CITY OF POSTVILLE

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

June 30, 2005

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CITY OF POSTVILLE

Officials

Name	Title	Term Expires
John Hyman	Mayor	Jan. 2006
Ron Taylor	Mayor Pro tem	Jan. 2006
Virginia Medberry	Council Member	Jan. 2006
Leigh Rekow	Council Member	Jan. 2008
Tracey Schager	Council Member	Jan. 2008
Marlys Sowers	Council Member	Jan. 2008
Melissa Hammersland	Clerk	Indefinite
Cindy Converse	Treasurer	Indefinite
Matt Erickson	Attorney	Indefinite

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA
124A Main • P.O. Box 359
Elkader, Iowa 52043
(563) 245-2154 • (800) 310-2154

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

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2006 on our consideration of the City of Postville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 32 through 33 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 Postville's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

January 6, 2006

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF POSTVILLE

(Allamakee & Clayton County, Iowa)
147 N. Lawler St. • P.O. Box 242
Postville, IA 52162-0242
FAX: 563-864-7407

Police Department
563-864-3234
Emergency - 911

Department of Public Works
563-864-7455

City Clerk's Office
563-864-7454

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Postville 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 35.8%, or approximately $ 1,993,000 from fiscal 2004 to fiscal 2005. Property tax increased approximately $ 111,000; capital grants and contributions increased approximately $ 3,693,000; and bond, note and loan proceeds decreased by approximately $ 2,006,000.

Disbursements increased 318.5%, or approximately $ 8,000,000 in fiscal 2005 from fiscal 2004. Capital projects, debt service and general government disbursements increased approximately $ 787,000, $ 98,000 and $ 12,000 respectively.

The City's total cash basis net assets decreased 70.5%, or approximately $ 2,801,000 from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately $ 2,976,000 and the assets of the business-type activities increased by approximately $ 175,000.

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

HOMETOWN TO THE WORLD
Equal Opportunity Provider

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 operation in more detail than the government-wide statement by providing information about the most significant funds.

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

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

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

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off 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, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business-Type Activities include the waterworks, the sanitary sewer system and the lagoon. 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 Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The 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 three Enterprise Funds to provide separate information for the water, sewer and lagoon funds.

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 $ 3.434 million to $ 458,000. 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, 2005	2004
Receipts and transfers:		
Program receipts		
Charges for service	$ 481	333
Operating grants, contributions and restricted interest	204	202
Capital grants, contributions and restricted interest	4,103	410
General receipts:		
Property tax	743	632
Local option sales tax	152	136
Grants and contributions not restricted to specific purposes	7	4
Unrestricted interest on investments	7	8
Bond and loan proceeds	1,830	300
Anticipation notes (net)	0	3,536
Other general receipts	40	12
Transfers, net	(30)	79
Total receipts and transfers	7,537	5,652
Disbursements:		
Public safety	344	312
Public works	367	389
Culture and recreation	135	127
Community and economic development	177	183
General government	383	371
Debt service	252	154
Capital projects	8,854	976
Total disbursements	10,512	2,512
Increase (decrease) in cash basis net assets	(2,975)	3,140
Cash basis net assets beginning of year	3,433	293
Cash basis net assets end of year	$ 458	3,433

The City's total receipts for governmental activities increased by 35.8%, or $ 1,994,000. The total cost of all programs and services increased by $ 8,000,000 or 318.5%, with $ 6.9 million being disbursed for the construction of new mechanical wastewater treatment plant.

The City did not increase property tax rates in 2005. Increases in valuations raised the City's property tax receipts by $ 111,000. Based on increases in total assessed valuations, property tax receipts are budgeted to increase by an additional $ 1,000 next year.

The cost of all governmental activities this year was $ 10.512 million compared to $ 2.512 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17 , the amount taxpayers ultimately financed for these activities was only $ 5.725 million because some of the cost was paid by those directly benefited from the programs ($481,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest ($ 4.307 million). Overall, the City's governmental activities, receipts, including intergovernmental aid and fees for service increased in 2005 from approximately $ 945,000 to $ 4.788 million. The City paid for the remaining "public benefit" portion of governmental activities with approximately $ 895,000 in tax (some of which could only be used for certain programs) and with other receipts, such as bond and note proceeds, interest and general entitlements.

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

	Year Ended June 30,	
	2005	2004
Receipts:		
Charges for service:		
Water	$ 441	371
Sewer	347	291
Lagoon	113	169
General receipts and transfers		
Unrestricted interest on investments	17	16
Other general receipts	92	17
Transfers	30	0
Total receipts and transfers	1,040	864
Disbursements and transfers:		
Water	365	259
Sewer	324	291
Lagoon	176	189
Transfers	0	79
Total disbursements and transfers	865	818
Increase in cash balance	175	46
Cash basis net assets beginning of year	542	496
Cash basis net assets end of year	$ 717	542

