

CITY OF ESTHERVILLE

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

JUNE 30, 2005

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CITY OF ESTHERVILLE

Officials

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

City of Estherville

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Estherville 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 August 24, 2005 on our consideration of the City of Estherville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 or 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 8 through 13 and 34 through 35 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Estherville's basic financial statements. Other supplementary information included in Schedules 1 through 5 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.

Brinkman + Reed, CPA's

Brinkman & Reed, CPA's

August 24, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

This is the second fiscal year the City has implemented new reporting standards with significant changes in content and structure. The City was required to comply with Government Standard Board Statement No. 34 (GASB-34), which mandated the changes. Theoretically, comparisons may be more meaningful and go further in explaining the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

Expenditures during fiscal year 2005 did not exceed budgeted appropriation.

The City's total revenues exceeded total expenses by \$1,191,733 during fiscal year 2005. Expenses had exceeded income by \$233,954 during fiscal year 2004.

The City's total expenditures declined from \$10,620,514 in fiscal year 2004 to \$9,605,202 in fiscal year 2005. This is a decrease of \$1,015,312 or 9.6%. The primary reason for this change is a reduction of over \$1,000,000 in capital projects during fiscal year 2005.

The City's total revenue increased from \$10,386,560 in fiscal year 2004 to \$10,796,935 in fiscal year 2005. This is an increase of \$410,375 or 4.0%. The primary reason for this change is bequeaths to the Library and Parks & Recreation Department of over \$473,000 were received during fiscal year 2005.

Reconstruction of airport runway was completed during fiscal year 2004 with a total project cost of \$1,074,425. During fiscal year 2005, the Federal Aviation Administration made the final reimbursement for 90% of project costs.

The undesignated General Fund balance declined by \$57,088 during fiscal year 2005 to an ending balance of \$669,503 on June 30, 2005.

No rate increases occurred during fiscal year 2005.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental and proprietary funds.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$3.229 million to \$3.909 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

	Change in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year ended June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 753	\$ 710
Operating grants, contributions and restricted interest	1,142	609
Capital grants, contributions and restricted interest	202	851
General receipts:		
Property tax levied for:		
General purposes	1,470	1,429
Tax increment financing	577	169
Debt service	230	300
Unrestricted investment earnings	105	65
Miscellaneous	27	136
Sale of Assets	0	1
Transfers, net	746	1,270
Total receipts and transfers	5,252	5,540
Disbursements:		
Public safety	974	916
Public works	1,745	1,659
Health and social services	3	5
Culture and recreation	511	536
Community and economic development	188	213
General government	724	692
Debt service	226	581
Capital projects	201	1,214
Total disbursements	4,572	5,816
Increase (decrease) in cash basis net assets	680	(276)
Cash basis net assets beginning of year	3,229	3,505
Cash basis net assets end of year	<u>\$ 3,909</u>	<u>\$ 3,229</u>

The City's cash balance for business type activities increased from \$3.497 million one year ago to \$4.008 million at year-end. The analysis that follows focuses on changes in business type activities.

Change in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service		
Water	\$1,138	\$ 1,140
Sewer rental	1,114	1,008
Electric	3,921	3,874
Airport	52	50
General receipts:		
Unrestricted interest on investment	48	30
Miscellaneous	17	14
Total receipts	<u>6,290</u>	<u>6,116</u>
Disbursements and transfers:		
Water	898	797
Water emergency	20	35
Sewer rental	968	806
Electric	2,929	2,673
Electric emergency	149	333
Airport Revolving	0	0
Airport	54	50
Enterprise equipment revolving	15	110
Transfers	<u>746</u>	<u>1,270</u>
Total disbursements and transfers	<u>5,779</u>	<u>6,074</u>
Increase (decrease) in cash basis net assets	511	42
Cash basis net assets beginning of year	<u>3,497</u>	<u>3,455</u>
Cash basis net assets end of year	<u>\$4,008</u>	<u>\$ 3,497</u>

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

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

For the year ending June 30, 2005, governmental funds totaled \$3,909,296. This is an increase of \$680,722 from the June 30, 2004 balance of \$3,228,574.

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

- The total General Fund cash balance increased \$405,894 from the prior year to \$1,487,870. On June 30, 2004, the general fund consisted of three balances: the undesignated General Fund which decreased \$57,088 to \$669,503 during the fiscal year, the designated Parks & Recreation Revolving Fund which increased \$38,477, and the designated Equipment Revolving which decreased \$57,314. During fiscal year 2005 a number of bequeaths were received with the following ending balances on June 30, 2005: Parks and Recreation - Sanborn, \$53,378; Library - Sanborn, \$368,588; and Library - Pearson, \$58,334. In addition, forfeiture money for police operations was received with an ending balance of \$1,520 on June 30, 2005. The decline in the undesignated General Fund balance is a concern as this fund provides operational funding for all General Fund departments.
- The Road Use Tax Fund cash balance increased by \$103,527 to \$1,623,424 during the fiscal year. The City intends to use the money to continue maintenance of city streets.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- The water fund cash balance increased by \$52,300 to \$621,194 on June 30, 2005. The funds will be used for improvements in the water plant and distribution system.
- The water emergency fund increased by \$195,580 to \$476,746 on June 30, 2005. This increase is due to the repayment of an internal loan from TIF revenues.
- The sanitary sewer fund cash balance increased by \$38,811 to \$310,096 on June 30, 2005.
- The electric fund cash balance increased by \$5,748 to \$962,546 on June 30, 2005.
- The electric emergency fund cash balance increased by \$75,031 to \$1,282,652 on June 30, 2005.

