CITY OF ELKADER

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

June 30, 2004

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CITY OF ELKADER

Officials

Name	Title	Term Expires
	(Before January 2004)	
Tom Diers	Mayor	Jan. 2004
Steve McCorkindale	Mayor Pro tem	Jan. 2004
Terry Johnson	Council Member	Jan. 2004
Brad Carnes	Council Member	Jan. 2006
Betty Landis	Council Member	Jan. 2006
Marcia Hansel	Council Member	Jan. 2006
	(After January 2004)	
Robert Garms	Mayor	Jan. 2008
Steve Mc Corkindale	Mayor Pro tem	Jan. 2008
Brad Carnes	Council Member	Resigned Apr. 12, 2004
Randy Henning	Council Member (Appointed May 10, 2004)	Jan. 2006
Betty Landis	Council Member	Jan. 2006
Marcia Hansel	Council Member	Jan. 2006
Ken Seney	Council Member	Jan. 2008
Greg Crocker	City Administrator/Clerk	Resigned Dec., 2003
Jennifer Cowsert	City Administrator/Clerk	Indefinite
Marla Reimer	Assistant Administrator/ Deputy Clerk	Indefinite
John Gnagy	Attorney	Indefinite

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

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

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the

business type activities, each major fund and the aggregate remaining fund information of the City of Elkader as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 13, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government's: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2004 on our consideration of the City of Elkader's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. 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.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 29 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Elkader's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for the purposes of additional analysis and is not a required part 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.

Elkader, Iowa

December 15, 2005

Dreitz, Donald & Company

City of Elkader

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Elkader, IA 52043
Phone 563-245-2098 Fax 563-245-1033
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Mayor Robert C. Garms

Steve McCorkindale, Mayor Pro tem
Betty Landis, Marcia Hansel
Ken Seney, Randy Henning

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position. Also, bear in mind, that Chapter 11 of the Code of Iowa requires that the City have its financial statements audited once every four years. Therefore any financial information from 2003 has not been audited.

2004 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 0.4%, or approximately $ 6,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately $ 25,000.

Disbursements of the City's governmental activities increased 17.5%, or approximately $ 230,000, in fiscal 2004 from fiscal 2003. Public works, community and economic development and debt service increased approximately $ 142,000, $ 90,000, and $ 118,000, respectively.

The City's total cash basis net assets increased 84%, or approximately $ 197,000. Of this amount, the assets of the governmental activities decreased approximately $ 94,000 while the assets of the business type activities increased by approximately $ 291,000.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial

statements and provides an analytical overview of the City's financial activities.

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's debt.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Statement of Activities and Net Assets is divided into two kinds

of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include:

   1) The General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from $ 273,000 to $ 179,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year Ended June 30, 2004	2003
Receipts:		
Program receipts:		
Charges for service	$ 260	361
Operating grants, contributions and restricted interest	148	126
Capital grants, contributions and restricted interest	113	0
General receipts:		
Property tax	647	622
Local option sales tax	90	81
Grants and contributions not restricted to specific purposes	13	16
Unrestricted investment earnings	4	0
Bond proceeds	150	150
Miscellaneous	23	60
Sale of property	0	26
Total receipts	1,448	1,442
Disbursements:		
Public safety	210	363
Public works	505	363
Health and social services	2	2
Culture and recreation	229	209
Community and economic development	116	25
General government	128	117
Debt service	352	234
Total disbursements	1,542	1,313
Increase (decrease) in cash basis net assets	(94)	129
Cash basis net assets beginning of year	273	144
Cash basis net assets end of year	$ 179	273

The City's total receipts for governmental activities increased by 0.4%, or $ 6,000. The total cost of all programs and services increased by approximately $ 229,000 or 17.4%. The significant increase in disbursements was primarily the result of public works projects in the City's TIF district.

The City property taxes for 2004 increased 4% or approximately $ 25,000 over 2003. Property taxes are budgeted to decrease by $ 51,000 next year.