Total business-type activities receipts before transfers for the fiscal year were $ 1.010 million compared to $ 864,000 last year. The significant increase, was due primarily to an increase in water and sewer rates producing an additional $ 126,000. Total disbursements before transfers

for the fiscal year increased by $ 126,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Postville completed the year, its governmental funds reported a combined fund balance of $ 457,750, approximately $ 2,976,000 less than last year's total of $ 3,434,000. 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 increased by $ 17,018 to $ 257,169. Approximately $ 14,000 of the increase was due to net transfers in from other funds.
- The Road Use Tax Fund cash balance decreased by $ 14,011 to $ 116,470 during the fiscal year. Approximately $ 39,000 was transfered to two Capital Projects Funds.
- The Local Option Sales Tax Fund increased by $ 1,868 to $ 72,108 during the fiscal year.
- The Industrial Wastewater Project Fund was established to account for the construction of a new mechanical wastewater treatment plant. At the end of the fiscal year, the cash deficit was $ (10,684), a decrease of $ 3,022,092 from the previous year. In June of 2004 the City had received $ 3,536,000 in interim financing accounting for the previous year's large cash balance. In fiscal 2005 the City received approximately $ 3.8 million in federal grants and disbursed $ 6.9 million in construction costs.
- The Northeast Area TIF Fund was established in the previous fiscal year to account for a major urban renewal project in the northeast portion of the City. At the end of the year the cash balance was $ 400,458, an increase of $ 421,964 from the previous year. The increase was the result of proceeds of $ 1,700,000 received from the issuance of water revenue bonds. The remaining proceeds will be used to complete various construction projects within the urban renewal district.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by $ 72,761 to $ 559,249, due primarily to an increase in water rates over the prior year.
- The Sewer Fund cash balance decreased by $ 16,849 to $ 219,779, due primarily to the transfer of $ 53,680 of funds to the mechanical wastewater treatment plant project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 9, 2005 to provide for additional disbursements for the mechanical wastewater treatment plant. The City

had received enough of the project funding to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately $ 9,976,000 in bonds and other long-term debt, compared to approximately $ 8,615,000 last year, as shown below:

Outstanding Debt at Year End

(Expressed in Thousands)

	June 30,	
	2005	2004
General obligation bonds	$ 2,180	2,330
General obligation notes	286	572
Lease/purchase agreements	216	233
Bank loan	144	0
Revenue bonds	630	660
Revenue notes	2,000	300
Revenue bond anticipation notes	4,520	4,520
Total	$ 9,976	8,615

Debt increased as a result of issuing water revenue bonds of $ 1,700,000 and taking out a bank loan of $ 143,750 to purchase the new city hall building.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of $ 2,826,000 is nearing its constitutional debt limit of $ 3,419,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Postville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy. The City suffered a blow in December, 2003 when a major employer suffered a catastrophic fire and subsequently decided not to rebuild in the City. This created a loss of approximately 250 jobs. Some of this loss will be eased by expansion of other employers in the City.

The nation's CPI increase was 3.01% for fiscal 2005. Inflation has been modest, however we have seen a sharp increase in energy prices in the

fall of 2005.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are $ 5.462 million a decrease of 37% under the fiscal 2005 budget. Most of the decrease is due to anticipated grant receipts for the construction of the new mechanical wastewater treatment plant being less than in 2005. Budgeted disbursements are expected to drop by approximately $ 9.5 million due to the near completion of the mechanical wastewater treatment plant in 2005.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately $ 291,000 by the close of 2006.

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 to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melissa Hammersland, City Clerk, 415 Oak Drive, Postville, Iowa.

Basic Financial Statements

Exhibit A

CITY OF POSTVILLE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2005

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs							
Governmental activities:							
Public safety	$ 343,843	18,951	4,072	0	(320,820)	0	(320,820)
Public works	367,570	105,827	189,121	0	(72,622)	0	(72,622)
Culture and recreation	134,690	42,868	3,321	0	(88,501)	0	(88,501)
Community and economic development	176,964	0	0	188,656	11,692	0	11,692
General government	383,205	55,506	7,000	0	(320,699)	0	(320,699)
Debt service	251,572	6,900	0	0	(244,672)	0	(244,672)
Capital projects	8,854,246	250,731	0	3,914,398	(4,689,117)	0	(4,689,117)
Total governmental activities	10,512,090	480,783	203,514	4,103,054	(5,724,739)	0	(5,724,739)
Business type activities:							
Water	365,230	441,061	0	0	0	75,831	75,831
Sewer	324,301	347,140	0	0	0	22,839	22,839
Lagoon	175,363	113,004	0	0	0	(62,359)	(62,359)
Total business type activities	864,894	901,205	0	0	0	36,311	36,311
Total	$ 11,376,984	1,381,988	203,514	4,103,054	(5,724,739)	36,311	(5,688,428)
General Receipts:							
Property tax levied for:							
General purposes					472,451	0	472,451
Tax increment financing					140,963	0	140,963
Debt service					129,509	0	129,509
Local option sales tax					152,472	0	152,472
Grants and contributions not restricted to specific purpose					6,505	0	6,505
Unrestricted interest on investments					6,719	16,950	23,669
Bond and loan proceeds					1,830,196	0	1,830,196
Miscellaneous					25,668	92,082	117,750
Sale of assets					14,091	0	14,091
Transfers					(29,620)	29,620	0
Total general receipts and transfers					2,748,954	138,652	2,887,606
Change in cash basis net assets					(2,975,785)	174,963	(2,800,822)
Cash basis assets beginning of year					3,433,535	541,711	3,975,246
Cash basis assets end of year					$ 457,750	716,674	1,174,424

(continued)

Exhibit A
(continued)

CITY OF POSTVILLE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2005

	Governmental Activities	Business-Type Activities	Total
Cash Basis Net Assets			
Restricted:			
Streets	$ 152,524	0	152,524
Public safety	39,098	0	39,098
Debt service	17,009	239,100	256,109
Water tower	400,458	0	400,458
Other	3,357	0	3,357
Unrestricted	(154,696)	477,572	322,878
Total cash basis net assets	$ 457,750	716,674	1,174,424

See notes to financial statements.

