CITY OF EMMETSBURG, IOWA

ANNUAL FINANCIAL STATEMENTS

JUNE 30, 2005

CITY OF EMMETSBURG, IOWA

ANNUAL FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

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CITY OF EMMETSBURG, IOWA

CITY OFFICIALS

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

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Emmetsburg, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Emmetsburg, Iowa, and management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Capital assets policies of the component units (gas, water and sanitation) do not conform to generally accepted accounting policies as described in Note 1 to the financial statements. The amount by which this departure would affect the assets, fund balances, and expenses of the component unit's funds (gas water and sanitation) is not reasonably determinable.

In our opinion, except for the effects, if any, of not using capital assets policies that fully conform to generally accepted accounting policies for the component units (gas, water and sanitation), as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Emmetsburg, Iowa, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 2005, on our consideration of City of Emmetsburg, Iowa's internal control over financial reporting and our tests with its compliance with certain laws, and regulations, contracts, and grants 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 the internal control over financial reporting or on compliance. That report is

an integral part of an audit performed with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

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

Our audit was conducted for the purpose of forming opinions that collectively comprise the City of Emmetsburg, Iowa's basic financial statements. The listing of City officials, combining nonmajor fund financial statements, schedules of revenues by source and expenditures by function-all governmental funds, are presented for purposes of additional analysis and are not a required part of the basic financial statements. We previously audited, in accordance with the Standard referred in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed qualified opinions, for the effects on the financial statements, if any, of the omissions described in the third paragraph of this report, in those financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects, if any, of the omissions described in the third paragraph, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The listing of City officials have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Burdorf, Parrott And Associates, P.C.

November 21, 2005

Management's Discussion and Analysis

Our discussion and analysis of the City of Emmetsburg, Iowa's financial performance provides an overview of the City's financial activities for the year ended June 30, 2005. Please read it in conjunction with the City's financial statements, which follow.

Financial Highlights

- The City's primary government net assets increased $476,946 as a result of this year's operations. Net assets of our business-type activities of the primary government decreased by $10,196, or 2.5 percent, and net assets of our governmental activities increased by $487,142, or 28.3 percent. Net assets of our component units increased by $285,619, or 3 percent.

- The City's return on total ending assets was nearly 7.2%. The return on ending assets for the governmental activities was 19.5%, for the business-type activities the return was a negative 2.5%, and for the component unit the return was 2.6%.

- Total cost of all of the City's programs, including the component units was $5,393,898 in 2005 compared to $5,026,657 in 2004.

- During the year, the City had expenses for governmental activities that were $383,435 less than $1,847,198 generated in general revenues and other program revenues.

Using This Annual Report

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

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 18. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets-the difference between assets and liabilities-as one way to measure the City's

financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

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

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

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

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

- Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begin on page 21. The fund financial statements begin on page 20 and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes (like the Lake Project Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the state for housing rehabilitation for low and moderate income families). The City's two kinds of funds-governmental and proprietary-use different accounting approaches.

- Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

- Proprietary funds account for the City's Enterprise Funds. When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds

are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the change in the net assets for governmental and business-type activities. This does not include the component units of gas, water and sanitation.

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	$ 3,575,813	3,240,634	322,775	315,265	3,898,588	3,555,899
Capital assets	2,675,279	1,786,257	86,070	101,447	2,761,349	1,887,704
Total assets	6,251,092	5,026,891	408,845	416,712	6,659,937	5,443,603
Liabilities						
Long-term debt	1,860,000	1,148,000	0	0	1,860,000	1,148,000
Other liabilities	1,811,809	1,786,750	14,394	12,084	1,826,203	1,798,834
Total liabilities	3,671,809	2,934,750	14,394	12,084	3,686,203	2,946,834
Net assets:						
Invested in capital assets, net of related debt	864,279	385,257	86,070	101,447	950,349	486,704
Restricted	1,130,474	1,633,880	0	0	1,130,474	1,633,880
Unrestricted	584,530	73,004	308,381	303,181	892,911	376,185
Total liabilities and net assets	$ 6,251,092	5,026,891	408,845	416,712	6,659,937	5,443,603

Net assets of governmental activities increased from June 30, 2004 by $487,142 or 28.3%. Net assets of business-type activities decreased from June 30, 2004 by $10,177 or 2.5%. The City's net assets are primarily invested in cash and capital assets, less related debt. By definition, restricted net assets represent resources that are subject to external restrictions, bond covenants, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations are $892,911 at the end of the year.

For the year ended June 30, 2005, net assets changed as follows:

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues						
Charges for services	$ 55,368	85,757	300,229	294,594	355,597	380,351
Operating grants and contributions	352,948	548,345	0	0	352,948	548,345
Capital grants and contributions	54,350	78,265	0	0	54,350	78,265
General Revenues						
Property taxes	1,172,287	1,054,029	0	0	1,172,287	1,054,029
Special assesments	158,407	132,464	0	0	158,407	132,464
Other City taxes	23,268	62,803	0	0	23,268	62,803
Unrestricted grants and contributions	304,958	242,255	0	0	304,958	242,255
Unrestricted investment income	58,203	50,166	7,885	5,515	66,088	55,681
Miscellaneous	130,075	104,832	5,670	0	135,745	104,832
Total revenues	2,309,864	2,358,916	313,784	300,109	2,623,648	2,659,025
Expenses						
Public safety	441,369	443,742	0	0	441,369	443,742
Public works	560,281	748,107	0	0	560,281	748,107
Culture and recreation	254,600	259,698	0	0	254,600	259,698
Community and economic development	139,648	172,840	0	0	139,648	172,840
General government	249,245	254,522	0	0	249,245	254,522
Debt service	98,854	52,241	0	0	98,854	52,241
Capital outlay not included in assets	182,432	0	0	0	182,432	0
Solid waste	0	0	302,456	313,450	302,456	313,450
Cemetery	0	0	27,414	19,527	27,414	19,527
Total expenses	1,926,429	1,931,150	329,870	332,977	2,256,299	2,264,127
Increase (decrease) in net assets before transfers	383,435	427,766	(16,086)	(32,868)	367,349	394,898
Transfers in	120,991	106,633	5,890	6,500	126,881	113,133
Increase (decrease) in net assets	504,426	534,399	(10,196)	(26,368)	494,230	508,031
Net assets, beginning	2,092,141	1,557,742	404,647	430,996	2,496,788	1,988,738
Restatement	(17,284)	0	0	0	(17,284)	0
Net assets, ending	$ 2,579,283	2,092,141	394,451	404,628	2,973,734	2,496,769

Property tax revenue increased by $118,258 from June 30, 2004. The increase was spread through out the funds with no one fund having a disporportionate increase. Operating grants and contributions decreased by $195,397 and unrestricted operating grants and contributions increased by $62,703.

Governmental Activities

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

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

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

Business-type Activities

The Solid Waste Fund had an operating loss before transfers of $13,192 for the current year ended. Last year the Solid Waste Fund showed a loss before transfers of $34,878. The primary reason for the decrease in losses for the year ended June 30, 2005 is that the depreciation expense was $14,861 less this year as compared to last year.

Component Units

Summary of Operations and Changes in Net Assets

Net Assets

	2005	2004
Assets:		
Current and other assets	$ 3,500,143	3,648,877
Capital assets	7,386,203	6,547,576
Total assets	10,886,346	10,196,453
Liabilities:		
Current liabilities	290,654	222,100
Non-current liabilities	779,124	443,407
Total liabilities	1,069,778	665,507
Net assets:		
Invested in capital assets (net of debt)	6,597,956	6,115,576
Unreserved	3,218,612	3,415,370
Total liabilities and net assets	$10,886,346	10,196,453

Revenues

	2005	2004
Operating:		
Residential	$1,466,786	1,388,834
Commercial	1,162,802	924,176
Public authority	233,093	199,631
Customer fees	455,980	397,944
Interfund services provided	37,176	36,249
Penalties	2,932	3,081
Other	19,499	26,383
Total operating	3,378,268	2,976,298
Non-operating revenues:		
Interest income	50,062	38,261
Grant proceeds	121,769	0
Total non-operating revenues	171,831	38,261
Total revenues	$3,550,099	3,014,559

For the funds maintained by the Utilities', total revenues for June 30, 2005 increased by $535,540 from total revenues for the year ended June 30, 2004.

The increase in revenue was primarily due to increase in natural gas billings. The average cost paid for natural gas by the Utilities' for the year ended June 30, 2005 was $7.18 per MCF compared to $6.00 per MCF for the year ended June 30, 2004. The additional cost was past on to the customer. In addition to the increased billings of

natural gas, the Utilities received a grant of $121,769 for the sewer outfall improvement project as discussed in note 10 to the financial statements.