The cost of all governmental activities this year was $ 1.542 million compared to $ 1.313 million last year. However, as shown in the

Statement of Activities and Net Assets on pages 15-16, the amount taxpayers ultimately financed for these activities was only $ 1.021 million because some of the cost was paid by those directly benefited from the programs ($ 260,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest ($ 261,000). Overall, the City's governmental activities receipts, including governmental aid and fees for service increased from approximately $ 487,000 to $ 521,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately $ 1,021,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Bussiness Type Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service:		
Water	$ 271	221
Sewer	244	173
General receipts		
Unrestricted interest on investments	0	6
Miscellaneous	0	1
Total receipts	515	401
Disbursements:		
Water	117	266
Sewer	107	114
Total disbursements	224	380
Increase (decrease) in cash balance	291	21
Cash basis net assets beginning of year	(39)	(60)
Cash basis net assets end of year	$ 252	(39)

Total business type activities receipts for the fiscal year were $ 515,000 compared to $ 401,000 last year. The significant increase was due to increased water and sewer rates being in effect for the entire year. The cash balance increased by $ 291,000. Total disbursements for the fiscal year decreased by 41.1% to a total of $ 224,000. This was due to a major water project being completed in 2003.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Elkader completed the year, its governmental funds reported a combined fund balance of $ 179,430, a decrease of more than $ 94,000 below last year's total of $ 273,565. The following are the

major reasons for the changes in fund balances of the major funds from the prior year:

The General Fund cash balance decreased $ 1,585 from the prior year to $ 243,498.

The Road Use Tax Fund cash balance increased by $ 3,801 to $ 43,951.

The Urban Renewal Tax Increment Fund cash balance decreased by $ 88,494, leaving a deficit balance of $ (311,577) at June 30, 2004. The City restructured its debt in December, 2004 to remove the deficit.

The Employee Benefits Fund cash balance increased by $ 65,185 to 20,271. The increased levy removed a deficit balance of $(45,000).

The Library Trust Fund cash balance was $ 68,078 at June 30, 2004 a decrease of $ 8,862 from 2003. These funds are used for capital purchases at the library at the Library Board's discretion.

The Debt Service Fund cash balance increased by $ 10,044 to $ 49,796 during the fiscal year. Debt service property taxes decreased by $ 21,000. Bond principal and interest payments decreased by $ 43,000.

The Cemetery Perpetual Care Fund cash balance increased by $ 1,086 to $ 54,420. Income from this fund can only be used for care of the cemetery.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by $ 154,979 to $ 97,240, due primarily to a full year of increased water rates and a reduction of $ 104,000 in construction disbursements.

The Sewer Fund cash balance increased by $ 136,052 to $ 154,596, due primarily to a full year of increased sewer rates.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on May 24, 2004 and resulted in an increase in operating disbursements of $ 399,070. This was due primarily to increased spending in the urban renewal tax increment financing district. The second amendment was approved on June 28, 2004 in anticipation of additional public works disbursements, however, it proved to be unnecessary. The City received a grant and had sufficient balances to absorb the excess costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately $ 1,267,000 in bonds, notes

and other long-term debt, compared to approximately $ 1,378,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30, 2004	June 30, 2003
General obligation bonds	$ 0	50
General obligation notes	366	465
Urban renewal tax increment financing revenue notes	687	661
Revenue bonds	165	175
Lease/purchase agreements	49	27
Total	$ 1,267	1,378

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of assessed value of all taxable property within the City's corporate limits. The City's general obligation and TIF debt of $ 1,102,000 is significantly below its constitutional debt limit of $ 2,427,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Elkader's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of these factors is the economy. The City's population growth has been stagnant and employment soft. Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation here has been modest due to a slow residential housing market.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are $ 4.1 million, an increase of 10.4% over the final 2004 budget. Federal grants are expected to lead this increase. The City will use these increases in receipts to finance a major improvement to the water system in 2005.

Budgeted disbursements are expected to rise by approximately $ 165,000 over the final 2004 budget. The water improvement project represents the largest increase.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately $ 37,000 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The 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 Jennifer Cowsert, City Administrator/Clerk, 207 North Main Street, Elkader, Iowa.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF ELKADER
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2004