Exhibit B

CITY OF POSTVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2005

		Special Revenue		Capital Projects			
	General	Road Use Tax	Local Option Sales Tax	Industrial Wastewater Project	Northeast Area TIF	Other Nonmajor Governmental Funds	Total
Receipts:							
Property tax	$ 347,109	0	0	0	0	254,850	601,959
Tax increment financing collections	0	0	0	0	0	140,963	140,963
Other city tax	2,095	0	152,472	0	0	0	154,567
Licenses and permits	6,190	0	0	0	0	0	6,190
Use of money and property	22,282	0	0	9,721	1,397	149	33,549
Intergovernmental	214,237	188,991	0	3,799,712	101,418	7,500	4,313,858
Charges for service	143,301	0	0	0	0	0	143,301
Special assessments	5,406	0	0	0	0	68,567	73,973
Miscellaneous	68,827	0	0	182,165	0	2,286	253,278
Total receipts	809,447	188,991	152,472	3,991,598	104,815	474,315	5,721,638
Disbursements:							
Operating:							
Public safety	177,176	0	85,604	0	0	81,063	343,843
Public works	114,282	164,002	65,000	0	0	24,286	367,570
Culture and recreation	131,222	0	0	0	0	3,468	134,690
Community and economic development	176,964	0	0	0	0	0	176,964
General government	364,626	0	0	0	0	18,579	383,205
Debt service	0	0	0	0	0	251,572	251,572
Capital projects	0	0	0	6,928,596	1,433,484	472,166	8,834,246
Total disbursements	964,270	164,002	150,604	6,928,596	1,433,484	851,134	10,512,090
Excess (deficiency) of receipts over (under) disbursements	(154,823)	24,989	1,868	(2,936,998)	(1,348,669)	(376,819)	(4,790,452)
Other financing sources (uses)							
Bond proceeds	0	0	0	0	1,686,446	0	1,686,446
Anticipation loan proceeds	143,750	0	0	0	0	0	143,750
Sale of capital assets	14,091	0	0	0	0	0	14,091
Operating transfers in	23,200	0	0	96,406	99,187	207,250	426,043
Operating transfers out	(9,200)	(39,000)	0	(181,500)	(15,000)	(210,963)	(455,663)
Total other financing sources (uses)	171,841	(39,000)	0	(85,094)	1,770,633	(3,713)	1,814,667
Net change in cash balances	17,018	(14,011)	1,868	(3,022,092)	421,964	(380,532)	(2,975,785)
Cash balances beginning of year	240,151	130,481	70,240	3,011,408	(21,506)	2,761	3,433,535
Cash balances end of year	$ 257,169	116,470	72,108	(10,684)	400,458	(377,771)	457,750
Cash Basis Fund Balances							
Reserved for debt service	$ 0	0	0	0	0	17,009	17,009
Unreserved:							
General fund	257,169	0	0	0	0	0	257,169
Special revenue funds	0	116,470	72,108	0	0	6,401	194,979
Capital projects funds	0	0	0	(10,684)	400,458	(401,181)	(11,407)
Total cash basis fund balances	$ 257,169	116,470	72,108	(10,684)	400,458	(377,771)	457,750

See notes to financial statements.

Exhibit C

CITY OF POSTVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2005

	Enterprise Funds			
	Water	Sewer	Other Nonmajor Proprietary Fund	Total
Operating receipts:				
Use of money and property	$ 0	5,384	0	5,384
Charges for service	441,061	328,704	113,004	882,769
Miscellaneous	83,145	21,989	0	105,134
Total operating receipts	524,206	356,077	113,004	993,287
Operating disbursements:				
Business type activities	365,230	257,951	175,363	798,544
Excess (deficiency) of operating receipts over (under) operating disbursements	158,976	98,126	(62,359)	194,743
Non-operating receipts (disbursements):				
Interest on investments	11,895	5,055	0	16,950
Debt service	0	(66,350)	0	(66,350)
Total non-operating receipts (disbursements)	11,895	(61,295)	0	(49,400)
Excess (deficiency) of receipts over (under) disbursements	170,871	36,831	(62,359)	145,343
Operating transfers in (out)	(98,200)	(53,680)	181,500	29,620
Net change in cash balances	72,671	(16,849)	119,141	174,963
Cash balances beginning of year	486,578	236,628	(181,495)	541,711
Cash balances end of year	$ 559,249	219,779	(62,354)	716,674
Cash Basis Fund Balances				
Reserved for debt service	$ 170,000	69,100	0	239,100
Unreserved	389,249	150,679	(62,354)	477,574
Total cash basis fund balances	$ 559,249	219,779	(62,354)	716,674

See notes to financial statements.

(1) Summary of Significant Accounting Policies

The City of Postville is a political subdivision of the State of Iowa located in Allamakee and Clayton Counties. It was first incorporated in 1873 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, 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, City of Postville 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 also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Allamakee County Joint E911 Service Board and Upper Explorerland Regional Housing Authority Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental reveneues, 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, service 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 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. All remaining proprietary funds are aggregated and reported as nonmajor proprietary 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 Local Options Sales Tax Fund is used to account for the disbursement of sales tax receipts for public safety and street maintenance.

Capital Projects:

The Industrial Wastewater Project Fund is utilized to account for the construction of a new mechanical wastewater treatment plant.

Northeast Area TIF Fund is used to account for a major urban renewal project in the northeast portion of the City.

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 non-industrial wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Postville 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. Budget and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in

accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, in 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 openend management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk - The City had invested $ 945,096 in time certificates of deposit whose maturities range from 13 to 822 days at June 30, 2005.