BUDGETARY HIGHLIGHTS

During fiscal year 2005 expenditures did not exceed budgeted appropriations.

An amendment of the city budget was not required during fiscal year 2005. This is the first year since fiscal year 2000 a budget amendment has not been necessary.

DEBT ADMINISTRATION

On June 30, 2005, the City had \$1,835,000 in general obligation bonds/notes outstanding compared to \$1,970,000 last year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,835,000 is significantly below its constitutional debt limit of approximately \$8.5 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the upcoming fiscal year ending June 30, 2006, the City's budget is approximately \$210,000 larger than this year. The property tax levy increases by 20¢/\$1,000 and additional property tax revenue is anticipated. A solid waste rate increase is anticipated.

The budgeted cash balance decreases by approximately \$1,100,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of Estherville

Basic Financial Statements

CITY OF ESTHERVILLE
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2005

Exhibit A

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Functions/Programs:						
Governmental activities:						
Public safety	\$ 974,212	\$ 34,978	\$ 95,611	\$ 1,515	\$ (842,108)	\$ - \$ (842,108)
Public works	1,745,394	583,597	553,419	-	(608,378)	- (608,378)
Health and social services	2,817	-	-	-	(2,817)	- (2,817)
Culture and recreation	511,257	21,597	493,379	83	3,802	- 3,802
Community and economic development	187,524	21,750	-	-	(165,774)	- (165,774)
General government	723,623	91,431	-	-	(632,192)	- (632,192)
Debt service	226,495	-	-	-	(226,495)	- (226,495)
Capital projects	200,947	-	-	200,316	(631)	- (631)
Total governmental activities	4,572,269	753,353	1,142,409	201,914	(2,474,593)	- (2,474,593)
Business type activities:						
Water	897,886	1,138,120	-	-	-	240,234 240,234
Water emergency	20,045	-	-	-	-	(20,045) (20,045)
Sewer rental	967,694	1,113,809	-	-	-	146,115 146,115
Electric	2,929,239	3,921,246	-	-	-	992,007 992,007
Electric emergency	149,000	-	-	-	-	(149,000) (149,000)
Airport	53,924	51,934	-	-	-	(1,990) (1,990)
Enterprise equipment revolving	15,145	-	-	-	-	(15,145) (15,145)
Total business type activities	5,032,933	6,225,109	-	-	-	1,192,176 1,192,176
Total	\$ 9,605,202	\$ 6,978,462	\$ 1,142,409	\$ 201,914	(2,474,593)	1,192,176 (1,282,417)
General Receipts:						
Property tax levied for:						
General purposes					1,469,695	- 1,469,695
Tax increment financing					577,443	- 577,443
Debt service					230,271	- 230,271
Unrestricted interest on investments					105,204	48,407 153,611
Miscellaneous					26,632	16,498 43,130
Transfers					746,070	(746,070) -
Total general receipts and transfers					3,155,315	(681,165) 2,474,150
Change in cash basis net assets					680,722	511,011 1,191,733
Cash basis net assets beginning of year					3,228,574	3,497,392 6,725,966
Cash basis net assets end of year					\$ 3,909,296	\$ 4,008,403 \$ 7,917,699
Cash Basis Net Assets						
Restricted:						
Permanent fund:						
Expendable					\$ 33,093	\$ - \$ 33,093
Nonexpendable					57,574	- 57,574
Unrestricted					3,818,629	4,008,403 7,827,032
Total cash basis net assets					\$ 3,909,296	\$ 4,008,403 \$ 7,917,699