		Program Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	$ 210,254	31,699	7,487	0	(171,068)	0	(171,068)
Public works	505,080	145,217	122,016	113,278	(124,569)	0	(124,569)
Health and social services	1,831	0	0	0	(1,831)	0	(1,831)
Culture and recreation	228,979	76,349	18,424	0	(134,206)	0	(134,206)
Community and economic development	115,832	0	0	0	(115,832)	0	(115,832)
General government	127,999	6,894	0	0	(121,105)	0	(121,105)
Debt service	352,333	0	0	0	(352,333)	0	(352,333)
Total governmental activities	1,542,308	260,159	147,927	113,278	(1,020,944)	0	(1,020,944)
Business type activities							
Water	116,576	271,158	0	0	0	154,582	154,582
Sewer	107,538	243,590	0	0	0	136,052	136,052
Total business type activities	224,114	514,748	0	0	0	290,634	290,634
Total	$ 1,766,422	774,907	147,927	113,278	(1,020,944)	290,634	(730,310)
General Receipts:							
Property tax levied for:							
General purposes					475,479	0	475,479
Tax increment financing					17,740	0	17,740
Debt service					154,072	0	154,072
Local option sales tax					90,051	0	90,051
Grants and contributions not restricted to specific purpose					12,888	0	12,888
Unrestricted interest on investments					3,403	397	3,800
Note proceeds					149,921	0	149,921
Miscellaneous					23,255	0	23,255
Total general receipts					926,809	397	927,206
Change in cash basis net assets					(94,135)	291,031	196,896
Cash basis net assets beginning of year					273,565	(39,195)	234,370
Cash basis net assets end of year					$ 179,430	251,836	431,266

(continued)

Exhibit A
(continued)

CITY OF ELKADER
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2004

	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets			
Restricted:			
Streets	$ 43,951	0	43,951
Employee benefits	20,271	0	20,271
Library	68,078	0	68,078
Debt service	49,796	17,500	67,296
Cemetery	54,420	0	54,420
Other purposes	10,993	0	10,993
Unrestricted	(68,079)	234,336	166,257
Total cash basis net assets	$ 179,430	251,836	431,266

See notes to financial statements.

Exhibit B

CITY OF ELKADER
STATEMENT OF CASH BASIS RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES AND CASH BASIS ASSETS
AND FUND BALANCES - GOVERNMENTAL FUNDS
As of and for the year ended June 30, 2004

		Special Revenue					Permanent	Other	
	General	Road Use Tax	Urban Renewal Tax Increment	Employees Benefits	Library Trust	Debt Service	Cemetery Perpetual Care	Nonmajor Governmental Funds	Total
Receipts:									
Property tax	$ 299,945	0	0	150,459	0	148,629	0	7,972	607,001
Tax increment financing collections	0	0	17,740	0	0	0	0	0	17,740
Other city tax	11,194	0	0	5,617	0	5,443	0	90,347	112,601
Licenses and permits	5,944	0	0	0	0	0	0	0	5,944
Use of money and property	14,635	0	0	0	730	0	1,868	0	17,233
Intergovernmental	52,592	122,016	113,278	0	0	0	0	0	287,886
Charges for service	205,152	0	0	0	0	0	0	0	205,152
Special assessments	5,869	0	0	0	0	0	0	0	5,869
Miscellaneous	29,929	0	0	1,949	4,248	0	2,680	0	38,806
Total receipts	625,260	122,016	131,018	158,021	4,998	154,072	4,548	98,319	1,298,252
Disbursements:									
Operating:									
Public safety	175,311	0	0	34,943	0	0	0	0	210,254
Public works	194,404	118,215	119,568	40,201	0	0	0	32,692	505,080
Health and social services	1,831	0	0	0	0	0	0	0	1,831
Culture and recreation	191,965	0	0	17,692	15,860	0	3,462	0	228,979
Community and economic development	14,441	0	16,470	0	0	0	0	84,921	115,832
General government	102,909	0	25,090	0	0	0	0	0	127,999
Debt service	0	0	208,305	0	0	144,028	0	0	352,333
Total disbursements	680,861	118,215	369,433	92,836	15,860	144,028	3,462	117,613	1,542,308
Excess (deficiency) of receipts over (under) disbursements	(55,601)	3,801	(238,415)	65,185	(10,862)	10,044	1,086	(19,294)	(244,056)
Other financing sources (uses):									
Bond proceeds	0	0	149,921	0	0	0	0	0	149,921
Operating transfers in	56,016	0	0	0	2,000	0	0	0	58,016
Operating transfers out	(2,000)	0	0	0	0	0	0	(56,016)	(58,016)
Total other financing sources (uses)	54,016	0	149,921	0	2,000	0	0	(56,016)	149,921
Net change in cash balances	(1,585)	3,801	(88,494)	65,185	(8,862)	10,044	1,086	(75,310)	(94,135)
Cash balances beginning of year	245,083	40,150	(223,083)	(44,914)	76,940	39,752	53,334	86,303	273,565
Cash balances end of year	$ 243,498	43,951	(311,577)	20,271	68,078	49,796	54,420	10,993	179,430
Cash Basis Fund Balances									
Debt Service	$ 0	0	0	0	0	49,796	0	0	49,796
Unreserved:									
General fund	243,498	0	0	0	0	0	0	0	243,498
Special revenue funds	0	43,951	(311,577)	20,271	68,078	0	0	10,993	(168,284)
Permanent fund	0	0	0	0	0	0	54,420	0	54,420
Total cash basis fund balances	$ 243,498	43,951	(311,577)	20,271	68,078	49,796	54,420	10,993	179,430