(3) Bonds and Notes Payable

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

Year Ending	General Obligation Bonds and Notes		Revenue Bonds and Notes		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 589,763	103,588	32,984	345,763	622,747	449,351
2007	165,000	88,945	4,558,390	332,361	4,723,390	421,306
2008	175,000	82,345	38,537	126,977	213,537	209,322
2009	175,000	75,310	38,691	124,985	213,691	200,295
2010	185,000	68,130	140,000	122,988	325,000	191,118
2011-2015	990,000	211,993	746,905	490,184	1,736,905	702,177
2016-2020	330,000	24,340	772,082	306,683	1,102,082	331,023
2021-2025	-	-	611,204	226,150	611,204	226,150
2026-2030	-	-	41,392	38,348	41,392	38,348
2031-2035	-	-	51,173	28,567	51,173	28,567
2036-2040	-	-	63,266	16,474	63,266	16,474
2041-2043	-	-	44,249	2,917	44,249	2,917
Total	$ 2,609,763	654,651	7,138,873	2,162,397	9,748,636	2,817,048

The resolution providing for the issuance of the sewer revenue bonds includes 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 fund.
b. Sufficient cash transfers shall be made to a separate sewer revenue bond retirement fund for the purpose of making bond principal and interest payments when due.
c. Gross revenues of the sewer fund are to be accounted for in a separate account known as the sewer revenue fund. Monies shall first be disbursed to make deposits into a separate and special fund to pay current expenses. The fund shall be known as the sewer operation and maintenance fund. There shall be deposited in the sewer operation and maintenance fund each month an amount sufficient to meet the current expenses of the month plus an amount equal to one-twelfth of the expenses payable on an annual basis, such as insurance. After the first day of the month, further deposits may be made to the extent necessary to pay current expenses accrued and payable to the extent funds are not available in the surplus fund.
d. Money in the revenue fund shall next be disbursed to make deposits into a separate and special fund to pay principal of and interest on the bonds. The fund shall be known as the sewer revenue bond and interest sinking fund. The required amount to be deposited in the sinking fund in any month shall be an amount equal to one-sixth of the installment of interest coming due on the next interest payment date on the then outstanding bonds plus one-twelfth of the installment of principal coming due on such bonds on the next succeeding principal payment date until the full amount of such installment is on hand. Money in the sinking fund shall be used solely for the purpose of paying principal of and interest on the bonds as the same shall become due and payable.
e. Money in the revenue fund shall next be disbursed to maintain a debt service reserve in an amount equal to the reserve fund requirement. The fund shall be known as the sewer revenue debt service reserve fund. The minimum amount to be deposited in the reserve fund shall be an amount equal to at least the maximum amount of principal and interest coming due on the bonds in any succeeding fiscal year. At the time of closing, the City will deposit into the reserve fund the sum of $ 69,100 from the proceeds of the issue. To the extent that the sums on deposit in the reserve fund are less than the maximum principal and interest in the succeeding fiscal year, monthly payments will be made into

the reserve fund in an amount equal to 25% of the monthly deposits being made into the sinking fund. Funds in the reserve fund shall be used solely for the payment of principal and interest on the bonds when insufficient funds are available in the sinking fund. Whenever it shall become necessary to use money in the reserve fund, the payments required above shall be continued or resumed until it shall have been restored to the required minimum amount.

f. The City will cause to be kept proper books and accounts adapted to the System in accordance with generally accepted accounting practices, and will cause the books and accounts to be audited annually and reported upon not later than 180 days after the end of each fiscal year by an independent auditor and will provide copies of the audit report to the holders of any of the bonds upon request.

The City has elected to prepare its financial statements on the cash basis, which is not in accordance with U.S. generally accepted accounting principles. It would appear that the City is in violation of the August 1, 1999 Revenue Bond Agreement. Therefore, the bonds could be called and the bonds would no longer be long-term debt.

The resolution providing for the issuance of the childcare facility revenue notes includes the following provisions:

a. At the time of closing, the City will deposit in the Restricted Reserve Account the sum of $ 15,948 from the proceeds of the issue. If the funds are ever used from the account, deposits need to be made until it reaches the balance of $ 15,948. A monthly deposit of $ 133 would need to be deposited into the reserve account until the balance again reaches $ 15,948.
b. Quarterly reports need to be filed for the first three years after the loan is closed.

The resolution providing for the issuance of the Water Revenue Notes includes the following provisions:

a. A Debt Service Reserve Fund must be maintained in an amount equal to at least the lesser of (i) the maximum annual amount of the principal and interest coming due on the Notes; (ii) 10% of the stated principal amount of the Notes; or (iii) 125% of the average annual principal and interest on the Notes. The City expects to deposit $ 170,000 of existing reserves into the Debt Service Reserve Fund.
b. Additional obligations may be issued ranking on a parity with the Notes and any outstanding parity obligations, to refund any Notes or outstanding parity obligations which shall have matured or will mature within three months and

for the payment of which there is insufficient money in certain funds created under the Note Resolution. Also, to refund any Notes or outstanding parity obligations or make extensions, additions, improvements, or replacements to the System if all of the following conditions are met:

(i) before any additional obligations are issued, a statement of an independent auditor or independent financial consultant or a consulting engineer must be obtained stating that the net revenues of the System for the preceding fiscal year were equal to at least 1.20 times the maximum annual debt service on the then outstanding Notes and parity obligations and the parity obligations or Notes then proposed to be issued. The net revenues referred to above may be adjusted to reflect any changes in the amount of revenue which would have resulted had any revised rate schedule been in effect during all the preceding fiscal year; and

(ii) additional obligations must be payable as to principal and interest on the same month and day as the Notes and outstanding parity obligations.

(iii) the preceding fiscal year for this purpose shall be the most recently completed fiscal year for which audited financial statements are available, but in no event a fiscal year ending more than eighteen months prior to the issuance of the additional obligations.

