6,953			6,953
Defense group expense	7,257			7,257
Regulatory commission	9,621	1,854	1,060	12,535
Conference and education	3,671	1,371	1,115	6,157
Regulation and compliance	532	409	271	1,212
Energy efficiency plan	6,594			6,594
Collection expense	777			777
Welding	328			328
Total Contractual	74,411	51,152	59,779	185,342
Materials, supplies and maintenance				
Cost of natural gas purchased	1,546,703			1,546,703
Maintenance supplies	7,327	2,412	5,424	15,163
Automotive supplies and expense	3,352	3,076	3,679	10,107
Other equipment supplies and expense	1,385	1,866	5,474	8,725
Computer maintenance and supplies	3,566	3,568	3,566	10,700
Chemicals		8,105	410	8,515
Maintenance and materials-Mains	1,858	14,628		16,486
Treatment plant maintenance		622		622
Water well maintenance		18,374		18,374
Tank maintenance		75,569		75,569
Collection system maintenance			15,738	15,738
Lift station maintenance			2,619	2,619
Office supplies	6,377	5,856	5,876	18,109
Uniforms	935	797	709	2,441
Use tax	781			781
Maintenance buildings & grounds	973	798	16,404	18,175
Miscellaneous	381	551	93	1,025
Total materials and supplies	1,573,638	136,222	59,992	1,769,852
Utilities				
Lift station power			5,009	5,009
Phone	2,211	2,442	2,295	6,948
Electric	2,125	23,380	20,606	46,111
Total Utilities	4,336	25,822	27,910	58,068
Depreciation	75,090	71,885	137,247	284,222
Uncollectible accounts	5,399	26	32	5,457
Interfund services used				
Administrative fees-Primary government	7,596	7,596	7,596	22,788
Utility fees to Emmetsburg Municipal Utilities	976	7,527	21,479	29,982
	8,572	15,123	29,075	52,770
Other expense				
Donations	18,000			18,000
Total operating expenses	$ 1,895,482	417,363	429,727	2,742,572

See notes to the financial statements.

Burdorf, Parrott And Associates, P.C.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the component unit financial statements of the Emmetsburg Municipal Utilities, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 3, 2005. In our report our opinion was qualified because the property, plant and equipment policies of the component units (gas, water and sanitation) do not conform to generally accepted accounting policies. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 Utilities component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the component financial statements of the Utilities. 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.

MEMBER IOWA SOCIETY Certified Public Accountants
Members American Institute of Certified Public Accountants

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utilities internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the component financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Utilities ability to record, process, summarize and report financial data consistent with the assertions of management in the component financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. These are the same reportable conditions discussed in the prior years report.

This report is intended for the information and use of the officials, management, others with in the organization, and state agencies, and citizens of the City of Emmetsburg, and 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 Utilities 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.

BURDORF, PARROTT AND ASSOCIATES, P.C.
Certified Public Accountants

January 3, 2005
Emmetsburg, Iowa

Emmetsburg Municipal Utilities

Schedule of Findings

Year ended June 30, 2004

REPORTABLE CONDITIONS:

04-I-A Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Utilities component financial statements. We noted that one individual at the Utilities office has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that the limited number of office employees, segregation of duties is difficult. However, the Utilities should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We have reviewed procedures and have determined that our policy of involvement of the Board of Trustees along with the administration's monitoring of transactions is the best we can do.

Conclusion - Response accepted.

Other findings Related to Required Statutory Reporting:

04-II-A Official Depositories - A resolution naming official depositories has been adopted by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year.

04-II-B Certified Budget - Expenditures during the year ended June 30, 2004 exceeded the budget for the year. See page 22

04-II-C Questionable Expenditures – There were no questionable expenditures that fell outside its established policy on such costs.

04-II-D Travel Expense - No expenditures of Utilities money for travel expenses of spouses of Utilities officials or employees was noted.

04-II-E Business Transactions - Business transactions between the Utilities and Utilities officials or employees are as follows:

Name, Title and Business Connection	Description of Transaction	Amount
Paul Saxton, Trustee Saxton's Greenhouse	Purchase of Grass seed	$180
John O'Leary, Trustee O'Leary Plumbing & Heating	Plumbing repairs	505

In accordance with Chapter 362.5(10) of the Code of Iowa, those transactions do not appear to represent conflict of interest since transactions were not more than $1,500.

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

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

04-II-H Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities investment policy were noted.

04-II-I Revenue Bonds - The Utilities has complied with all requirements of the Loan and Disbursement agreements.