See notes to financial statements.

Exhibit C

CITY OF ELKADER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2004

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	$ 271,158	243,590	514,748
Operating disbursements:			
Business type activities	95,576	107,538	203,114
Excess of operating receipts over operating disbursements	175,582	136,052	311,634
Non-operating receipts (disbursements):			
Interest on investments	397	0	397
Debt service	(21,000)	0	(21,000)
Total non-operating receipts (disbursements)	(20,603)	0	(20,603)
Net changes in cash balances	154,979	136,052	291,031
Cash balances beginning of year	(57,739)	18,544	(39,195)
Cash balances end of year	$ 97,240	154,596	251,836
Cash Basis Fund Balances			
Reserved for debt service	$ 17,500	-	17,500
Unreserved	79,740	154,596	234,336
Total cash basis fund balances	$ 97,240	154,596	251,836

See notes to financial statements.

(1) Summary of Significant Accounting Policies

The City of Elkader is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1891 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in two jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clayton County Economic Development Board and Clayton County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assests reports information on all of the non-fiduciary activities of the City. For the most part, the

effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

The Employee Benefits Fund is used to account for payment of payroll taxes and employee benefits financed by a special property tax levy.

The Library Trust Fund is used to account for donations given to the library.

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

Permanent:

The Cemetery Perpetaul Care Fund is utilized to provide funds for the current and future care of the cemetery.

The City Reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

(2) Cash and Pooled Investments

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

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

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes, urban renewal tax increment financing revenue notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Notes	
	Principal	Interest	Principal	Interest
2005	$ 72,477	19,924	28,929	46,106
2006	73,329	16,034	30,897	44,138
2007	79,227	12,100	32,999	42,036
2008	68,174	7,816	35,248	39,787
2009	19,174	4,003	37,655	37,380
2010-2014	53,611	5,447	189,365	147,138
2015-2019	-	-	221,140	82,855
2020-2024	-	-	110,409	11,189
Total	$ 365,992	65,324	686,642	450,629

Year Ending June 30,	Revenue Bonds		Total	
	Principal	Interest	Principal	Interest
2005	$ 10,000	8,250	111,406	74,280
2006	10,000	7,750	114,226	67,922
2007	10,000	7,250	122,226	61,386
2008	10,000	6,750	113,422	54,353
2009	10,000	6,250	66,829	47,633
2010-2014	70,000	22,250	312,976	174,835
2015-2019	45,000	4,500	266,140	87,355
2020-2024	-	-	110,409	11,189
Total	$ 165,000	63,000	1,217,634	578,953

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

The urban renewal tax increment financing revenue notes were issued for the purpose of defraying a portion of the costs of carrying out urban renewal projects of the City. The notes are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue notes shall be expended only for purposes which are consistent with the plans of the City's urban renewal areas. The notes are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolution providing for the issuance of the revenue bonds include the following provisions:

(a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.

(b) All funds remaining in the water account after the payment of all maintenance and operating expenses shall be placed in a water reserve account until a minimum balance of $ 17,500 is accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for bond and interest payments which the operating account might be unable to make.

As discussed in Note 12 all of the above debt was refinanced with General Obligation Refunding Notes issued December 1, 2004.

(4) Other Long-term Debt

Annual debt service requirements to maturity for other long-term debt is as follows:

Year Ending June 30,	Lease/Purchase Agreement Principal	Interest
2005	$ 14,669	1,822
2006	10,903	1,394
2007	11,350	948
2008	11,815	483
Total	$ 48,737	4,647

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit

pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was $ 18,938, equal to the required contribution for the year.