(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
2006	$ 16,925	19,831
2007	18,605	18,151
2008	20,451	16,305
2009	22,482	14,274
2010	24,712	12,044
2011	27,165	9,591
2012	29,861	6,895
2013	32,825	3,928
2014	23,345	2,317
Total	$ 216,371	103,336

(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 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003 the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were $ 30,124 $ 28,921 and $ 25,499, respectively, equal to the required contributions for each year.

(6) Compensated Absences

City employees accumulate a limted amount of earned but unused vacation and sick leave hours for subsequent use of for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2005, primarily relating to the General Fund is as follows:

Type of Benefit	Amount
Vacation	$ 14,363
Sick pay	99,610
Total	$ 113,973

This liability has been computed based on rates of pay in effect at June 30, 2005.

(7) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Enterprise:	
	Water	$ 23,200
Special Revenue:		
Health Care/ Ambulance	General	4,200
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	64,000
	Capital Projects:	
	Northeast Area TIF	15,000
	Enterprise:	
	Water	35,000
		114,000
Capital Projects:		
Industrial Wastewater Project	Special Revenue:	
	Urban Renewal Tax Increment	42,726
	Enterprise:	
	Sewer	53,680
		96,406
Capital Projects:		
Northeast Area TIF	Special Revenue:	
	Urban Renewal Tax Increment	29,187
	Capital Projects:	
	2002 General Obligation Bond Projects	70,000
		99,187
Capital Projects:		
Business Park TIF	Special Revenue:	
	Road Use Tax	5,000
	Urban Renewal Tax Increment	5,050
		10,050

Transfer to	Transfer from	Amount
Capital Projects:		
2002 General Obligation		
Bond Projects	Special Revenue:	
	Road Use Tax	34,000
	Enterprise:	
	Water	40,000
		74,000
Capital Projects:		
Recreational Trail	General	5,000
Enterprise:		
Lagoon	Capital Projects:	
	Industrial Wastewater	
	Project	181,500
Total		$ 607,543

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

(8) Beneficial Interest Trust

The City is the beneficiary under a trust administered by a bank. The assets of the trust are not included in the fund balance of the City since the City does not exercise any control over these funds. The income from the trust for 2005 was $ 2,286.

(9) Risk Management

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

(10) Deficit Fund Balances

The Capital Projects Fund, Industrial TIF Account had a deficit balance of $ 430,655 and the Capital Projects Fund, Industrial Wastewater Project had a deficit balance of $ 10,684 at June 30, 2005. These deficits were a result of project costs incurred prior

to the availability of funds and will be eliminated with increased tax increment financing collections and government grants respectively.

The Enterprise Fund, Lagoon Operations Account had a deficit balance of $ 62,354 at June 30, 2005. The deficit balance was a result of delays in construction of a mechanical wastewater treatment plant. The deficit will be eliminated by increased user fees when the new facility is completed.

(11) Receivable

The City has entered into two mortgage agreements with the Postville Chamber of Commerce for repayment of improvements made by the City to an industrial park. These mortgages are interest free and payable to the City as lots are sold, with final payments due in 10 years. The amounts due on these mortgages are as follows:

Date of Issue	Original Amount	Balance Beginning of Year	Received During Year	Balance End of Year
Mar. 1, 2000	$ 110,000	$ 80,000	0	80,000
Aug. 14, 2000	100,000	$ 100,000	0	100,000
Total		$ 180,000	0	180,000

(12) Commitments

The City entered into a contract to paint the water tower for $ 133,600 to be financed by the water revenue notes.

The City incurred $ 250,000 in short-term loan funds to purchase a downtown building which will be converted into a new City Hall. It is anticipated that this loan will be paid from the sale of the old City Hall.

The City entered into a contract to relocate the softball diamond totaling $ 151,679 which will be paid from the water revenue notes.

The City anticipates incurring an additional $ 1.5 million in cost to complete the mechanical wastewater treatment plant, which will be financed through additional federal grants and a U.S. Department of Agriculture loan.

The City entered into a contract to extend the Maple Street water main totaling $ 70,556 to be financed by the water revenue notes.

Required Supplementary Information

CITY OF POSTVILLE
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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
Receipts:						
Property tax	$ 601,959	0	601,959	589,430	589,430	12,529
Tax increment financing collections	140,963	0	140,963	146,000	146,000	(5,037)
Other city tax	154,567	0	154,567	16,739	174,069	(19,502)
Licenses and permits	6,190	0	6,190	7,570	6,570	(380)
Use of money and property	33,549	22,334	55,883	38,700	38,970	16,913
Intergovernmental	4,313,858	0	4,313,858	7,459,600	6,266,500	(1,952,642)
Charges for service	143,301	882,769	1,026,070	1,001,900	1,157,900	(131,830)
Special assessments	73,973	0	73,973	13,000	73,900	73
Miscellaneous	253,278	105,134	358,412	2,027,300	245,860	112,552
Total receipts	5,721,638	1,010,237	6,731,875	11,300,239	8,699,199	(1,967,324)
Disbursements:						
Public safety	343,843	0	343,843	319,620	348,670	4,827
Public works	367,570	0	367,570	359,900	396,200	28,630
Culture and recreation	134,690	0	134,690	135,485	135,855	1,165
Community and economic development	176,964	0	176,964	58,000	283,000	106,036
General government	383,205	0	383,205	184,000	487,210	104,005
Debt service	251,572	0	251,572	251,670	251,670	98
Capital projects	8,854,246	0	8,854,246	10,461,200	12,416,150	3,561,904
Business type activities	0	864,894	864,894	760,420	901,020	36,126
Total disbursements	10,512,090	864,894	11,376,984	12,530,295	15,219,775	3,842,791
Excess (deficiency) of receipts over (under) disbursements	(4,790,452)	145,343	(4,645,109)	(1,230,056)	(6,520,576)	1,875,467
Other financing sources, net	1,814,667	29,620	1,844,287	1,000,000	3,220,000	(1,375,713)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,975,785)	174,963	(2,800,822)	(230,056)	(3,300,576)	499,754
Balances beginning of year	3,433,535	541,711	3,975,246	3,975,245	3,975,245	1
Balances end of year	$ 457,750	716,674	1,174,424	3,745,189	674,669	499,755

See accompanying independent auditor's report.