Expenses

	2005	2004
Operating:		
Personal services	$ 364,724	368,861
Contractual	215,109	185,342
Materials, supplies and maintenance	2,081,984	1,769,852
Utilities	55,304	58,068
Depreciation	276,729	284,222
Uncollected accounts	7,060	5,457
Interfund services used	55,077	52,770
Other	46,940	18,000
Total operating	$3,102,927	2,742,572
Non-operating expenses:		
Interest expense	22,013	19,958
Net loss on disposal of capital assets	12,659	0
Total non-operating expenses	34,672	19,958
Total expense	$3,137,599	2,762,530

The total expenses increased by $375,069 from the prior year. This resulted primarily from higher cost of natural gas purchased as discussed above in revenues. The total increase in cost of natural gas purchased over the prior year was $410,051.

Individual Major Fund Analysis

Governmental Fund Highlights

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $2,021,331. $90,991 is reserved for debt service leaving an unreserved balance of $1,930,340. Of the unreserved balance, the City has designated $302,509 leaving an unreserved, undesignated fund balance of $1,627,831.

The governmental fund balance increased by $319,052, which is an18.7% increase. This increase is attributable to the sale of bonds of which $21,700 is set aside for a police car, $194,474 is set aside for a street sweeper, and $285,406 is set aside for the lake improvements. Therefore, a total of $501,580 was set aside which is $182,528 more than the increase in the governmental fund balance.

The General Fund is the chief operating fund of the City of Emmetsburg, Iowa. At the end of the current year, unreserved and undesignated fund balance of the General Fund was $530,847. The unreserved and designated fund balance of the General Fund was $218,559 for a total unreserved balance of $749,406. The City Council can remove the designation at any time. However, it is unlikely that the Council will take such action since $200,000 is set-aside to be used during various months each year that there is little cash received by the City. The City does not want to borrow money during those months.

The following fund balances in the other major funds, which comprise the total governmental funds are listed below:

	June 30, 2,005	June 30, 2,004	Increase (Decrease)
Road Use Tax Fund	$ 266,168	263,167	3,001
Employee Benefit Fund	68,202	103,211	(35,009)
Local Option Sales Tax Fund	97,097	274,601	(177,504)
ECDC Trust Fund	83,950	176,152	(92,202)
Debt Service Fund	62,102	54,907	7,195
Special Assessment Fund	28,889	41,009	(12,120)
Lake Project Fund	285,406	30,830	254,576
First Street Project Fund	33,066	0	33,066
Other Governmental Funds	347,045	266,349	80,696

The largest increase in fund balance is in the Lake Project Fund. This was due to a bond issue and not all the funds were expended in the fiscal year ended June 30, 2005.

Local Option Sales Tax Fund has the largest decrease. $382,500 of these funds were used on the First Street improvements.

The $80,696 increase in the Other Nonmajor Governmental Funds was primarily caused by the transfer of the So. Grand project to nonmajor during the year ended June 30, 2005. The beginning fund balance transferred was $35,376.

The following schedule presents a summary of the governmental fund revenues for the years ended June 30, 2005 and June 30, 2004.

Revenues		June 30, 2005	Percent of Total		June 30, 2,004	Increase (Decrease) from FY04	Percent of Increase (Decrease)
Property taxes	$	1,037,229	44.94%	$	956,789	$ 80,440	(1.68) %
Tax increment financing revenue		135,058	5.85%		97,240	37,818	(0.79) %
Other city tax		23,268	1.01%		268,553	(245,285)	5.13 %
Licenses and permits		9,846	0.43%		8,806	1,040	(0.02) %
Use of money and property		56,203	2.44%		46,966	9,237	(0.19) %
Intergovernmental		712,256	30.86%		663,115	49,141	(1.03) %
Charges for services		55,368	2.40%		85,757	(30,389)	0.64 %
Special assessments		158,407	6.86%		132,464	25,943	(0.54) %
Miscellaneous		120,229	5.21%		96,025	24,204	(0.51) %
	$	2,307,864	100.00%	$	2,355,715	$ (47,851)	1.00 %

The following schedule presents a summary of governmental expenditures for the years ended June 30, 2005.

Expenditures		June 30, 2005	Percent of Total		June 30, 2,004	Increase (Decrease) from FY04	Percent of Increase (Decrease)
Public safety	$	406,277	12.93%	$	404,511	$ 1,766	0.00 %
Public works		484,170	15.41%		694,189	(210,019)	(0.30) %
Culture and recreation		224,900	7.16%		236,516	(11,616)	(0.02) %
Community and economic development		139,648	4.45%		172,840	(33,192)	(0.05) %
general government		249,245	7.93%		254,522	(5,277)	(0.01) %
Debt Service		375,832	11.96%		272,031	103,801	0.15 %
Capital outlay		1,261,356	40.15%		396,755	864,601	1.22 %
	$	3,141,428	100.00%	$	2,431,364	$ 710,064	1.00 %

Most of the significant increase in expenditures occurred in the capital projects function. This is due to $944,200 spent the First Street improvements.

The most significant decrease in expenditures occurred in the Public works function. This was due to a change in function for the lake project. Last year there was $176,388 allocated to the Public works function and this year the expenditure of $190,983 was allocated to the capital outlay function.

Proprietary Funds

City of Emmetsburg proprietary funds provide the same type of information found in the government-wide financial statements. Unrestricted Solid Waste and Cemetery funds at the end of the year amounted to $394,451.

These funds were established for the City operations that are financed and operated in a manner similar to private business enterprises. The cost of providing the services to the public is recovered, in whole or in part, through user charges.

The City's enterprise operations are comprised of two separate and distinct activities: Solid Waste and Cemetery. Results of operations for these funds for the years ended June 30, 2005 and 2004 is as follows.

	Solid Waste		Cemetery	
	2,005	2,004	2,005	2,004
Operating revenues	$ 283,104	274,274	22,795	20,320
Operating expense	302,456	313,450	27,414	19,527
Non-Operating revenues	6,160	4,298	1,725	1,217
Operating transfers in	0	0	5,890	6,500
Changes in net assets	(13,192)	(34,878)	2,996	8,510

Budgetary Highlights

Over the course of the year, the City Council revised the budget one time. This budget amendment was an increase to appropriations to cover unplanned expenditures/ expenses, and transfers. The budget was amended on April 14, 2005. The City did exceed the debt service budget by $27,189.

Capital Asset and Debt Administration

Capital Assets

At the end of June 30, 2005, the City had $2,810,349 invested in capital assets including police and fire equipment, buildings, park facilities, and infrastructure that was added during the year ended June 30, 2005. This does not include the Component units that had $7,386,203 invested in capital assets. Infrastructure prior to July 1, 2003 is not included in the financial statements unless they were considered as construction in progress on July 1, 2003.

A schedule for the year ended June 30, 2005 and 2004 starts on the next page.

Governmental Activities:

Asset costs		Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Machinery and equipment, vehicles	$	1,653,733	81,777	0	1,735,510
Buildings		500,575	0	0	500,575
Infrastructure		876,657	1,030,281	0	1,906,938
Construction in progress		88,081	54,948	(88,081)	54,948
Total assets costs		3,119,046	1,167,006	(88,081)	4,197,971
Less accumulated depreciation					
Machinery and equipment		1,156,939	95,944	0	1,252,883
Buildings		162,701	12,310	0	175,011
Infrastructure		13,150	32,648	0	45,798
Total accumulated depreciation		1,332,790	140,902	0	1,473,692
Governmental activities capital assets, net	$	1,786,256	1,026,104	(88,081)	2,724,279

Business-type activities:	$				
Land and improvements		12,827	6,964	0	19,791
Machinery and equipment, vehicles		193,622	0	0	193,622
Building		23,891	0	0	23,891
Total assets cost		230,340	6,964	0	237,304
Less accumulated depreciation					
Land and improvements		232	522	0	754
Machinery and equipment, vehicles		121,444	21,152	0	142,596
Building		7,217	667	0	7,884
Total accumulated depreciation		128,893	22,341	0	151,234
Business-type assets, net	$	101,447	(15,377)	0	86,070

Capital assets activities for the year ended June 30, 2004 is on the next page.