(6) Compensated Absences

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

Type of Benefit	Amount
Vacation	$ 9,000
Sick leave	11,000
Personal leave	2,000
	$ 22,000

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Emergency	$ 26,016
	Local Option Sales tax	30,000
		56,016
Special Revenue: Library Trust	General	2,000
Total		$ 58,016

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

(8) Related Party Transactions

The City had business transactions between City and City officials totaling $ 907 during the year ended June 30, 2004.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. In May, 2004 City assets were damaged by flooding of the Turkey River. Damage claims totaled $ 44,778 of which $ 33,584 will be paid by the Federal Emergency Management Agency and $ 4,478 will be paid by the Iowa Department of Public Defense. The remaining cost of $ 6,716 will be borne by the City.

(10) Deficit Fund Balance

The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of $ 311,577 at June 30, 2004. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon the issuing of additional urban renewal tax increment financiang revenue notes.

(11) Noncash Transactions

The City owns an historical opera house, in which is located the City offices. This building has undergone significant restoration over the past three years. This work has been financed and supervised by Main Street Elkader, Inc. (a non-profit organization). Through December 31, 2003 the Organization had spent $ 298,168. In addition, there has been a significant amount of volunteer labor in connection with the restoration. None of these transactions has been reflected in these financial statements.

(12) Subsequent Events

In December 2004, the City refinanced all of its debt with General Obligation Refunding Notes. These notes mature according to the

following schedule:

Year Ending June 30,	Interest Rates	Amount
2005	1.95%	$ 145,000
2006	2.30	115,000
2007	2.55	130,000
2008	2.80	115,000
2009	3.05	105,000
2010	3.25	125,000
2011	3.45	135,000
2012	3.65	140,000
2013	3.80	120,000
2014	3.95	120,000
2015	4.10	125,000
2016	4.25	130,000
2017	4.40	140,000
Total		$ 1,645,000

(13) Accounting Change

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

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ELKADER
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
Receipts:						
Property tax	$ 607,001	0	607,001	595,826	595,826	11,175
Tax increment financing collections	17,740	0	17,740	21,410	21,410	(3,670)
Other city tax	112,601	0	112,601	94,626	94,626	17,975
Licenses and permits	5,944	0	5,944	7,800	7,800	(1,856)
Use of money and property	17,253	397	17,650	3,900	3,900	13,750
Intergovernmental	287,886	0	287,886	161,285	274,563	13,323
Charges for service	205,152	514,748	719,900	660,802	660,802	59,098
Special assessments	5,869	0	5,869	0	0	5,869
Miscellaneous	38,806	0	38,806	11,300	11,300	27,506
Total receipts	1,298,252	515,145	1,813,397	1,556,949	1,670,227	143,170
Disbursements:						
Public safety	210,254	0	210,254	217,165	217,165	6,911
Public works	505,080	0	505,080	339,585	620,861	115,781
Health and social services	1,831	0	1,831	1,831	1,831	0
Culture and recreation	228,979	0	228,979	228,760	233,554	4,575
Community and economic development	115,832	0	115,832	23,200	58,590	(57,242)
General government	127,999	0	127,999	145,350	145,350	17,351
Debt service	352,333	0	352,333	175,598	274,208	(78,125)
Business type activities	0	224,114	224,114	2,400,339	2,400,339	2,176,225
Total disbursements	1,542,308	224,114	1,766,422	3,527,828	3,951,898	2,185,476
Excess (deficiency) of receipts over (under) disbursements	(244,056)	291,031	46,975	(1,970,879)	(2,281,671)	2,328,646
Other financing sources	149,921	0	149,921	2,033,500	2,068,465	(1,918,544)
Excess of receipts and other financing sources over (under) disbursements	(94,135)	291,031	196,896	62,621	(213,206)	410,102
Balances beginning of year	273,565	(39,195)	234,370	514,355	514,355	(279,985)
Balances end of year	$ 179,430	251,836	431,266	576,976	301,149	130,117

CITY OF ELKADER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
June 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by $ 424,070. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

CITY OF ELKADER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2004

	Special Revenue		
	Emergency	Local Option Sales Tax	Total
Receipts:			
Property tax	$ 7,972	0	7,972
Other city tax	296	90,051	90,347
Total receipts	8,268	90,051	98,319
Disbursements:			
Operating:			
Public works	0	32,692	32,692
Community and economic development	0	84,921	84,921
Total disbursements	0	117,613	117,613
Excess (deficiency) of receipts over (under) disbursements	8,268	(27,562)	(19,294)
Other financing uses			
Operating transfers out	(26,016)	(30,000)	(56,016)
Net change in cash balances	(17,748)	(57,562)	(75,310)
Cash balances beginning of year	18,734	67,569	86,303
Cash balances end of year	$ 986	10,007	10,993

See accompanying independent auditor's report.