CITY OF ESTHERVILLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2005

	Special Revenue		Other Nonmajor	
	General	Road Use Tax	Governmental Funds	Total
Receipts:				
Property tax	\$ 902,316	\$ -	\$ 771,957	\$ 1,674,273
Tax increment financing collections	-	-	577,443	577,443
Other city tax	15,387	-	10,304	25,691
Licenses and permits	76,644	-	-	76,644
Use of money and property	102,881	-	13,991	116,872
Intergovernmental	111,333	553,419	200,316	865,068
Charges for service	563,944	-	-	563,944
Special assessments	-	87,700	-	87,700
Miscellaneous	482,189	9,285	27,509	518,983
Total receipts	<u>2,254,694</u>	<u>650,404</u>	<u>1,601,520</u>	<u>4,506,618</u>
Disbursements:				
Operating:				
Public safety	758,330	-	215,882	974,212
Public works	1,076,592	546,877	121,925	1,745,394
Health and social services	2,817	-	-	2,817
Culture and recreation	420,371	-	90,886	511,257
Community and economic development	895	-	186,629	187,524
General government	590,874	-	132,749	723,623
Debt service	-	-	226,495	226,495
Capital projects	-	-	200,947	200,947
Total disbursements	<u>2,849,879</u>	<u>546,877</u>	<u>1,175,513</u>	<u>4,572,269</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(595,185)</u>	<u>103,527</u>	<u>426,007</u>	<u>(65,651)</u>
Other financing sources (uses):				
Operating transfers in	1,026,679	-	506,999	1,533,678
Operating transfers out	(25,600)	-	(762,008)	(787,608)
Total other financing sources (uses)	<u>1,001,079</u>	<u>-</u>	<u>(255,009)</u>	<u>746,070</u>
Net change in cash balances	405,894	103,527	170,998	680,419
Cash balances beginning of year	1,081,976	1,519,897	588,321	3,190,194
Cash balances end of year	<u>\$ 1,487,870</u>	<u>\$ 1,623,424</u>	<u>\$ 759,319</u>	<u>\$ 3,870,613</u>
Cash Basis Fund Balances				
Reserved:				
Debt Service	\$ -	\$ -	\$ 108,170	\$ 108,170
Permanent fund	-	-	57,574	57,574
Unreserved:				
General fund	1,487,870	-	-	1,487,870
Special revenue funds	-	1,623,424	582,573	2,205,997
Capital projects funds	-	-	(22,091)	(22,091)
Permanent fund	-	-	33,093	33,093
Total cash basis fund balances	<u>\$ 1,487,870</u>	<u>\$ 1,623,424</u>	<u>\$ 759,319</u>	<u>\$ 3,870,613</u>

City of Estherville

CITY OF ESTHERVILLE
 Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets -
 Governmental Funds
 As of and for the year ended June 30, 2005

Exhibit C

Total governmental funds cash balances (page 17) \$ 3,870,613

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

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

38,683

Cash basis net assets of governmental activities (page 16) \$ 3,909,296

Net change in governmental funds cash balances (page 17) \$ 680,419

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

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

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Change in cash balance of governmental activities (page 16) \$ 680,722

See notes to financial statements.

CITY OF ESTHERVILLE
 Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Proprietary Funds
 As of and for the year ended June 30, 2005

	Enterprise Funds							Internal Service Funds
	Water	Water Emergency	Sewer Rental	Electric	Electric Emergency	Other Nonmajor Proprietary Funds	Total	
Operating receipts:								
Use of money and property	\$ -	\$ 1,370	\$ 500	\$ 20	\$ -	\$ 39,468	\$ 41,358	\$ -
Charges for service	1,138,120	-	1,113,309	3,921,226	-	15,776	6,188,431	228,291
Miscellaneous	-	12,121	-	-	-	-	12,121	10,531
Total operating receipts	<u>1,138,120</u>	<u>13,491</u>	<u>1,113,809</u>	<u>3,921,246</u>	<u>-</u>	<u>55,244</u>	<u>6,241,910</u>	<u>238,822</u>
Operating disbursements:								
Governmental activities:								
Public safety	-	-	-	-	-	-	-	31,322
Public works	-	-	-	-	-	-	-	126,153
Culture and recreation	-	-	-	-	-	-	-	12,168
General government	-	-	-	-	-	-	-	2,443
Business type activities	897,886	20,045	967,694	2,929,117	149,000	69,069	5,032,811	56,205
Total operating disbursements	<u>897,886</u>	<u>20,045</u>	<u>967,694</u>	<u>2,929,117</u>	<u>149,000</u>	<u>69,069</u>	<u>5,032,811</u>	<u>228,291</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>240,234</u>	<u>(6,554)</u>	<u>146,115</u>	<u>992,129</u>	<u>(149,000)</u>	<u>(13,825)</u>	<u>1,209,099</u>	<u>10,531</u>
Non-operating receipts (disbursements):								
Interest on investments	-	8,637	-	12,112	25,778	1,880	48,407	-
Non-program	-	-	-	-	-	-	-	(10,653)
Total non-operating receipts (disbursements)	<u>-</u>	<u>8,637</u>	<u>-</u>	<u>12,112</u>	<u>25,778</u>	<u>1,880</u>	<u>48,407</u>	<u>(10,653)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>240,234</u>	<u>2,083</u>	<u>146,115</u>	<u>1,004,241</u>	<u>(123,222)</u>	<u>(11,945)</u>	<u>1,257,506</u>	<u>(122)</u>
Operating transfers in	-	194,727	-	10,000	287,852	168,568	661,147	-
Operating transfers out	(187,934)	(1,230)	(107,304)	(1,008,493)	(89,599)	(12,657)	(1,407,217)	-
Net change in cash balances	<u>52,300</u>	<u>195,580</u>	<u>38,811</u>	<u>5,748</u>	<u>75,031</u>	<u>143,966</u>	<u>511,436</u>	<u>(122)</u>
Cash balances beginning of year	<u>568,894</u>	<u>281,166</u>	<u>271,285</u>	<u>956,798</u>	<u>1,207,621</u>	<u>198,839</u>	<u>3,484,603</u>	<u>51,169</u>
Cash balances end of year	<u>\$ 621,194</u>	<u>\$ 476,746</u>	<u>\$ 310,096</u>	<u>\$ 962,546</u>	<u>\$ 1,282,652</u>	<u>\$ 342,805</u>	<u>\$ 3,996,039</u>	<u>\$ 51,047</u>
Cash Basis Fund Balances								
Unrestricted	<u>\$ 621,194</u>	<u>\$ 476,746</u>	<u>\$ 310,096</u>	<u>\$ 962,546</u>	<u>\$ 1,282,652</u>	<u>\$ 342,805</u>	<u>\$ 3,996,039</u>	<u>\$ 51,047</u>
Total cash basis fund balances	<u>\$ 621,194</u>	<u>\$ 476,746</u>	<u>\$ 310,096</u>	<u>\$ 962,546</u>	<u>\$ 1,282,652</u>	<u>\$ 342,805</u>	<u>\$ 3,996,039</u>	<u>\$ 51,047</u>