Governmental Activities:

Asset costs		Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
Machinery and equipment, vehicles	$	1,491,618	162,115	0	1,653,733
Buildings		487,630	12,945	0	500,575
Infrastructure		0	876,657	0	876,657
Construction in progress		743,043	88,081	(743,043)	88,081
Total assets costs		2,722,291	1,139,798	(743,043)	3,119,046
Less accumulated depreciation					
Machinery and equipment		1,065,794	91,145	0	1,156,939
Buildings		150,664	12,037	0	162,701
Infrastructure		0	13,150	0	13,150
Total accumulated depreciation		1,216,458	116,332	0	1,332,790
Governmental activities capital assets, net	$	1,505,833	1,023,466	(743,043)	1,786,256

Business-type activities:	$				
Land and improvements		5,871	6,956	0	12,827
Machinery and equipment, vehicles		193,622	0	0	193,622
Building		23,891	0	0	23,891
Total assets cost		223,384	6,956	0	230,340
Less accumulated depreciation					
Land and improvements		0	232	0	232
Machinery and equipment, vehicles		85,430	36,014	0	121,444
Building		6,550	667	0	7,217
Total accumulated depreciation		91,980	36,913	0	128,893
Business-type assets, net	$	131,404	(29,957)	0	101,447

Debt

At year-end, the City primary government had $2,188,000 in outstanding bonds and notes compared to $1,416,000 last year. That is an increase of 54.5 percent. The only new debt issued this year was $1,050,000 general obligation corporate purpose notes for the First Street improvements, police car, street sweeper, and lake improvements.

The Component Unit-Sanitation Department, had $788,247 of loans outstanding at year-end, compared to $432,000 last year. This is an increase of 82.5 percent. The Component Unit's new debt issued this year was $600,000 of Iowa State Revolving Loan Program Sewer Revenue Bond Series 2005. At June 30, 2005, the loan balance totaled $381,247, with an unadvanced commitment of $218,753.

City of Emmetsburg Outstanding Debt
General Obligation Bonds and Notes

	Governmental activities	
	2005	2004
General obligation bonds	$ 2,140,000	1,335,000
Assessment notes	0	25,000
Notes payable	48,000	56,000
	$ 2,188,000	1,416,000

Component Unit Outstanding Debt
Revenue Bonds

	2005	2004
Revenue bonds	$ 788,247	432,000

Economic Factors and Next Year's Budget and Rates

During the state legislative session in 2003, the legislature permanently eliminate certain state funding to local governments starting in the year ended June 20, 2004 and will continue in the future. It is also more difficult to obtain federal funding for certain types of projects that the City is working on, such as the lake improvements.

The tax levy rates per $1,000 of taxable valuation for fiscal 2006 are provided below:

General levy	$ 8.10000
Liability, property & self insurance	1.17567
Instrumental/vocal music levy	0.13500
Ag land levy	3.00375
Emergency levy	.027000
Employee benefit levy	3.57096
Debt service levy	3.29567
Total	$ 19.55105

Contacting the City's Financial Management

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

John Bird
City Administrator

City of Emmetsburg, Iowa
Statement of Net Assets
June 30, 2005

		Primary Government		
		Governmental Activities	Business-type Activities	Total
ASSETS				
Pooled cash and cash equivalents	$	2,055,670	306,076	2,361,746
Non-pooled cash		7,059	0	7,059
Investments		2,350	0	2,350
Special assessments receivable		208,367	0	208,367
Property taxes receivable		1,105,982	0	1,105,982
Accounts receivable		31,768	10,129	41,897
Other receivables		0	0	0
Interest receivable		5,200	0	5,200
Interest receivable-primary government		0	0	0
Receivable from component units		21,009	0	21,009
Receivable from primary government		0	0	0
Intergovernmental receivables		52,006	0	52,006
Notes receivable, current		144	0	144
Accrued billings		0	0	0
Inventories		7,650	6,570	14,220
Prepaid expense		0	0	0
Restricted assets:				
Pooled cash and cash equivalents		0	0	0
Assets whose use is limited:				
Pooled cash and cash equivalents		0	0	0
Certificates of deposit		0	0	0
Notes receivable, non-current		3,333	0	3,333
Unamortized note discount		26,275	0	26,275
Capital assets:				
Land and construction in progress		54,948	19,792	74,740
Other capital assets,net of accumulated depreciation		2,669,331	66,278	2,735,609
Total assets		6,251,092	408,845	6,659,937
LIABILITIES				
Bank deficit			0	0
Accounts payable		91,735	10,254	101,989
Payable to component units		52,000	0	52,000
Payable to primary government		0	0	0
Interest payable to component units		672	0	672
Interest payable		9,802	0	9,802
Compensated absences, current		34,237	2,776	37,013
Current portion of long-term debt		328,000	0	328,000
Other liabilities		668	1,364	2,032
Deferred revenue		1,294,695	0	1,294,695
Liabilities payable from restricted assets				
Customer deposits		0	0	0
Long-term debt (net of current portion)		0	0	0
Bonds payable, non-current		1,860,000	0	1,860,000
Total liabilities		3,671,809	14,394	3,686,203
NET ASSETS				
Invested in capital assets, net of related debt		864,279	86,070	950,349
Restricted for: Capital projects		423,746	0	423,746
Debt service		90,991	0	90,991
Road use tax		266,168	0	266,168
Local option sales tax		97,097	0	97,097
Employee Benefits		68,202	0	68,202
Tax increment districts		120,385	0	120,385
Perpetual care of cemetery		63,885	0	63,885
Unrestricted		584,530	308,381	892,911
Total net assets	$	2,579,283	394,451	2,973,734

See notes to financial statements.

Component Units		
Gas Department	Water Department	Sanitation Department
921,267	78,139	0
0	0	0
0	0	0
0	0	0
0	0	0
195,144	0	34,917
209	0	0
1,041	951	150
672	0	0
0	0	0
52,000	0	0
0	0	0
2,376	0	0
29,769	25,630	21,753
0	0	0
6,261	11,111	11,191
30,407	5,470	0
255,607	197,149	220,300
699,750	540,000	100,000
46,105	0	0
0	0	6,000
1,039	260,044	811,304
821,863	1,843,408	3,648,545
3,063,510	2,961,902	4,854,160
0	0	62,320
91,908	20,921	20,485
0	0	0
7,003	7,003	7,003
0	0	0
0	0	2,124
3,984	3,589	2,419
0	0	45,000
8,053	2,068	0
0	0	0
30,407	5,470	0
0	0	743,247
0	0	0
141,355	39,051	882,598
822,902	2,103,452	3,671,602
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
2,099,253	819,399	299,960
2,922,155	2,922,851	3,971,562

City of Emmetsburg, Iowa
Statement of Activities
Year Ended June 30, 2005

Functions/Programs		Expense	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary government:						
Governmental activities:						
Public safety	$	441,369	4,530	0	0	(436,839)
Public works		560,281	0	324,136	54,350	(181,795)
Culture and recreation		254,600	28,050	28,812	0	(197,738)
Community and economic development		139,648	0	0	0	(139,648)
General government		249,245	22,788	0	0	(226,457)
Interest on debt and debt related fees		98,854	0	0	0	(98,854)
Capital outlay not included in capital assets		182,432	0	0	50,000	(132,432)
Total governmental activities		1,926,429	55,368	352,948	54,350	(1,463,763)
Business-type activities:						
Solid waste		302,456	283,104	0	0	(19,352)
Cemetery		27,414	17,125	0	0	(10,289)
Total business-type activities		329,870	300,229	0	0	(29,641)
Total primary government	$	2,256,299	355,597	352,948	54,350	(1,493,404)
Component units:						
Emmetsburg Municipal Utilities:						
Gas department	$	2,322,278	2,473,183	0	0	150,905
Water department		354,906	440,366	0	0	85,460
Sanitation department		460,415	464,719	0	121,769	126,073
Total component units	$	3,137,599	3,378,268	0	121,769	362,438

Note to statement of activities:

The City is dredging Five Island Lake that belongs to the State of Iowa. The City budgets the expenditure as a capital outlay; however, the City does not include the cost of the dredging in its capital assets because it does not own the lake and most of the lake is outside the City limits. Therefore, capital outlay is shown as an an expenditure on this statement.

The City owns the assets used for the dredging project and those assets are recorded in capital assets on the statement of net Assets.

See notes to financial statements.