Schedule 2

CITY OF ELKADER
STATEMENT OF INDEBTEDNESS
Year Ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:								
Swimming pool	Jun. 1, 1988	7.75%	$ 450,000	50,000	0	50,000	0	3,875
General obligation notes:								
Library	Jan. 1, 1995	6.00%	$ 275,000	155,000	0	25,000	130,000	9,300
Streetscapes	Oct. 6, 1999	5.50%	200,000	154,912	0	14,920	139,992	8,257
Davidson Street	Jul. 19, 1999	4.95%	145,000	31,793	0	31,793	0	899
Fire Truck	Dec. 28, 2001	4.40%	65,000	52,000	0	13,000	39,000	2,294
Bathhouse	Jun. 1, 2002	4.75%	85,000	71,000	0	14,000	57,000	3,382
Total				464,705	0	98,713	365,992	24,132
Urban renewal tax increment financing (TIF) revenue notes:								
Gunder Road	Sep. 19, 1994	7.50%	$ 140,000	88,331	0	10,666	77,665	3,570
Johnson Park	Nov. 1, 2000	7.00%	350,000	350,000	0	113,278	236,722	23,963
Johnson Park	Dec. 30, 2002	7.00%	300,000	150,079	149,921	0	300,000	24,109
South area water main	Jun. 25, 2002	3.75%	110,000	72,255	0	0	72,255	4,696
Total				$ 660,665	149,921	123,944	686,642	56,338
Revenue bonds:								
Water	Jul. 27, 1977	5.00%	$ 300,000	175,000	0	10,000	165,000	8,750
Lease/purchase agreement:								
Dump truck	Jul. 18, 2003	4.09%	$ 56,840	0	56,840	12,297	44,543	0
2002 Chevrolet Silverado	Dec. 15, 2001	0%	25,163	12,581	0	8,387	4,194	0
5520 John Deere tractor w/loader and backhoe	Mar. 2, 2002	2.50%	37,968	14,453	0	14,453	0	163
				$ 27,034	56,840	35,137	48,737	163

See accompanying independent auditor's report.

Schedule 3

CITY OF ELKADER
BOND, NOTE AND OTHER DEBT MATURITIES
June 30, 2004

General Obligation Notes

Year Ending June 30,	Library Issued Jan. 1, 1998 Interest Rates	Library Amount	Streetscapes Issued Oct. 6, 1999 Interest Rates	Streetscapes Amount	Fire Truck Issued Dec. 28, 2001 Interest Rates	Fire Truck Amount	Bathhouse Issued Jun. 1, 2002 Interest Rates	Bathhouse Amount	Total
2005	6.00%	30,000	5.50%	$ 15,477	4.40%	$ 13,000	4.75%	$ 14,000	$ 72,477
2006	6.00	30,000	5.50	16,329	4.40	13,000	4.75	14,000	73,329
2007	6.00	35,000	5.50	17,227	4.40	13,000	4.75	14,000	79,227
2008	6.00	35,000	5.50	18,174		-	4.75	15,000	68,174
2009		-	5.50	19,174		-		-	19,174
2010		-	5.50	20,228		-		-	20,228
2011		-	5.50	21,341		-		-	21,341
2012		-	5.50	12,042		-		-	12,042
Total		$ 130,000		$ 139,992		$ 39,000		$ 57,000	$ 365,992