See notes to financial statements.

CITY OF ESTHERVILLE
 Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets -
 Proprietary Funds
 As of and for the year ended June 30, 2005

Exhibit E

Total enterprise funds cash balances (page 20) \$3,996,039

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

The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The assets of the Garage Fund are included in business type activities in the Statement of Net Assets. 12,634

The Computer Clearing Fund is used by management to record customer checks returned due to non-sufficient funds. The assets of the Computer Clearing Fund are included in business type activities in the Statement of Net Assets. (270)

Cash basis net assets of business type activities (page 16) \$4,008,403

Net change in enterprise funds cash balances (page 20) \$ 511,436

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

The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The change in net assets of the Garage Fund is included in business type activities in the Statement of Net Assets. (303)

The Computer Clearing Fund is used by management to record customer checks returned due to non-sufficient funds. The change in net assets of the Computer Clearing Fund is included in business type activities in the Statement of Net Assets. (122)

Change in cash balance of business type activities (page 16) \$ 511,011

See notes to financial statements.

CITY OF ESTHERVILLE
Notes to Financial Statements
June 30, 2005

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2005

Government-wide Financial Statements – Continued

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2005

Fund Financial Statements - Continued

The City reports the following major proprietary funds:

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

The Water Emergency Fund accounts for the accumulation of funds for expenditures for the City in case of a water emergency.

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

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

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

The City also reports the following additional proprietary funds:

Internal Service:

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

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

C. Measurement Focus and Basis of Accounting

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2005

Measurement Focus and Basis of Accounting - Continued

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

(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, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

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

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
U. S. Treasury Note	<u>\$13,987</u>	<u>\$13,864</u>	May 2006
U. S. Treasury Note	<u>33,000</u>	<u>32,733</u>	February 2007
U. S. Treasury Note	<u>4,969</u>	<u>4,952</u>	May 2007
U. S. Treasury Bond	<u>5,000</u>	<u>5,172</u>	November 2010

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2005

(3) Notes Payable

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

<u>Year Ending June 30,</u>	<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2006	140,000	85,721
2007	175,000	80,541
2008	245,000	73,148
2009	155,000	61,133
2010	165,000	54,528
2011	175,000	47,253
2012	180,000	39,315
2013	110,000	30,870
2014	115,000	25,370
2015	120,000	19,505
2016	125,000	13,325
2017	130,000	6,825
Totals	<u>\$1,835,000</u>	<u>\$537,534</u>

(4) Pension and Retirement Benefits

IPERS

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for firefighter employees, in which case the percentages are 6.16% and 9.23%, respectively, and police employees who are covered by the Municipal Fire and Police Retirement System of Iowa (see below).

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2005

IPERS - Continued

For the year ended June 30, 2004, the contribution rates for firefighter employees and the City were 5.93 and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for firefighter employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$102,466, \$102,642, and \$96,389, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa

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

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 24.92% of earnable compensation. For the year ended June 30, 2004, the contribution rates for plan members and the City were 9.35% and 20.48%, respectively, and for the year ended June 30, 2003, the contribution rates for plan members and the City were 9.35% and 17%, respectively. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2005, 2004, and 2003 were \$113,537, \$87,302, and \$70,433, respectively, which met the required minimum contribution for each year.

(5) Contracts Receivable

The City has contracts receivable as follows:

<u>Entity / Project</u>	<u>Balance</u>	<u>Interest Rate / Security</u>
Loaned to Estherville Industrial Development Corporation:		
Medieval Glass	\$79,433	7.00%/ Real Estate – Building
Loaned to Local Enterprises:		
Arts-Way Manufacturing Co., Inc.	3,125	4.00 / Equipment, Inventory And Accounts
Medieval Glass	16,208	6.00 / Real Estate – Building
Sherwood Forest Partnership	10,076	0.00 / Real Estate - Land

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2005

Contracts Receivable - Continued

The City has provided the funding for Tax Increment Financing (TIF) projects. The City will be repaid through the collection of real estate taxes which are generated by the projects funded. Outstanding receivables for TIF projects at June 30, 2005 are as follows:

<u>Project</u>	<u>Balance</u>	<u>Interest Rate / Security</u>
Industrial Park	\$ 16,584	5.00%/Unsecured
Morrell Demolition	361,462	6.00 /Unsecured
Hy-Vee	26,759	6.00 /Unsecured
GKN Armstrong Wheels	19,311	6.00 /Unsecured
Iowa Lakes Electric Cooperative	118,539	6.00 /Unsecured
WWTP Improvements	102,564	6.00 /Unsecured

(6) Compensated Absences

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$118,886
Sick Leave	<u>433,942</u>
Total	<u>\$552,828</u>

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

(7) Related Party Transactions

The City had business transactions between the City, a jointly governed organization and a City official totaling \$243,703 during the year ended June 30, 2005.

(8) Risk Management

The City of Estherville is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2005

Risk Management - Continued

The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Lease

The City of Estherville entered into a twelve year operating lease agreement on May 31, 2001 with Estherville Housing, Inc. to lease office space. The lease amount is \$8,000 per year through June 30, 2004. The City's total rent expense for the year ending June 30, 2005 was \$8,000.

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

Future Minimum Rental Payments

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2006	8,000
2007	8,000
2008	8,000
2009	8,000
2010	8,000
2011 - 2013	<u>24,000</u>
Total	<u>\$64,000</u>

(10) Special Assessments Interest

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

(11) Joint Venture

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2005

Joint Venture - Continued

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

The City of Estherville owns an 8% interest in the project. The energy produced by the IDWGP will be apportioned among the parties based on their percentages of ownership. Currently, Algona Municipal Utilities is purchasing the generated power at their avoided cost which has been determined to be \$.01517/KWH, effective January of 2005. The rate prior to January of 2005 was \$.01213/KWH. It has not been determined how long this arrangement will continue.

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

(12) Interest Paid

During the year ended June 30, 2005, interest paid by the City on bonds and customer utility deposits totaled \$92,249.

(13) General Fund – Designated Balance

The City had designated part of the balance of the general fund for specific future uses. The balance which has been designated as Parks and Recreation Revolving and Parks and Recreation - Sanborn is for funding future parks and recreation projects. The Equipment Revolving balance is for future purchases of equipment needed for the general fund. The Library - Pearson and Library - Sanborn are for library expenditures. The Forfeiture is for deterring criminal activity.

<u>Designated Balances at June 30, 2005</u>	<u>Amount</u>
Parks and Recreation Revolving	\$162,725
Parks and Recreation - Sanborn	53,378
Library - Pearson	58,334
Library - Sanborn	368,588
Forfeiture	1,520
Equipment Revolving	<u>173,822</u>
Total Designated Balances	<u>\$818,367</u>

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2005

(14) Deficit Fund Balances

The Capital Projects Funds - Airport Runway Lighting and Airport Construction had deficit balances of \$16,605 and \$5,528, respectively, at June 30, 2005. The deficit balances were a result of project costs incurred prior to availability of funds. The deficit balances will be eliminated upon receipt of federal grants.

(15) Litigation

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

(16) Construction Commitment

The City has entered into a contract totaling \$141,138 for tennis court construction. As of June 30, 2005, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2005 (\$141,138) will be paid as work on the project progresses.

The City has entered into a contract totaling \$37,722 for water main replacement. As of June 30, 2005, costs of \$15,509 on the project have been paid. The balance remaining on the project at June 30, 2005 (\$22,213) will be paid as work on the project progresses.

The City has entered into a contract totaling \$48,649 for tee hanger taxilanes. As of June 30, 2005, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2005 (\$48,649) will be paid as work on the project progresses.

The City has entered into a contract totaling \$79,049 for central business district electric distribution conversion. As of June 30, 2005, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2005 (\$79,049) will be paid as work on the project progresses.

The City has entered into a contract totaling \$47,328 for raw water main. As of June 30, 2005, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2005 (\$47,328) will be paid as work on the project progresses.

The City has entered into a contract totaling \$155,263 for sanitary sewer extension, section 1. As of June 30, 2005, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2005 (\$155,263) will be paid as work on the project progresses.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2005

Construction Commitment - continued

The City has entered into a contract totaling \$18,901 for sanitary sewer extension, section 2. As of June 30, 2005, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2005 (\$18,901) will be paid as work on the project progresses.

The City has entered into a contract with the county totaling \$41,368 for building demolition with the cost to be split in equal shares with the county. As of June 30, 2005, costs of \$0 on the project have been paid. The City's balance remaining on the project at June 30, 2005 (\$20,684) will be paid as work on the project progresses.

The City has entered into a contract totaling \$92,000 for standby generator. As of June 30, 2005, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2005 (\$92,000) will be paid as work on the project progresses.

The City has entered into a contract totaling \$158,509 for airport runway lighting. As of June 30, 2005, costs of \$150,583 on the project have been paid. The balance remaining on the project at June 30, 2005 (\$7,926) will be paid as work on the project progresses.

(17) Interfund Transfers

The City had numerous interfund transfers during the year ended June 30, 2005. The transfers generally move resources from funds with available resources to those funds with expenses that need to be paid.