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Gas Department	Water Department	Sanitation Department
Change in net assets:						
Net (expense) revenues	$ (1,463,763)	(29,641)	(1,493,404)	150,905	85,460	126,073
General revenues:						
Property tax levied for:						
General purpose	797,914	0	797,914	0	0	0
Tax increment financing	135,058	0	135,058	0	0	0
Debt service	239,315	0	239,315	0	0	0
Special assessments	158,407	0	158,407	0	0	0
Other city tax	23,268	0	23,268	0	0	0
Unrestricted grants and contributions	304,958	0	304,958	0	0	0
Unrestricted investment income	58,203	7,885	66,088	27,935	17,294	4,833
Miscellaneous	130,075	5,670	135,745	0	0	0
Transfers-internal activity	120,991	5,890	126,881	(116,881)	(5,000)	(5,000)
Total general revenues and transfers	1,968,189	19,445	1,987,634	(88,946)	12,294	(167)
Change in net assets	504,426	(10,196)	494,230	61,959	97,754	125,906
Net assets-beginning (Restated)	2,074,857	404,647	2,479,504	2,860,196	2,825,097	3,845,656
Net assets-ending	$ 2,579,283	394,451	2,973,734	2,922,155	2,922,851	3,971,562

City of Emmetsburg, Iowa
Balance Sheet-Governmental Funds
June 30, 2005

		General Fund	Special Revenue Road Use Tax Fund	Special Revenue Employee Benefit Fund
ASSETS				
Pooled cash and cash equivalents	$	812,370	281,514	63,878
Non-pooled cash		7,059	0	0
Investments		0	0	0
Receivables:				
Special assessments		0	0	0
Property taxes, net		12,827	0	4,324
Accounts		1,405	0	0
Notes, current		0	0	0
Interfund receivable		663	0	0
Receivable from component units		21,009	0	0
Intergovernmental receivables		667	25,404	0
Inventory		7,650	0	0
Notes receivable, non-current		0	0	0
Total assets	$	863,650	306,918	68,202
LIABILITIES				
Accounts payable	$	13,145	30,904	0
Interfund payable		23,368	0	0
Loan payable to component units		52,000	0	0
Interest payable to component units		672	0	0
Compensated absences, current		24,505	9,732	0
Other liabilities		554	114	0
Deferred revenues		0	0	0
Total liabilities		114,244	40,750	0
FUND BALANCE				
Reserved for debt service				
Unreserved, reported in General fund		530,847	0	0
Unreserved-designated, General funds		218,559	0	0
Unreserved, reported in Special revenue funds		0	266,168	68,202
Unreserved-designated, reported in Special revenue funds		0	0	0
Unreserved, reported in Capital projects funds		0	0	0
Total fund balances		749,406	266,168	68,202
Total liabilities and fund balances	$	863,650	306,918	68,202

See notes to financial statements.

		Debt Service		Capital Projects		Other	Total
Local Option Sales Tax Fund	ECDC Trust Fund	Debt Service Fund	Special Assess-ments Fund	Lake Project	First Street Project	Governmental Funds	Governmental Funds
73,325	85,477	31,708	27,404	303,222	43,604	333,168	2,055,670
0	0	0	0	0	0	0	7,059
0	2,350	0	0	0	0	0	2,350
0	0	0	208,367	0	0	0	208,367
0	0	5,023	0	0	0	957	23,131
0	0	0	1,485	771	0	28,107	31,768
0	0	0	0	0	0	144	144
0	0	23,368	0	0	0	0	24,031
0	0	0	0	0	0	0	21,009
23,932	0	2,003	0	0	0	0	52,006
0	0	0	0	0	0	0	7,650
0	0	0	0	0	0	3,333	3,333
97,257	87,827	62,102	237,256	303,993	43,604	365,709	2,436,518
160	3,214	0	0	18,587	10,538	15,187	91,735
0	663	0	0	0	0	0	24,031
0	0	0	0	0	0	0	52,000
0	0	0	0	0	0	0	672
0	0	0	0	0	0	0	34,237
0	0	0	0	0	0	0	668
0	0	0	208,367	0	0	3,477	211,844
160	3,877	0	208,367	18,587	10,538	18,664	415,187
		62,102	28,889	0	0	0	90,991
0	0	0	0	0	0	0	530,847
0	0	0	0	0	0	0	218,559
97,097	0	0	0	0	0	208,705	640,172
0	83,950	0	0	0	0	0	83,950
0	0	0	0	285,406	33,066	138,340	456,812
97,097	83,950	62,102	28,889	285,406	33,066	347,045	2,021,331
97,257	87,827	62,102	237,256	303,993	43,604	365,709	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $1,473,692	2,724,279
Unamortized discount on bonds	26,275
Other long-term assets are not available to pay for current-period expenditures and therefore deferred in the funds:	
Accrued interest receivable	5,200
Long -term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued interest on bonds	(9,802)
Bonds and notes payable	(2,188,000)
Net assets of governmental activities	$ 2,579,283

City of Emmetsburg, Iowa
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005
(Page 1 of 3)

		Special Revenue	
	General	Road Use Tax Fund	Employee Benefit Fund
REVENUES	$		
Property taxes	584,206	0	196,897
Tax increment financing	0	0	0
Other city tax	23,268	0	0
Licenses and permits	9,846	0	0
Use of money and property	36,241	0	0
Intergovernmental	43,683	324,136	0
Charges for services	55,368	0	0
Special assessments	0	0	0
Miscellaneous	64,941	0	0
Total revenues	817,553	324,136	196,897
EXPENDITURES			
Governmental activities:			
Public safety	406,277	0	0
Public works	122,100	348,296	0
Culture and recreation	218,540	0	0
Community and economic development	43,830	0	0
General government	249,245	0	0
Debt service	1,557	0	0
Capital outlay	34,150	27,177	0
Total expenditures	1,075,699	375,473	0
Excess (deficiency) of revenues over expenditures	(258,146)	(51,337)	196,897
OTHER FINANCING SOURCES (USES)			
Bond proceeds	0	0	0
Discount on bonds	0	0	0
Transfers from other funds	578,749	54,338	0
Transfers to other funds	(63,160)	0	(231,906)
Total other financing sources (uses)	515,589	54,338	(231,906)
Net changes in fund balances	257,443	3,001	(35,009)
Fund balance, beginning	491,963	263,167	103,211
Fund balance, ending	$ 749,406	266,168	68,202

Special Revenue		Debt Service		Capital Projects
Local Option Sales Tax Fund	ECDC Trust Fund	Debt Service Fund	Special Assess-ments Fund	Lake Project
0	0	239,315	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
3,418	2,407	1,784	641	0
240,623	0	0	0	50,000
0	0	0	0	0
0	0	28,508	24,206	0
0	46,294	0	0	0
244,041	48,701	269,607	24,847	50,000
0	0	0	0	0
0	0	0	0	0
0	6,360	0	0	0
30,803	36,173	0	0	0
0	0	0	0	0
0	10,800	308,323	37,057	0
0	0	0	0	190,983
30,803	53,333	308,323	37,057	190,983
213,238	(4,632)	(38,716)	(12,210)	(140,983)
0	0	0	0	0
0	0	0	0	0
0	15,015	45,911	0	395,559
(390,742)	(102,585)	0	0	0
(390,742)	(87,570)	45,911	0	395,559
(177,504)	(92,202)	7,195	(12,210)	254,576
274,601	176,152	54,907	41,099	30,830
97,097	83,950	62,102	28,889	285,406

(Continued)

City of Emmetsburg, Iowa
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005
(Page 2 of 3)

(Continued)

	Capital Projects First Street Project	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 0	16,811	1,037,229
Tax increment financing	0	135,058	135,058
Other city tax	0	0	23,268
Licenses and permits	0	0	9,846
Use of money and property	4,906	6,806	56,203
Intergovernmental	0	53,814	712,256
Charges for services	0	0	55,368
Special assessments	105,693	0	158,407
Miscellaneous	0	8,994	120,229
Total revenues	110,599	221,483	2,307,864
EXPENDITURES			
Governmental activities:			
Public safety	0	0	406,277
Public works	142	13,632	484,170
Culture and recreation	0	0	224,900
Community and economic development	0	28,842	139,648
General government	0	0	249,245
Debt service	18,095	0	375,832
Capital outlay	944,200	64,846	1,261,356
Total expenditures	962,437	107,320	3,141,428
Excess (deficiency) of revenues over expenditures	(851,838)	114,163	(833,564)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	1,050,000	0	1,050,000
Discount on bonds	(18,375)	0	(18,375)
Transfers from other funds	362,500	114,719	1,566,791
Transfers to other funds	(511,151)	(146,256)	(1,445,800)
Total other financing sources (uses)	882,974	(31,537)	1,152,616
Net changes in fund balances	31,136	82,626	319,052
Fund balance, beginning	1,930	264,419	1,702,279
Fund balance, ending	$ 33,066	347,045	2,021,331

(Continued)

City of Emmetsburg, Iowa (Continued)
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2005
(Page 3 of 3)

Net change in fund balances-total governmental funds	$ 319,052
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	1,078,924
Depreciation	(140,902)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Accrued interest receivable	2,000
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Bonds paid	280,000
Notes paid	8,000
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets:	
Bonds issued	(1,050,000)
Discount on general obligation bonds	18,375
Amortization of discount recorded in interest	(1,220)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued interest on debt	(9,802)
Change in net assets of governmental activities	$ 504,427

See notes to financial statements.