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

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by $ 2,689,480. The budget amendment is reflected in the final budgeted amount.

SUPPLEMENTAL INFORMATION

Schedule 1

CITY OF POSTVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2005

	Special Revenue					Capital Projects					
	Employee Benefits	Emergency	Urban Renewal Tax Increment	Health Care/ Ambulance	Debt Service	Child Care Facility	Industrial TIF	Business Park TIF	2002 General Obligation Bond Projects	Recreational Trail	Total
Receipts:											
Property tax	$ 115,336	10,005	0	0	129,509	0	0	0	0	0	254,850
Tax increment financing collections	0	0	140,963	0	0	0	0	0	0	0	140,963
Use of money and property	0	0	0	0	0	0	0	0	149	0	149
Intergovernmental	0	600	0	0	6,900	0	0	0	0	0	7,500
Special assessments	0	0	0	0	0	0	0	0	68,567	0	68,567
Miscellaneous	0	0	0	2,286	0	0	0	0	0	0	2,286
Total receipts	115,336	10,605	140,963	2,286	136,409	0	0	0	68,716	0	474,315
Disbursements:											
Operating:											
Public safety	66,919	7,644	0	6,500	0	0	0	0	0	0	81,063
Public works	24,286	0	0	0	0	0	0	0	0	0	24,286
Culture and recreation	3,468	0	0	0	0	0	0	0	0	0	3,468
General government	18,579	0	0	0	0	0	0	0	0	0	18,579
Debt service	0	0	0	0	261,572	0	0	0	0	0	261,572
Capital projects	0	0	0	0	0	0	100,610	78,211	288,780	4,565	472,166
Total disbursements	113,252	7,644	0	6,500	261,572	0	100,610	78,211	288,780	4,565	861,134
Excess (deficiency) of receipts over (under) disbursements	2,084	2,961	140,963	(4,214)	(115,163)	0	(100,610)	(78,211)	(220,064)	(4,565)	(386,819)
Other financing sources (uses):											
Operating transfers in	0	0	0	4,200	114,000	0	0	10,050	74,000	5,000	207,250
Operating transfers out	0	0	(140,963)	0	0	0	0	0	(70,000)	0	(210,963)
Total other financing sources (uses)	0	0	(140,963)	4,200	114,000	0	0	10,050	4,000	5,000	(3,713)
Net change in cash balances	2,084	2,961	0	(14)	(1,163)	0	(100,610)	(68,161)	(216,064)	435	(390,532)
Cash balances beginning of year	1,273	37	0	60	2,224	17,130	(330,045)	68,415	243,697	0	2,761
Cash balances end of year	$ 3,357	2,998	0	46	1,061	17,130	(430,655)	254	27,633	435	(377,771)
Cash Basis Fund Balances											
Reserved for debt service	$ 0	0	0	0	1,061	15,948	0	0	0	0	17,009
Unreserved:											
Special revenue funds	3,357	2,998	0	46	0	0	0	0	0	0	6,401
Capital project funds	0	0	0	0	0	1,182	(430,655)	254	27,633	435	(401,181)
Total cash basis fund balances	$ 3,357	2,998	0	46	1,061	17,130	(430,655)	254	27,633	435	(377,771)

See accompanying independent auditor's report.

Schedule 2

CITY OF POSTVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUND
As of and for the Year Ended June 30, 2005

	Enterprise Fund
	Lagoon Operations
Operating receipts:	
Charges for service	$ 113,004
Operating disbursements:	
Business type activities	175,363
Deficiency of operating receipts under operating disbursements	(62,359)
Operating transfers in	181,500
Net change in cash balances	119,141
Cash balances beginning of year	(181,495)
Cash balances end of year	$ (62,354)
Cash Basis Fund Balances	
Unreserved	$ (62,354)

See accompanying independent auditor's report.

Schedule 3

CITY OF POSTVILLE
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2005

	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:								
Refunding	Dec. 1, 1998	4.10%-4.50%	$ 900,000	630,000	0	50,000	580,000	27,252
Water, sewer, lights and street lighting	Jun. 1, 2002	3.90%-4.90%	1,700,000	1,700,000	0	100,000	1,600,000	74,020
				2,330,000	0	150,000	2,180,000	101,272
General obligation notes:								
Tilden Street Project	May 15, 2004	0%	$ 335,813	223,875	0	111,937	112,938	0
Lawler/Green Streets project	Jun. 15, 2004	0%	522,225	348,150	0	174,075	174,075	0
				$ 572,025	0	286,012	286,013	0
Revenue bonds:								
Sewer	Aug. 1, 1999	5.25%-5.75%	$ 720,000	660,000	0	30,000	630,000	35,950
Revenue notes:								
Child care facility	Jul. 28, 2003	4.25%	$ 300,000	300,000	0	0	300,000	12,750
Water	May 1, 2005	3.70%-5.10%	1,700,000	0	1,700,000	0	1,700,000	0
				$ 300,000	1,700,000	0	2,000,000	12,750
Lease/purchase agreement Street lighting	Dec. 20, 2003	9.75%	$ 242,000	231,768	0	15,397	216,371	21,359
Sewer revenue bond anticipation notes:								
Wastewater treatment plant	Jun. 1, 2004	4.50%	$ 4,520,000	4,520,000	0	0	4,520,000	203,400
Water revenue bond anticipation project notes	Dec. 28, 2004	2.20%	$ 1,200,000	0	1,200,000	1,200,000	0	11,367
Bank loan:								
City hall	Apr. 1, 2005	5.75%	$ 143,750	0	143,750	0	143,750	0

See accompanying independent auditor's report.