Required Supplementary Information

CITY OF ESTHERVILLE
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts Original and Final	Final to Net Variance
Receipts:						
Property tax	\$ 1,674,273	\$ -	\$ -	\$ 1,674,273	\$ 1,673,158	\$ 1,115
Tax increment financing collections	577,443	-	-	577,443	516,025	61,418
Other city tax	25,691	-	-	25,691	26,600	(909)
Licenses and permits	76,644	-	-	76,644	10,525	66,119
Use of money and property	116,872	89,765	-	206,637	142,710	63,927
Intergovernmental	865,068	-	-	865,068	1,137,550	(272,482)
Charges for service	563,944	6,416,722	228,291	6,752,375	6,468,300	284,075
Special assessments	87,700	-	-	87,700	18,108	69,592
Miscellaneous	518,983	22,652	10,531	531,104	188,450	342,654
Total receipts	<u>4,506,618</u>	<u>6,529,139</u>	<u>238,822</u>	<u>10,796,935</u>	<u>10,181,426</u>	<u>615,509</u>
Disbursements:						
Public safety	974,212	31,322	31,322	974,212	1,087,260	113,048
Public works	1,745,394	126,153	126,153	1,745,394	1,978,675	233,281
Health and social services	2,817	-	-	2,817	6,200	3,383
Culture and recreation	511,257	12,168	12,168	511,257	567,375	56,118
Community and economic development	187,524	-	-	187,524	442,400	254,876
General government	723,623	2,443	2,443	723,623	808,750	85,127
Debt service	226,495	-	-	226,495	302,181	75,686
Capital projects	200,947	-	-	200,947	405,000	204,053
Business type activities	-	5,089,016	56,205	5,032,811	5,396,165	363,354
Non-program	-	10,653	10,653	-	-	-
Total disbursements	<u>4,572,269</u>	<u>5,271,755</u>	<u>238,944</u>	<u>9,605,080</u>	<u>10,994,006</u>	<u>1,388,926</u>
Excess (deficiency) of receipts over (under) disbursements	(65,651)	1,257,384	(122)	1,191,855	(812,580)	2,004,435
Other financing sources, net	746,070	(746,070)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	680,419	511,314	(122)	1,191,855	(812,580)	2,004,435
Balances beginning of year	<u>3,190,194</u>	<u>3,535,772</u>	<u>108,743</u>	<u>6,617,223</u>	<u>6,103,786</u>	<u>513,437</u>
Balances end of year	<u>\$ 3,870,613</u>	<u>\$ 4,047,086</u>	<u>\$ 108,621</u>	<u>\$ 7,809,078</u>	<u>\$ 5,291,206</u>	<u>\$ 2,517,872</u>

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
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 except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, no budget amendments were made.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in any function.

Other Supplementary Information

CITY OF ESTHERVILLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2005

Special Revenue										
	Group Insurance	Police Retirement	FICA & IPERS	Economic Development	Industrial Park TIF	Homestead TIF	Oakridge TIF	Subdivision Development	Morrell TIF	Hy-Vee TIF
Receipts:										
Property tax	\$ 320,598	\$ 104,543	\$ 119,353	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	-	-	250,686	827	137,852	-	152,050	36,028
Other city tax	4,414	1,439	1,643	-	-	-	-	-	-	-
Use of money and property	-	-	-	5,864	-	-	-	13	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	5,759	-	-	-	21,750	-	-
Total receipts	325,012	105,982	120,996	11,623	250,686	827	137,852	21,763	152,050	36,028
Disbursements:										
Operating:										
Public safety	97,459	113,537	4,886	-	-	-	-	-	-	-
Public works	85,261	-	36,664	-	-	-	-	-	-	-
Culture and recreation	62,046	-	28,740	-	-	-	-	-	-	-
Community and economic development	-	-	-	2,688	20,616	827	7,706	2,322	125,792	26,678
General government	84,193	-	48,556	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-	-	-
Total disbursements	328,959	113,537	118,846	2,688	20,616	827	7,706	2,322	125,792	26,678
Excess (deficiency) of receipts over (under) disbursements	(3,947)	(7,555)	2,150	8,935	230,070	-	130,146	19,441	26,258	9,350
Other financing sources (uses):										
Operating transfers in	-	-	-	176,668	20,616	-	76,555	3,750	95,382	26,678
Operating transfers out	-	-	-	(123,872)	(250,686)	-	(206,701)	(23,081)	(121,640)	(36,028)
Total other financing sources (uses)	-	-	-	52,796	(230,070)	-	(130,146)	(19,331)	(26,258)	(9,350)
Net change in cash balances	(3,947)	(7,555)	2,150	61,731	-	-	-	110	-	-
Cash balances beginning of year	148,581	38,528	52,879	289,991	-	-	-	105	-	-
Cash balances end of year	\$ 144,634	\$ 30,973	\$ 55,029	\$ 351,722	\$ -	\$ -	\$ -	\$ 215	\$ -	\$ -
Cash Basis Fund Balances										
Reserved:										
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Permanent fund	-	-	-	-	-	-	-	-	-	-
Unreserved:										
Special revenue funds	144,634	30,973	55,029	351,722	-	-	-	215	-	-
Capital projects funds	-	-	-	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 144,634	\$ 30,973	\$ 55,029	\$ 351,722	\$ -	\$ -	\$ -	\$ 215	\$ -	\$ -