City of Emmetsburg, Iowa
Statement of Net Assets-Proprietary Funds
June 30, 2005

		Business-type Activities		
		Solid Waste	Cemetery	Total
ASSETS				
Current assets:				
Pooled cash and cash equivalents	$	281,227	24,849	306,076
Accounts receivable		10,080	49	10,129
Inventories at cost		6,570	0	6,570
Total current assets		297,877	24,898	322,775
Capital assets:				
Land improvements		0	19,792	19,792
Building		21,096	2,795	23,891
Equipment and vehicles		186,648	6,973	193,621
Less: Accumulated depreciation		(143,692)	(7,542)	(151,234)
Net capital assets		64,052	22,018	86,070
Total assets	$	361,929	46,916	408,845
LIABILITIES				
Current liabilities:				
Accounts payable	$	9,141	1,113	10,254
Other liabilities		1,364	0	1,364
Accrued compensated absences		2,776	0	2,776
Total current liabilities		13,281	1,113	14,394
NET ASSETS				
Investment in capital assets, net of related debt		64,052	22,018	86,070
Unrestricted		284,596	23,785	308,381
Total net assets		348,648	45,803	394,451
Total liabilities and net assets	$	361,929	46,916	408,845

See notes to financial statements.

City of Emmetsburg, Iowa
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2005

	Business-type Activities		
	Solid Waste	Cemetery	Total
OPERATING REVENUES:			
Charges for services:			
Sanitation fees	$ 283,104	0	283,104
Cemetery fees	0	17,125	17,125
Total charges for services	283,104	17,125	300,229
Sale of lots	0	5,670	5,670
Total revenues	283,104	22,795	305,899
OPERATING EXPENSES:			
Business-type activities:			
Solid waste-current operations	281,708	0	281,708
Cemetery-current operations	0	25,820	25,820
Depreciation	20,748	1,594	22,342
Total operating expense	302,456	27,414	329,870
Operating income (loss)	(19,352)	(4,619)	(23,971)
NON-OPERATING REVENUE (EXPENSE):			
Interest income	6,160	1,725	7,885
Income (loss) before transfers	(13,192)	(2,894)	(16,086)
Transfers from other funds	0	5,890	5,890
Changes in net assets	(13,192)	2,996	(10,196)
Total net assets, beginning	361,840	42,807	404,647
Total net assets, ending	$ 348,648	45,803	394,451

See notes to financial statements.

City of Emmetsburg, Iowa
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
Proprietary Funds
Year Ended June 30, 2005

		Business-type Activities		
		Solid Waste	Cemetery	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customer	$	285,440	22,817	308,257
Cash payments for goods and services		(180,856)	(23,701)	(204,557)
Cash payments to employees		(98,033)	(1,278)	(99,311)
Net cash provided (use) by operating activities		6,551	(2,162)	4,389
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfers from other funds		0	5,890	5,890
Net cash provided (used) by non-capital financing activities		0	5,890	5,890
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Net acquisition of capital assets		0	(6,965)	(6,965)
Net cash used for capital and related financing activities		0	(6,965)	(6,965)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income		6,160	1,725	7,885
Net cash provided by investing activities		6,160	1,725	7,885
Net increase (decrease) in cash and cash equivalents		12,711	(1,512)	11,199
CASH AND CASH EQUIVALENTS, beginning		268,516	26,342	294,858
CASH AND CASH EQUIVALENTS, ending	$	281,227	24,830	306,057
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$	(19,352)	(4,619)	(23,971)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation		20,748	1,594	22,342
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable		2,336	22	2,358
(Increase) decrease in inventory		1,350	0	1,350
Increase (decrease) in accounts payable		3,593	841	4,434
Increase (decrease) in other liabilities		(1,659)	0	(1,659)
Increase (decrease) in compensated absences		(465)	0	(465)
Net cash provided (used) by operating activities	$	6,551	(2,162)	4,389

See Notes to financial statements.

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

General Statement

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

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

Reporting Entity

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

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

Jointly Governed Organizations

The City also participates in one jointly governed organization for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. The Mayor and Police Chief are members of the Palo Alto County Joint E911 Service Board. The City also participated with Iowa Lakes Community College in the operation of the Community Library and Wellness Center. The City has recorded its share of the expense in the Governmental Fund. The Wellness Center and Library is an asset of the College and its audit is included in the College audit.

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

Nature of Operations

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

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

Basis of Presentation

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

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

> Invested in Capital Assets, Net of Related Debt- which consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
>
> Restricted Net Assets - which result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
>
> Unrestricted Net Assets - which consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided

by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

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

Capital Project Funds

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

Debt Service Funds

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

Proprietary Funds

Enterprise Funds

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

Major and Nonmajor Funds

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

Fund	**Brief Description**
Major:	
General	See above for description.
Special Revenue Funds:	
Road Use Tax	Accounts for the state revenue allocated to the City, which is used to maintain and improve the City's streets.
Employee Benefit Fund	Accounts for property taxes levied to finance the payment of payroll taxes including IPERS, group insurance, medical reimbursements, workmen's compensation and unemployment compensation.
Local Option Sales Tax Fund	Accounts for the revenues from the tax authorized by referendum and use 80% for infrastructure and 20% for community betterment.
ECDC Trust Fund	Accounts for the assets donated by the community for economic development and lake improvements.
Debt Service	See above for description.
Special Assessment Fund (a Debt Service Fund)	See debt service fund above.
Capital Projects Funds:	
Lake Project	Accounts for the revenues and expenditures for Five Island Lake improvements.
First Street Project	See Capital projects description above.

Nonmajor:
Special Revenue Funds

Emergency Fund	Accounts for a special $.27/1,000 tax levy.
South TIF Fund	Accounts for tax increment revenues used to pay for certain public improvements within the Urban Renewal area.
North TIF Fund	See South TIFT Fund description above.
TIF North Set Aside Fund	Accounts for amounts set aside for low and moderate income housing assistance.
CDBG Housing Rehab. Fund	Accounts for federal and local funds used to assist low and moderate income families for housing rehabilitation.
Revolving ECDC Loan Fund	Accounts for money loaned to local businesses.
Perpetual Care Fund	Accounts for money accumulated by law for the operations of the cemetery.
Capital Project Funds:	For all the funds that follow, see description for Capital Projects funds above.
Revolving Fund	
So. Grand Project	
Rail Road Surface Fund	
Sewell Park Project	
CDBG Sewer Project	
Airport Project	

Significant Accounting policies

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial

resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

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

Basis of Accounting

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

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

All proprietary funds utilize the accrual basis of accounting.

Assets, Liabilities, and Equity

Cash and Investments

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

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type

transactions are classified as "due to and from other funds." Short-term Interfund loans are reported as "Interfund receivables and payables." Long-term Interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Receivables

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

Inventories

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

Fixed Assets

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

Government-wide Statements

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

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

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

Machinery and Equipment	5 - 15 years
Vehicles	5 - 15 years
Improvements	15 - 20 years
Infrastructure	40 years
Buildings	20 - 50 years

Component Units

Structure and Plant	20 - 50 years
Distribution System	50 years

Equipment, Meters and Mains	5 - 50 years

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

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

Restricted Assets

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

Deferred Revenue

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

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

Long-term Debt

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

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

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

Compensated Absences

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

Fund Equity

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

Budgets and Budgetary Accounting

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

Revenues, Expenditures, and Expenses

Property Taxes

Under State law, municipalities are limited in their ability to levy a property tax. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1 ½ % per month penalty for delinquent payments; is based on January 1 2003 assessed property valuations; is for the accrual period July 1, 2004 through June 30, 2005 and reflect tax asking contained in the budget certified to the County Board of Supervisors in March 2004. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Due to the immaterial amount of any additional property taxes receivable after the 60-day period, no additional accrual is made in the government-wide financial statements.

Interfund Transfers

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

Other Accounting Policies and Accounting and Reporting Practices
Cash Management and Investments

The primary government maintains one primary demand deposit account and the discrete component unit maintains another demand deposit account through which the majority of

its cash resources are processed. Both the primary government and component unit each have investment activities carried on in an investment pool. The earnings on the pooled investments are allocated to the funds on a systematic basis.

Assets Whose Use Is Limited

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

2. Cash and Investments

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

3. Component Unit – Notes Receivable

The Utilities loaned $50,000 to a local business to be used for expansion on September 2, 1999.The note bears interest at five percent over a fifteen-year amortization schedule with one balloon payment due at the end of five years. Interest only will be paid the first two years on a quarterly basis, with principal and interest due after the first two years on a monthly basis. The current balance of the $50,000 loan is $48,481.

5. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the City of Emmetsburg, Iowa is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by State statue. The City of Emmetsburg, Iowa and component unit contribution to IPERS for the years ended June 30,

2005, 2004, and 2003 were $67,309, $66,972 and $66,138, respectively, equal to the required contributions for each year.