Schedule 4

CITY OF POSTVILLE
BOND, NOTE AND OTHER DEBT MATURITIES
June 30, 2005

	General Obligation Bonds					General Obligation Notes					Revenue Bonds	
	Refunding Issued Dec. 1, 1998		Water, Sewer, Streets and Street Lighting Issued Jun. 1, 2002			Tilden Street Project Issued May 15, 2004		Lawler/Green Streets Project Issued Jun. 15, 2004			Sewer Issued Aug. 1, 1999	
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount
2006	4.15%	$ 55,000	3.90%	$ 105,000	160,000	0%	$ 111,938	0%	$ 174,075	286,013	5.25%	$ 30,000
2007	4.20	55,000	3.90	110,000	165,000		-		-	-	5.25	35,000
2008	4.25	60,000	3.90	115,000	175,000		-		-	-	5.25	35,000
2009	4.30	60,000	4.00	115,000	175,000		-		-	-	5.25	35,000
2010	4.35	65,000	4.10	120,000	185,000		-		-	-	5.25	40,000
2011	4.40	65,000	4.25	130,000	195,000		-		-	-	5.25	40,000
2012	4.40	70,000	4.40	135,000	205,000		-		-	-	5.30	45,000
2013	4.45	75,000	4.50	140,000	215,000		-		-	-	5.35	45,000
2014	4.50	75,000	4.60	145,000	220,000		-		-	-	5.40	45,000
2015		-	4.70	155,000	155,000		-		-	-	5.50	50,000
2016		-	4.80	160,000	160,000		-		-	-	5.60	55,000
2017		-	4.90	170,000	170,000		-		-	-	5.70	55,000
2018		-		-	-		-		-	-	5.75	60,000
2019		-		-	-		-		-	-	5.75	60,000
Total		$ 580,000		$ 1,600,000	2,180,000		$ 111,938		$ 174,075	286,013		$ 630,000

Schedule 4
(continued)

CITY OF PUSIVILLE
BOND, NOTE AND OTHER DEBT MATURITIES
June 30, 2005

Year Ending June 30,	Revenue Notes: Child Care Facility, Issued Jul. 28, 2003 — Interest Rates	Amount	Revenue Notes: Water, Issued May 1, 2005 — Interest Rates	Amount	Total	Lease/Purchase Agreement: Street Lighting, Issued Dec. 20, 2003 — Interest Rates	Amount	Sewer Revenue Bond Anticipation Notes: Wastewater Treatment Plant, Issued Jun. 1, 2004 — Interest Rates	Amount	Bank Loan: City Hall, Issued Apr. 1, 2005 — Interest Rates	Amount
2006	4.25%	$ 2,984		$ -	2,984	9.75%	$ 16,826		$ -	5.75%	$ 143,750
2007	4.25	3,390		-	3,390	9.75	18,809	4.50%	4,520,000		-
2008	4.25	3,537		-	3,537	9.75	20,451		-		-
2009	4.25	3,691		-	3,691	9.75	22,482		-		-
2010	4.25	3,851	3.70%	100,000	103,851	9.75	24,712		-		-
2011	4.25	4,017	3.90	100,000	104,017	9.75	27,165		-		-
2012	4.25	4,192	4.00	100,000	104,192	9.75	29,861		-		-
2013	4.25	4,373	4.10	100,000	104,373	9.75	32,825		-		-
2014	4.25	4,563	4.20	100,000	104,563	9.75	33,345		-		-
2015	4.25	4,760	4.30	100,000	104,760		-		-		-
2016	4.25	4,967	4.50	100,000	104,967		-		-		-
2017	4.25	5,182	4.60	100,000	105,182		-		-		-
2018	4.25	5,407	4.70	100,000	105,407		-		-		-
2019	4.25	5,641	4.75	105,000	110,641		-		-		-
2020	4.25	5,885	4.80	110,000	115,885		-		-		-
2021	4.25	6,140	4.90	110,000	116,140		-		-		-
2022	4.25	6,406	4.95	110,000	116,406		-		-		-
2023	4.25	6,684	5.00	115,000	121,684		-		-		-
2024	4.25	6,974	5.05	120,000	126,974		-		-		-
2025	4.25	7,276	5.10	130,000	137,276		-		-		-
2026	4.25	7,591		-	7,591		-		-		-
2027	4.25	7,920		-	7,920		-		-		-
2028	4.25	8,264		-	8,264		-		-		-
2029	4.25	8,622		-	8,622		-		-		-
2030	4.25	8,995		-	8,995		-		-		-
2031	4.25	9,385		-	9,385		-		-		-
2032	4.25	9,792		-	9,792		-		-		-
2033	4.25	10,216		-	10,216		-		-		-
2034	4.25	10,659		-	10,659		-		-		-
2035	4.25	11,121		-	11,121		-		-		-
2036	4.25	11,603		-	11,603		-		-		-
2037	4.25	12,106		-	12,106		-		-		-
2038	4.25	12,630		-	12,630		-		-		-
2039	4.25	13,178		-	13,178		-		-		-
2040	4.25	13,749		-	13,749		-		-		-
2041	4.25	14,345		-	14,345		-		-		-
2042	4.25	14,966		-	14,966		-		-		-
2043	4.25	14,938			14,938						
Total		$ 300,000		$1,700,000	2,000,000		$ 216,371		$ 4,520,000		$ 143,750

See accompanying independent auditor's report.