CITY OF ESTHERVILLE
 Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Nonmajor Governmental Funds
 As of and for the year ended June 30, 2005

	Capital Projects					Permanent		Total
	Debt Service	Airport Runway Lighting	Parks & Recreation Construction	Airport Construction	West Sanitary Sewer	Airport Runway Construction	Library Trust	
Receipts:								
Property tax	\$ 227,463	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 771,957
Tax increment financing collections	-	-	-	-	-	-	-	577,443
Other city tax	2,808	-	-	-	-	-	-	10,304
Use of money and property	2,310	-	-	-	-	-	5,804	13,991
Intergovernmental	-	155,092	-	-	-	45,224	-	200,316
Miscellaneous	-	-	-	-	-	-	-	27,509
Total receipts	232,581	155,092	-	-	-	45,224	5,804	1,601,520
Disbursements:								
Operating:								
Public safety	-	-	-	-	-	-	-	215,882
Public works	-	-	-	-	-	-	-	121,925
Culture and recreation	-	-	-	-	-	-	100	90,886
Community and economic development	-	-	-	-	-	-	-	186,629
General government	-	-	-	-	-	-	-	132,749
Debt service	226,495	-	-	-	-	-	-	226,495
Capital projects	-	165,017	14,558	8,328	13,044	-	-	200,947
Total disbursements	226,495	165,017	14,558	8,328	13,044	-	100	1,175,513
Excess (deficiency) of receipts over (under) disbursements	6,086	(9,925)	(14,558)	(8,328)	(13,044)	45,224	5,704	426,007
Other financing sources (uses):								
Operating transfers in	68,849	7,500	14,600	2,800	13,044	557	-	506,999
Operating transfers out	-	-	-	-	-	-	-	(762,008)
Total other financing sources (uses)	68,849	7,500	14,600	2,800	13,044	557	-	(255,009)
Net change in cash balances	74,935	(2,425)	42	(5,528)	-	45,781	5,704	170,998
Cash balances beginning of year	33,235	(14,180)	-	-	-	(45,781)	84,963	588,321
Cash balances end of year	\$ 108,170	\$ (16,605)	\$ 42	\$ (5,528)	\$ -	\$ -	\$ 90,667	\$ 759,319
Cash Basis Fund Balances								
Reserved:								
Debt Service	\$ 108,170	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,170
Permanent fund	-	-	-	-	-	-	57,574	57,574
Unreserved:								
Special revenue funds	-	-	-	-	-	-	-	582,573
Capital projects funds	-	(16,605)	42	(5,528)	-	-	-	(22,091)
Permanent fund	-	-	-	-	-	-	33,093	33,093
Total cash basis fund balances	\$ 108,170	\$ (16,605)	\$ 42	\$ (5,528)	\$ -	\$ -	\$ 90,667	\$ 759,319

CITY OF ESTHERVILLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds
As of and for the year ended June 30, 2005

Schedule 2

	Airport	Sewer Emergency	Enterprise Equipment Revolving	Total
Operating receipts:				
Use of money and property	\$ 39,468	\$ -	\$ -	\$ 39,468
Charges for service	15,776	-	-	15,776
Miscellaneous	-	-	-	-
Total operating receipts	<u>55,244</u>	<u>-</u>	<u>-</u>	<u>55,244</u>
Operating disbursements:				
Business type activities	53,924	-	15,145	69,069
Total operating disbursements	<u>53,924</u>	<u>-</u>	<u>15,145</u>	<u>69,069</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>1,320</u>	<u>-</u>	<u>(15,145)</u>	<u>(13,825)</u>
Non-operating receipts:				
Interest on investments	-	1,880	-	1,880
Total non-operating receipts	<u>-</u>	<u>1,880</u>	<u>-</u>	<u>1,880</u>
Excess (deficiency) of receipts over (under) disbursements	1,320	1,880	(15,145)	(11,945)
Operating transfers in	11,000	46,618	110,950	168,568
Operating transfers out	<u>(12,657)</u>	<u>-</u>	<u>-</u>	<u>(12,657)</u>
Net change in cash balances	(337)	48,498	95,805	143,966
Cash balances beginning of year	<u>14,901</u>	<u>54,284</u>	<u>129,654</u>	<u>198,839</u>
Cash balances end of year	<u>\$ 14,564</u>	<u>\$ 102,782</u>	<u>\$ 225,459</u>	<u>\$ 342,805</u>
Cash Basis Fund Balances				
Unrestricted	<u>\$ 14,564</u>	<u>\$ 102,782</u>	<u>\$ 225,459</u>	<u>\$ 342,805</u>
Total cash basis fund balances	<u>\$ 14,564</u>	<u>\$ 102,782</u>	<u>\$ 225,459</u>	<u>\$ 342,805</u>