6. Deferred Compensation Plan

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

7. Other Employee Benefits

The City maintains hospitalization and life insurance coverage for all of its full-time employees. The City pays all costs of the basic insurance. The City also partially self-insures a portion of the health insurance through a medical reimbursement plan. The City had no material claims incurred but not reported as of June 30, 2005.

8. Capital Assets

Capital asset activity for the year ended June 30, 2005, is as follows:

Governmental Activities:

Asset costs		Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Machinery and equipment, vehicles	$	1,653,733	81,777	0	1,735,510
Buildings		500,575	0	0	500,575
Infrastructure		876,657	1,030,281	0	1,906,938
Construction in progress		88,081	54,948	(88,081)	54,948
Total assets costs		3,119,046	1,167,006	(88,081)	4,197,971
Less accumulated depreciation					
Machinery and equipment		1,156,939	95,944	0	1,252,883
Buildings		162,701	12,310	0	175,011
Infrastructure		13,150	32,648	0	45,798
Total accumulated depreciation		1,332,790	140,902	0	1,473,692
Governmental activities capital assets, net	$	1,786,256	1,026,104	(88,081)	2,724,279

Business-type activities:	$				
Land and improvements		12,827	6,964	0	19,791
Machinery and equipment, vehicles		193,622	0	0	193,622
Building		23,891	0	0	23,891
Total assets cost		230,340	6,964	0	237,304
Less accumulated depreciation					
Land and improvements		232	522	0	754
Machinery and equipment, vehicles		121,444	21,152	0	142,596
Building		7,217	667	0	7,884
Total accumulated depreciation		128,893	22,341	0	151,234
Business-type assets, net	$	104,447	(15,377)	0	86,070

Depreciation expense was charged to governmental activities as follows:

Public safety	$ 35,091
Public works	76,111
Cultural and recreation	29,700
Total depreciation expense	$ 140,902

Component Units:

		Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Gas department:					
Land	$	1,039	0	0	1,039
Structures and plant		387,845	0	(54,526)	333,319
Distribution system		1,075,348	25,571	0	1,100,919
Equipment, meters and mains		752,466	14,849	0	767,315
Total assets cost		2,216,698	40,420	(54,526)	2,202,592
Less accumulated depreciation		1,357,859	63,699	(41,868)	1,379,690
Gas department assets, net	$	858,839	(23,279)	(12,658)	822,902
Water department:					
Land	$	67,067	0	0	67,067
Structures and plant		517,471	0	0	517,471
Distribution system		1,742,933	146,471	0	1,889,404
Equipment, meters and mains		961,085	7,976	0	969,061
Construction in progress		31,721	192,977	(31,721)	192,977
Total assets cost		3,320,277	347,424	(31,721)	3,635,980
Less accumulated depreciation		1,460,275	72,253	0	1,532,528
Gas department assets, net	$	1,860,002	275,171	(31,721)	2,103,452
Sanitation department:					
Land	$	84,542	0	0	84,542
Structures and plant		4,321,950	0	0	4,321,950
Distribution system		1,312,300	87,259	0	1,399,559
Equipment, meters and mains		528,393	7,260	0	535,653
Construction in progress		49,390	764,630	(87,258)	726,762
Total assets cost		6,296,575	859,149	(87,258)	7,068,466
Less accumulated depreciation		2,467,840	140,777	0	2,608,617
Sanitation department assets, net	$	3,828,735	718,372	(87,258)	4,459,849

9. Changes in Long-term Debt

The following is a summary of debt transactions of the City primary government for the year ended June 30, 2005:

	Governmental Activities		
	General Obligation	Assessment Notes	Notes Payable
Debt payable at June 30, 2004	$ 1,335,000	35,000	56,000
Deb issued	1,050,000	0	0
Debt retired	(245,000)	(35,000)	(8,000)
Debt payable at June 30, 2005	$ 2,140,000	0	48,000

Bonds payable at June 30, 2005 comprise the following individual issue:

General obligation street improvement notes: $1,060,000 notes due in annual installments of $65,000, $70,000, $75,000, $80,000, $85,000, $90,000, $95,000, $105,000, $110,000, and $115,000 to June 1, 2009; interest from 4.50% to 5.45%	$ 425,000
General obligation corporate purpose notes: $665,000 notes due in annual installments of $60,000, $55,000, $65,000, $70,000, $75,000 and $80,000 to June 1, 2008; interest from 4.05% to 4.55%	$ 230,000
General obligation corporate purpose notes: $475,000 notes due in annual installments of $40,000, $45,000, $50,000 and $55,000 to June 1, 2014; interest from 1.50% to 3.85%	$ 435,000
General obligation corporate purpose notes, 2005: $1,050,000 notes due in annual installments of $65,000,$95,000, $100,000, $110,000, $115,000, and $120,000 to June 1, 2015; interest from 2.75% to 3.90%	$ 1,050,000
Notes payable: The City has obtained a promissory note in the amount of $72,000, which is due in annual principal payments of $8,000 plus interest at the rate of 5% per annum. Payments are due each July 1 with a due date of July 1, 2010. The lender agrees that if she should depart this life prior to the full payment of the debt , all remaining sums, including accrued interest shall be forgiven as of the date of her death.	$ 48,000

Lender past away during the fiscal year ending June 30, 2006, therefore the $48,000 notes payable is forgiven as of the date of her death.

The annual requirement to retire general long-term debt as of June 30, 2005 are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	$ 328,000	86,186	414,186
2007	320,000	71,761	391,761
2008	335,000	58,930	393,930
2009	260,000	45,058	305,058
2010	150,000	34,258	184,258
2011-14	795,000	87,310	882,310
	$ 2,188,000	383,503	2,571,503

The following is a summary of debt transactions for the component units for the year ended June 30, 2005:

Long-Term Debt

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

$2,750,000 Iowa State Revolving Loan Program Water Revenue Bonds Series 2005 due in annual payments of $102,000-$179,000 to June 1, 2026, and interest at 3.00%. *The proceeds will be received during the year ending June 30, 2006.*

$600,000 Iowa State Revolving Loan Program Sewer Revenue Bond Series 2005 MC60R due in annual payments of $20,000-$35000 to June 1, 2025, and interest at 3.00%. $381,247 was advanced to the Utilities as of June 30, 2005.

$202,000 Sludge Digestion Improvement series 1998B bonds due in annual payments of $6,000-$15,000 to June 1, 2018 and interest at 3.92%.

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

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

Year Ending June 30,		Principal	Interest	Total
2006	$	45,000	34,776	79,776
2007		55,000	33149	88,149
2008		55,000	31,161	86,161
2009		55,000	29,173	84,173
2010		55,000	27,185	82,185
2011-18		523,247	151,461	674,708
	$	788,247	306,905	1,095,152

10. Assets whose use is limited

The composition of assets whose use is limited at June 30, 2005 is in the following table:

		Gas	Water	Sanitation
By Board for:				
Capital improvements and replacement	$	902,754	697,329	275,862
Medical reimbursement		39,733	4,138	4,137
Industrial Development		12,870	35,682	40,301
	$	955,357	737,149	320,300

11. Interfund Receivables and Payables

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

12. Loan Receivable - General Fund

The Utilities loaned the General Fund of the City of Emmetsburg, Iowa $160,000. The interest rate is equivalent to the rate of return received by the Utilities on their invested funds to be determined on January 1 and July 1 of each year and shall be applied retroactively for the previous six months. The loan must be repaid no later than April 1, 2007. The principal balance at June 30, 2005 is $52,000 with accrued interest of $672.