Urban Renewal Tax Increment Financing (TIF) Revenue Notes

Year Ending June 30,	Cunder Road Issued Sep. 19, 1994 Interest Rates	Cunder Road Amount	Johnson Park Issued Nov 1, 2000 Interest Rates	Johnson Park Amount	Johnson Park Issued Dec. 30, 2002 Interest Rates	Johnson Park Amount	South Area Water Main Issued Jun. 25, 2002 Interest Rates	South Area Water Main Amount	Total
2005	7.50%	$ 8,411	7.00%	$ 7,675	7.00%	$ 9,728	3.75%	$ 3,115	$ 28,929
2006	7.50	9,042	7.00	8,213	7.00	10,409	3.75	3,233	30,897
2007	7.50	9,720	7.00	8,788	7.00	11,138	3.75	3,353	32,999
2008	7.50	10,449	7.00	9,403	7.00	11,917	3.75	3,479	35,248
2009	7.50	11,233	7.00	10,061	7.00	12,751	3.75	3,610	37,655
2010	7.50	12,075	7.00	10,765	7.00	13,644	3.75	3,745	40,229
2011	7.50	12,981	7.00	11,519	7.00	14,599	3.75	3,886	42,985
2012	7.50	3,754	7.00	12,325	7.00	15,621	3.75	4,031	35,731
2013		-	7.00	13,188	7.00	16,715	3.75	4,182	34,085
2014		-	7.00	14,111	7.00	17,884	3.75	4,340	36,335
2015		-	7.00	15,098	7.00	19,137	3.75	4,501	38,736
2016		-	7.00	16,156	7.00	20,476	3.75	4,671	41,303
2017		-	7.00	17,287	7.00	21,909	3.75	4,846	44,042
2018		-	7.00	18,496	7.00	23,443	3.75	5,028	46,967
2019		-	7.00	19,792	7.00	25,084	3.75	5,216	50,092
2020		-	7.00	21,177	7.00	26,840	3.75	5,412	53,429
2021		-	7.00	22,668	7.00	28,705	3.75	5,607	56,980
Total		$ 77,665		$ 236,722		$ 300,000		$ 72,255	$ 686,642

(continued)

CITY OF ELKADER
BOND, NOTE AND OTHER DEBT MATURITIES
June 30, 2004

Year Ended June 30,	Revenue Bonds Water Issued Dec. 27, 1977 Interest Rates	Amount
2005	5.00%	$ 10,000
2006	5.0	10,000
2007	5.00	10,000
2008	5.00	10,000
2009	5.00	10,000
2010	5.00	10,000
2011	5.00	15,000
2012	5.00	15,000
2013	5.00	15,000
2014	5.00	15,000
2015	5.00	15,000
2016	5.00	15,000
2017	5.00	15,000
Total		$ 165,000

Year Ended June 30,	Lease/Purchase Agreements: Dump Truck Issued Jul. 18, 2003 Interest Rates	Amount	2002 Chevrolet Silverado Issued Dec. 15, 2001 Interest Rates	Amount	Total
2005	4.09%	$ 10,475	0%	$ 4,194	14,669
2006	4.09	10,903		-	10,903
2007	4.09	11,350		-	11,350
2008	4.09	11,815		-	11,815
Total		$ 44,543		4,194	48,737

See accompanying independent auditor's report.

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Elkader, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 15, 2004. Our report expressed a qualified opinion, which was qualified because we were not able to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003, on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Elkader's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Elkader's

internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses as defined above.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Elkader 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.

Elkader, Iowa

December 15, 2004

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF ELKADER
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

A. Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

B. Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - When amending the budget, make sure that the amended budget amounts will be sufficient to cover disbursements in each of the ten functions.

Response- In the future, we will be more careful when amending the budget.

Conclusion - Response accepted.

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

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

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

Name, Title, and Business Connection	Transaction Description	Amount
Steve McCorkindale, Mayor Pro tem, Partner with Ehrhardt, Gnagy and McCorkindale	Legal fees paid to City Attorney	$ 907

In accordance with Chapter 362.5 (10) of the Code of Iowa, the transaction with the Mayor Pro tem does not appear to represent a conflict of interest since total transactions with the individual were less than $ 1,500 during the fiscal year.

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 insure that the coverage is adequate for current operations.

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

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

I. Revenue Bonds - The City has complied with the requirements of its water revenue bond resolution.

J. Financial Condition - The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of $ 311,577 at June 30, 2004.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The deficit was due to construction costs incurred prior to the arrangement of financing. The deficit was subsequently eliminated.

Conclusion - Response accepted.

K. Requests For Proposal - The City did not send out requests for proposal in accordance with Chapter 11.6 before employing a Certified Public Accountant to conduct your audit.

Recommendation - A minimum of three requests for proposal should be sent out and responses evaluated before engaging a firm to conduct your audit.

Response - We are located in a rural area, and are required by the Code of Iowa to have an audit only once every four years. Therefore, it is difficult to get responses to requests for proposals.

Conclusion - Even if responses are not obtained, a minimum of three requests should be sent out.