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
 Schedule of Indebtedness
 Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes:									
Sewer	September 1, 1994	4.80 - 6.20 %	\$ 895,000	\$ 120,000	\$ -	\$ -	\$ 120,000	\$ 7,415	\$ -
Wastewater Treatment	June 1, 2002	2.75 - 5.25	1,465,000	1,315,000	-	75,000	1,240,000	62,298	-
Library	October 1, 2002	2.75 - 4.40	590,000	535,000	-	60,000	475,000	20,583	-
Total				\$ 1,970,000	\$ -	\$ 135,000	\$ 1,835,000	\$ 90,296	\$ -

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
Bond and Notes Maturities
June 30, 2005

General Obligation Notes							
Year Ending June 30,	Sewer Issued September 1, 1994		Wastewater Treatment Issued June 1, 2002		Library Issued October 1, 2002		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2006	6.05 %	\$ -	4.00 %	\$ 80,000	3.30 %	\$ 60,000	140,000
2007	6.10	25,000	4.15	85,000	3.60	65,000	175,000
2008	6.20	95,000	4.30	85,000	3.80	65,000	245,000
2009		-	4.45	90,000	4.00	65,000	155,000
2010		-	4.60	95,000	4.15	70,000	165,000
2011		-	4.75	100,000	4.25	75,000	175,000
2012		-	4.90	105,000	4.40	75,000	180,000
2013		-	5.00	110,000		-	110,000
2014		-	5.10	115,000		-	115,000
2015		-	5.15	120,000		-	120,000
2016		-	5.20	125,000		-	125,000
2017		-	5.25	130,000		-	130,000
		<u>\$ 120,000</u>		<u>\$ 1,240,000</u>		<u>\$ 475,000</u>	<u>\$ 1,835,000</u>

See accompanying independent auditor's report.

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

Schedule 5

	2005	2004	2003	2002
Receipts:				
Property tax	\$ 1,674,273	\$ 1,706,875	\$ 1,636,194	\$ 1,478,584
Tax increment financing collections	577,443	168,656	179,225	251,292
Other city tax	25,691	22,517	28,199	26,002
Licenses and permits	76,644	83,891	66,002	68,249
Use of money and property	116,872	80,634	145,136	259,440
Intergovernmental	865,068	1,453,906	2,037,598	799,337
Charges for service	563,944	537,278	463,147	463,627
Special assessments	87,700	79,995	51,232	65,860
Miscellaneous	518,983	136,524	247,303	139,536
Total	<u>\$ 4,506,618</u>	<u>\$ 4,270,276</u>	<u>\$ 4,854,036</u>	<u>\$ 3,551,927</u>
Disbursements:				
Operating:				
Public safety	\$ 974,212	\$ 916,293	\$ 884,005	\$ 766,389
Public works	1,745,394	1,658,703	1,484,713	2,037,301
Health and social services	2,817	5,165	2,296	3,486
Culture and recreation	511,257	536,188	519,666	496,403
Community and economic development	187,524	212,978	1,442,675	127,166
General government	723,623	692,456	642,890	650,038
Debt service	226,495	580,835	1,023,149	218,751
Capital projects	200,947	1,214,255	567,381	1,085,754
Total	<u>\$ 4,572,269</u>	<u>\$ 5,816,873</u>	<u>\$ 6,566,775</u>	<u>\$ 5,385,288</u>

See accompanying independent auditor's report.

City of Estherville

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 Estherville, 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 August 24, 2005. 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 Estherville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Estherville's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Estherville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 non-compliance or other matters that are required to be reported under Government Auditing Standards.

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 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.

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

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



Brinkman & Reed, CPA's

August 24, 2005

CITY OF ESTHERVILLE
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) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF ESTHERVILLE
Schedule of Findings – Continued
Year Ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that employees who handle cash receipts are also involved with the preparation of bank reconciliations.

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

Response – The City will make every effort to comply.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-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.

III-B-05 Certified Budget – City disbursements during the year ended June 30, 2005 did not exceed the amount budgeted.

III-C-05 Questionable Expenses – No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-D-05 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF ESTHERVILLE
 Schedule of Findings – Continued
 Year Ended June 30, 2005

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

III-E-05 Business Transactions – Business transactions between the City, a jointly governed organization and a City official is detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Emmet County Council Of Governments, Jointly Governed Organization	Solid Waste disposal and recycling, per contract	\$242,541
Joseph Swisher, Council Member, Owner of Swisher, Inc.	Repairs	1,162

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Emmet County Council of Governments, jointly governed organization do not appear to represent conflicts of interest since the transactions were entered into through a contract. The transaction with the Council Member does not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

III-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 coverage is adequate for current operations.

III-G-05 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-H-05 Deposit and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy.

CITY OF ESTHERVILLE
Schedule of Findings – Continued
Year Ended June 30, 2005

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

III-I-05 Financial Condition – The Capital Projects Funds - Airport Runway Lighting and Airport Construction had deficit balances at June 30, 2005 of \$16,605 and \$5,528, respectively.

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

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

Conclusion – Response accepted.