13. Interfund Operating Ttransfers

Major Funds:

	Transfers In	Transfers out
General fund:		
Employee benefit fund	$ 177,567	0
Emergency fund	16,638	0
Local option sales tax fund	16,410	0
Capital projects revolving fund	16,189	2,459
ECDC trust fund	3,300	15,015
Lake capital projects fund	0	1,296
Cemetery fund	0	5,890
TIF north set aside fund	5,590	0
First Street capital projects fund	216,174	0
Airport capital projects fund	0	38,500
Component unit-Gas department	126,881	0
Total general fund	578,749	63,160
Road use tax fund:		
Employee benefit fund	54,338	0
Employee benefit fund:		
General fund	0	177,567
Road use fund	0	54,338
Total employee benefit fund	0	231,905
Local option sales tax fund:		
General fund	0	16,411
First Street capital projects fund	0	362,500
Debt service fund	0	11,831
Total local option sales tax fund	0	390,742
ECDC trust fund:		
General fund	15,015	3,300
Lake capital projects fund	0	99,285
Total ECDC trust fund	15,015	102,585
Debt service fund:		
So. Grand capital projects fund	23,610	0
Local option sales tax fund	11,831	0
TIF north fund	10,470	0
Total debt service fund	45,911	0

	Transfers In	Transfers out
Lake capital projects fund		
First Street capital projects fund	294,978	0
ECDC trust fund	99,285	0
General fund	1,296	0
Total lake capital projects fund	395,559	0
First Street capital projects fund		
General fund	0	216,174
Local option sales tax fund	362,500	0
Lake capital projects fund	0	294,978
Total First Street capital projects	362,500	511,152
Other Governmental Funds (Nonmajor)		
Emergency fund:		
General fund	$ 0	16,638
TIF north set aside fund:		
TIF north fund	53,760	0
General fund	0	5,590
Rail road surface capital projects fund	0	20,000
Total north set aside fund	53,760	25,590
TIF north fund:		
Debt service fund	0	10,470
TIF north set aside fund	0	53,760
Total TIF north fund	0	64,230
Capital projects revolving fund:		
General fund	2,459	16,188
Rail road surface capital projects fund	20,000	0
So Grand capital projects fund:		
Debt service fund	0	23,610
Airport capital projects fund:		
General fund	38,500	0
Total transfers in and out of governmental funds	$ 1,566,791	1,445,800

	Transfers In	Transfers out
Business-type activities-Primary government		
Cemetery fund:		
General fund	$ 5,890	0
Component units:		
Gas department		
General fund	$ 0	116,881
Water department		
General fund	0	5,000
Sanitation department		
General fund	0	5,000
	0	126,881
Total transfers	$ 1,572,681	1,572,681

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

14. Interfund Receivables and Payables

The details of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General	ECDC trust fund	$ 663
Debt service fund	General fund	23,368
Total		$ 24,031

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

15. Risk Management

The City of Emmetsburg, Iowa is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the purchase of commercial Insurance. There have been no significant reductions in insurance coverage during the fiscal year 2005. Settled claims have not exceeded commercial excess coverage in any of the past three years.

16. Construction in Progress

Primary Government

The Primary government has entered into a contract for an airport runway improvement project. $54,948 is recorded in construction in progress for engineering and legal costs through June

30, 2005. The total cost of the project is estimated at $707,474. 95% of the total cost will be paid for with a federal grant. The City will pay the remainder or 5% of total cost with local funds.

Component Unit

The Utilities has entered into a water treatment plant and well replacement contract in the water department. The cost incurred through June 30, 2005 includes engineering and related testing fees of $192,977. The Utilities will be receiving a $600,000 Community Development Block Grant from the Iowa Department of Economic Development for the project, resulting in $2,460,214 in costs that will be paid with local government funds. The breakdown of the cost to date and estimated future costs is as follows:

Water Department	
Cost incurred through June 30, 2005	$ 192,977
Estimated cost to complete	2,867,237
Total estimated cost	$ 3,060,214

The Utilities has also entered into a sewer outfall improvement contract in the sanitation department. The cost incurred through June 30, 2005 includes engineering fees of $81,350. The Utilities has been awarded a $451,000 Community Development Block Grant from the Iowa Department of Economic Development for the project, of which $126,881 in grant proceeds were received in fiscal 2005. This leaves a cost of $610,531 to be paid for with local government funds. The breakdown of the cost to date and estimated future costs is as follows:

Sanitation Department	
Cost incurred through June 30, 2005	$ 726,762
Estimated cost to complete	334,769
Total estimated cost	$ 1,061,531

17. Related Party Transactions

The component unit bills and collects for garbage services provided for the primary government to its residents. During the year ended June 30, 2005, the component unit collected and remitted to the primary government $284,034.

18. Restatement of Beginning Balance

The beginning balance of the Governmental Activities on the government-Wide Statements was restated to account for an error in recording special assessment bonds payable in fiscal2004. The effect of this restatement is to decrease the governmental activities beginning balance by $17,284.

19. New Governmental Accounting Standards Board (GASB) Standards

The following new standards could affect the City of Emmetsburg, Iowa:

The Governmental Accounting Standards Board (GASB) has issued five statements not yet implemented by the City of Emmetsburg, Iowa. The statements, which might impact the City of Emmetsburg, Iowa are as follows:

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* issued November 2003, will be effective for the City for the fiscal year ending June 30, 2006. This statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46, *Net Assets Restricted by Enabling Legislation* issued December 2004, will be effective for the City for the fiscal year ended June 30, 2006. This statement clarifies the definition of a legally enforceable enabling legislation restriction. It also specifies the accounting and financial reporting requirements for the restrictions and for any changes in them.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

City of Emmetsburg, Iowa
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses
and Changes in Fund Balances- Budget and Actual-Governmental Funds and Proprietary Funds,
Year Ended June 30, 2005

	Actual		
	Governmental Funds	Proprietary Funds	Total
REVENUES:			
Property taxes	$ 1,037,229	0	1,037,229
Tax increment financing	135,058	0	135,058
Other city tax	23,268	0	23,268
Licenses and permits	9,846	0	9,846
Use of money and property	56,203	57,947	114,150
Intergovernmental	712,256	0	712,256
Charges for services	55,368	3,678,497	3,733,865
Special assessments	158,407	0	158,407
Miscellaneous	120,229	127,439	247,668
Total Revenues	2,307,864	3,863,883	6,171,747
EXPENDITURES:			
Public safety	406,277	0	406,277
Public works	484,170	0	484,170
Culture and recreation	224,900	0	224,900
Community and economic development	139,648	0	139,648
General government	249,245	0	249,245
Debt service	375,832	0	375,832
Business type	0	3,467,469	3,467,469
Capital outlay	1,261,356	0	1,261,356
Total expenditures	3,141,428	3,467,469	6,608,897
Excess (deficiency) of revenues over expenditure	(833,564)	396,414	(437,150)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	1,050,000	0	1,050,000
Discount on bonds	(18,375)	0	(18,375)
Transfers from other funds	1,566,791	5,890	1,572,681
Transfers to other funds	(1,445,800)	(126,881)	(1,572,681)
Total other financing sources (uses)	1,152,616	(120,991)	1,031,625
Net changes in fund balances	319,052	275,423	594,475
Fund balance (deficit), beginning	1,702,279	9,935,596	11,637,875
Fund balance, ending	$ 2,021,331	10,211,019	12,232,350

Actual and budget includes the component unit revenues and expenses

See notes to financial statements.

Budget		
Original	Final	Final to Actual Variance
993,546	993,546	43,683
130,896	130,896	4,162
229,919	229,919	(206,651)
22,465	22,465	(12,619)
60,130	60,130	54,020
1,024,505	1,602,005	(889,749)
3,333,839	3,333,839	400,026
117,575	117,575	40,832
139,488	139,488	108,180
6,052,363	6,629,863	(458,116)
410,896	459,435	(53,158)
560,395	575,395	(91,225)
330,407	335,390	(110,490)
343,841	389,571	(249,923)
268,182	273,342	(24,097)
348,643	348,643	27,189
4,710,395	4,993,395	(1,525,926)
1,967,946	2,623,946	(1,362,590)
8,940,705	9,999,117	(3,390,220)
(2,888,342)	(3,369,254)	2,932,104
738,400	738,400	311,600
0	0	(18,375)
728,252	1,223,637	349,044
(728,252)	(1,223,637)	(349,044)
738,400	738,400	293,225
(2,149,942)	(2,630,854)	3,225,329
12,311,208	12,311,208	(673,333)
10,161,266	9,680,354	2,551,996

City of Emmetsburg, Iowa
Combining Balance Sheet- Nonmajor Governmental Funds
June 30, 2005

	Special Reveune	
	Emergency Fund	South TIF Fund
ASSETS		
Pooled cash	$ 0	26,431
Receivables:		
Property taxes, net	369	259
Accounts	0	0
Notes, current	0	0
Notes receivable, non-current	0	0
Total assets	$ 369	26,690
LIABILITIES		
Accounts payable	$ 0	0
Deferred revenues	0	0
Total liabilities	0	0
FUND BALANCE (DEFICITS)		
Fund Balances (Deficits)		
Unrestricted, Undesignated		
Reported in Special revenue	369	26,690
Reported in Capital projects	0	0
Total fund balances (deficits)	369	26,690
Total liabilities and fund balances (deficits)	$ 369	26,690

Special Revenue				
TIF North Set Aside Fund	TIF North Fund	CDBG Housing Rehab Fund	Revolving ECDC Loan Fund	Perpetual Care Fund
52,827	42,889	1,288	22,777	63,885
0	329	0	0	0
0	0	0	0	0
0	0	144	0	0
0	0	0	3,333	0
52,827	43,218	1,432	26,110	63,885
0	2,349	0	0	0
0	0	144	3,333	0
0	2,349	144	3,333	0
52,827	40,869	1,288	22,777	63,885
0	0	0	0	0
52,827	40,869	1,288	22,777	63,885
52,827	43,218	1,432	26,110	63,885