CITY OF POSTVILLE
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
For the Last Four Years

	2005	2004	2003	2002
Receipts:				
Property tax	$ 601,959	591,367	503,421	513,060
Tax increment financing collections	140,963	38,406	69,220	12,201
Other city tax	154,567	138,283	143,186	135,644
Licenses and permits	6,190	7,117	10,130	6,396
Use of money and property	33,549	42,937	34,417	36,567
Intergovernmental	4,313,858	618,058	679,959	290,484
Charges for service	143,301	130,927	109,517	104,557
Special assessments	73,973	15,702	8,440	7,611
Miscellaneous	253,278	154,350	187,864	519,968
Total	$ 5,721,638	1,737,147	1,746,154	1,626,488
Disbursements:				
Operating:				
Public safety	$ 343,843	311,710	292,179	280,242
Public works	367,570	388,450	352,294	428,369
Culture and recreation	134,690	127,302	137,258	146,965
Community and economic development	176,964	183,221	57,486	106,388
General government	383,205	371,080	200,384	196,662
Debt service	251,572	153,698	150,698	83,651
Capital projects	8,854,246	976,055	2,377,674	1,209,380
	$ 10,512,090	2,511,516	3,567,973	2,451,657

See accompanying independent auditor's report.

CITY OF POSTVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Water and Waste Disposal Systems for Rural Communities	10.770	-	$ 5,436,772
Department of Commerce:			
Grants for Public Works and Economic Development Facilities	11.300	-	623,557
Indirect:			
Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant/ State's Program	14.228	01-PF-003	472,088
		02-HSG-086	156,466
		03-PF-003	105,418
			733,972
Department of Transportation:			
Iowa Department of Public Safety:			
Governor's Traffic Safety Bureau:			
Safety Incentive Grants for use of Seat Belts	20.604	PAP 05-157, Task 114	711
Total			$ 6,795,012

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

See accompanying independent auditor's report.

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA
124A Main • P.O. Box 359
Elkader, Iowa 52043
(563) 245-2154 • (800) 310-2154

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

To the Honorable Mayor and
Members of the City Council:

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 Postville, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 16, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Postville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained 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.

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 Postville and other parties to whom the City of Postville may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Elkader, Iowa

January 16, 2006

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172392

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA
124A Main • P.O. Box 359
Elkader, Iowa 52043
(563) 245-2154 • (800) 310-2154

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Postville, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The City of Postville's major federal programs are identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Postville's management. Our responsibility is to express an opinion on the City of Postville's compliance based on our audit.

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

In our opinion, the City of Postville complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

Elkader, Iowa

January 16, 2006

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172393

CITY OF POSTVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

(a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

(b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.

(c) The audit did not disclose any noncompliance which is material to the financial statements.

(d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.

(e) An unqualified opinion was issued on compliance with requirements to each major program.

(f) The audit disclosed no findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

(g) Major programs were as follows:
- CFDA Number 10.770 Water and Waste Disposal Systems for Rural Communities.
- CFDA Number 11.300 Grants for Public Works and Economic Development Facilities.

(h) The dollar threshold used to distinguish between Type A and Type B programs was $ 300,000.

(i) The City of Postville did not qualify as a low-risk auditee.

CITY OF POSTVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part II - Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

No matters were noted.

CITY OF POSTVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part III - Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

No matters were noted.

CITY OF POSTVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part IV - Findings Related to Required Statutory Reporting

IV-A-05 **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, 2005.

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

IV-C-05 **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.

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

IV-E-05 **Business Transactions** - No business transactions between City and City officials or employees were noted.

IV-F-05 **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.

IV-G-05 **Council Minutes** - We noted no transactions requiring Council approval which had not been approved by the Council.

IV-H-05 **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.

IV-I-05 **Revenue Bonds** - The City Revenue Bond provision calls for the City "to cause to be kept proper books and accounts adapted to the system in accordance with generally accepted accounting practices." The City has elected to prepare its financial statements on the cash basis, which is not in accordance with U.S. generally accepted accounting principles. It would appear that the City is in violation of the August 1, 1999 Revenue Bond Agreement.

Recommendation - To be in compliance with the Revenue Bond Agreement, the City should adopt the accrual basis of accounting.

Response - This would be impractical in a City of our size and has not been a problem in the past.

Conclusion - Response accepted.

IV-J-05 **Financial Condition** - The following accounts had deficit balances at June 30, 2005:

Name	Amount
Capital Projects Fund, Industrial TIF Account	$ 430,655
Capital Projects Fund, Industrial Wastewater Project Account	10,684
Enterprise Fund, Lagoon Operations Account	62,354

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to sound financial position.

Response - The deficits in the Capital Projects Fund, Industrial TIF Account and the Industrial Wastewater Project Account will be eliminated with increased tax increment financing collections and receipt of government grants, respectively. The deficit in the Enterprise Fund, Lagoon Operations Account will be eliminated with increased fees to be generated by the new mechanical wastewater treatment plant.

Conclusion - Response accepted.

IV-K-05 **Request 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 a small city in a rural area and often do not get CPAs to respond to our requests for proposal, as most CPAs in our area do not perform governmental audits.

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