(Continued)

City of Emmetsburg, Iowa
Combining Balance Sheet- Nonmajor Governmental Funds
June 30, 2005

		Capital Projects		
		Revolving Fund	Rail Road Surface	Sewell Park Project
ASSETS				
Pooled cash	$	72,629	18,641	5,918
Receivables:				
Property taxes, net		0	0	0
Accounts		0	0	0
Notes, current		0	0	0
Notes receivable, non-current		0	0	0
Total assets	$	72,629	18,641	5,918
LIABILITIES				
Accounts payable	$	0	0	0
Deferred revenues		0	0	0
Total liabilities		0	0	0
FUND BALANCE (DEFICITS)				
Fund Balances (Deficits)				
Unrestricted, Undesignated				
Reported in Special revenue		0	0	0
Reported in Capital projects		72,629	18,641	5,918
Total fund balances (deficits)		72,629	18,641	5,918
Total liabilities and fund balances (deficits)	$	72,629	18,641	5,918

(Continued)

Capital Projects			Total Nonmajor Governmental Funds
So Grand Project	CDBG Sewer	Airport Project	
13,438	0	12,445	333,168
0	0	0	957
0	0	28,107	28,107
0	0	0	144
0	0	0	3,333
13,438	0	40,552	365,709
1,000	4,350	7,488	15,187
0	0	0	3,477
1,000	4,350	7,488	18,664
0	0	0	208,705
12,438	(4,350)	33,064	138,340
12,438	(4,350)	33,064	347,045
13,438	0	40,552	365,709

City of Emmetsburg, Iowa
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005
(Page 1 of 2)

	Special Revenue		
	Emergency Fund	South TIF Fund	TIF North Set Aside Fund
REVENUES	$		
Property taxes	16,811	0	0
Tax increment financing	0	10,034	0
Other city tax	0	0	0
Use of money and property	0	343	572
Intergovernmental	0	0	0
Miscellaneous	0	0	0
Total revenues	16,811	10,377	572
EXPENDITURES			
Governmental activities:			
Public works	0	4,932	0
Community and economic development	0	0	0
Capital outlay	0	0	0
Total expenditures	0	4,932	0
Excess (deficiency) of revenues over expenditures	16,811	5,445	572
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	0	0	53,760
Transfers to other funds	(16,638)	0	(25,590)
Total other financing sources (uses)	(16,638)	0	28,170
Net changes in fund balances (deficits)	173	5,445	28,742
Fund balance (deficit), beginning	196	21,245	24,085
Fund balance (deficit), ending	$ 369	26,690	52,827

Special Revenue				Capital Projects	
TIF North Fund	CDBG Housing Rehab Fund	Revolving ECDC Loan Fund	Perpetual Care Fund	Revolving Fund	Rail Road Surface
0	0	0	0	0	0
125,024	0	0	0	0	0
0	0	0	0	0	0
591	109	4,219	0	0	193
0	0	0	0	0	0
0	0	0	1,380	7,614	0
125,615	109	4,219	1,380	7,614	193
0	0	0	0	0	0
28,827	15	0	0	0	0
0	0	0	0	0	9,899
28,827	15	0	0	0	9,899
96,788	94	4,219	1,380	7,614	(9,706)
0	0	0	0	2,459	20,000
(64,230)	0	0	0	(16,188)	0
(64,230)	0	0	0	(13,729)	20,000
32,558	94	4,219	1,380	(6,115)	10,294
8,311	1,194	18,558	62,505	78,744	8,347
40,869	1,288	22,777	63,885	72,629	18,641

(Continued)

City of Emmetsburg, Iowa
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005
(Page 2 of 2)

	Capital Projects		
	Sewell Park Project	So. Grand Project	CDBG Sewer Project
REVENUES			
Property taxes	$ 0	0	0
Tax increment financing	0	0	0
Other city tax	0	0	0
Use of money and property	60	672	0
Intergovernmental	0	0	4,350
Miscellaneous	0	0	0
Total revenues	60	672	4,350
EXPENDITURES			
Governmental activities:			
Public works	0	0	8,700
Community and economic development	0	0	0
Capital outlay	0	0	0
Total expenditures	0	0	8,700
Excess (deficiency) of revenues over expenditures	60	672	(4,350)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	0	0	0
Transfers to other funds	0	(23,610)	0
Total other financing sources (uses)	0	(23,610)	0
Net changes in fund balances (deficits)	60	(22,938)	(4,350)
Fund balance (deficit), beginning	5,858	35,376	0
Fund balance (deficit), ending	$ 5,918	12,438	(4,350)

(Continued)

Capital Projects Airport Project	Total Nonmajor Governmental Funds
0	16,811
0	135,058
0	0
47	6,806
49,464	53,814
0	8,994
49,511	221,483
0	13,632
0	28,842
54,947	64,846
54,947	107,320
(5,436)	114,163
38,500	114,719
0	(146,256)
38,500	(31,537)
33,064	82,626
0	264,419
33,064	347,045

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

	Modified Accrual Basis			
	2005	2004	2003	2002
REVENUES:				
Property taxes	$ 1,037,229	956,789	1,079,243	1,012,996
Tax increment financing revenue	135,058	97,240	81,653	183,862
Other city tax	23,268	268,553	239,116	259,009
Licenses and permits	9,846	8,806	9,802	9,643
Use of money and property	56,203	46,966	45,267	55,992
Intergovernmental	712,256	663,115	735,501	704,663
Charges for services	55,368	85,757	27,438	26,766
Special assessments	158,407	132,464	32,547	37,320
Miscellaneous	120,229	96,025	225,993	115,057
Total	$ 2,307,864	2,355,715	2,476,560	2,405,308
EXPENDITURES:				
Operating:				
Public safety	$ 406,277	404,511	396,117	427,509
Public works	484,170	694,189	477,027	451,063
Culture and recreation	224,900	236,516	278,924	315,845
Community and economic development	139,648	172,840	198,688	511,684
General government	249,245	254,522	258,911	254,828
Debt service	375,832	272,031	343,988	254,967
Capital projects	1,261,356	396,755	959,157	73,742
Total	$ 3,141,428	2,431,364	2,912,812	2,289,638

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Emmetsburg, Iowa'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 judgement, could adversely affect the City of Emmetsburg, Iowa's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 05-1-A.

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 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 not also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Emmetsburg, Iowa's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 05-II-B and 05-II-J.

This report is intended solely for the information and use of the finance committee, management, City Council, and State of Iowa Auditor's office and is not intended to be and should not be used by anyone other than these specified parties.

Burdorf, Parrott And Associates, P.C.

November 21, 2005

City of Emmetsburg, Iowa

Schedule of Findings

Year ended June 30, 2005

REPORTABLE CONDITIONS:

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

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

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

Conclusion - Response accepted.

Other Findings Related to Required Statutory Reporting:

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

05-II-B Certified Budget – Expenditures during the year ended June 30, 2005 exceeded the amount budgeted in the debt service function by $27,189. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - When the budget was amended, it should have included an amendment for the debt service fund.

Response – The budget will include all functions in the future.

Conclusion – Response accepted.

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

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

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

Name, Title and Business Connection	Description of Transaction	Amount
Paul Saxton, Utility Trustee Saxton's Greenhouse	Grass seed	$ 2,097
	Memorials and recognitions	80
Nick Steinkamp, Utility Trustee K & W Electric, Inc.	Repairs	1,787
Steve Finer, Council person Jensvold Motor Company	Auto repairs and parts	1,491
Bob Kenny, Council person	Pest control	100

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Saxton's Greenhouse and Nick Steinkamp does not appear to represent a conflict of interest since the total purchases did not exceed a cumulative total of $2,500 for the year. The rest do not appear to represent a conflict of interest since they are not more than $1,500.

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

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

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

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

05-II-J Unauthorized Checking Account – The Victorian house (Museum) maintained a separate checking account that was unknown to the City Clerk. As a result, bank statements, deposits slips, cancelled checks, and invoices were not made available for the City to record in its records.

Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for the city purpose..."

The activity of the Victorian house bank account was recorded in this years audit report.

Recommendation – The City should develop policies and procedures to ensure bank accounts are authorized and bank statements, including cancelled checks, invoices, and any other pertinent information are properly maintained and reported. In addition, the Victorian house activity should be recorded in the City's accounting system on a monthly basis and in the annual budget.

Response – The City will advise all departments that all bank accounts have to be recorded on the City's books on monthly basis and under control of the City and not the individual departments. Also, it will be included in the annual budget.

Conclusion – Response accepted.