

CITY OF ESTHERVILLE

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

JUNE 30, 2006

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CITY OF ESTHERVILLE

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before September 2005)		
Lyle Hevern	Mayor	January, 2006
Harold Sawyer	Mayor Pro Tem	January, 2008
Susan Nelson	Council Member	January, 2008
Harold Sawyer	Council Member	January, 2008
Terry Nelson	Council Member	January, 2008
Joseph Swisher	Council Member	January, 2006
Larry W. Anderson	Council Member	January, 2006
Loralee Donovan	Council Member	November, 2005
Gene Haukoos	Council Member	January, 2006
Steven D. Woodley	City Administrator	Indefinite
Vaughn Brua	City Clerk/Finance Director/Treasurer	January, 2006
Connie Hanson	Deputy City Clerk	January, 2006
Forsyth Law Office	Attorney	January, 2006
(After September 2005)		
Lyle Hevern	Mayor	January, 2008
Harold Sawyer	Mayor Pro Tem	January, 2008
Susan Nelson	Council Member	January, 2008
Harold Sawyer	Council Member	January, 2008
Richard Sidles	Council Member	January, 2010
Joseph Swisher	Council Member	January, 2010
Larry W. Anderson	Council Member	January, 2010
Loralee Donovan	Council Member	January, 2010
Gene Haukoos	Council Member	January, 2008
Steven D. Woodley	City Administrator	Indefinite
Vaughn Brua	City Clerk/Finance Director/Treasurer	January, 2008
Connie Hanson	Deputy City Clerk	January, 2008
Forsyth Law Office	Attorney	January, 2008

City of Estherville

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Estherville, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Estherville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Estherville as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2006 on our consideration of the City of Estherville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Estherville's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (which is not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information for the years ended June 30, 2006 and 2005, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schedule 5, Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds, for the years ended June 30, 2004, 2003, 2002, and 2001 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and, accordingly, we express no opinion on it.

Brinkman & Reed, CPAs

Brinkman & Reed, CPA's

October 6, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements.

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

2006 FINANCIAL HIGHLIGHTS

Expenditures during fiscal year 2006 did not exceed budgeted appropriation.

The City's total revenues exceeded total expenses by \$688,473 during fiscal year 2006. Income had exceeded expenses by \$1,191,733 during fiscal year 2005.

The City's total expenditures increased from \$9,605,202 in fiscal year 2005 to \$10,154,847 in fiscal year 2006. This is an increase of \$549,645 or 5.7%. Contributing to this change were an increase of \$355,000 in Electric Department expenditures and an increase of \$270,000 in capital project expenditures.

The City's total revenue increased from \$10,796,935 in fiscal year 2005 to \$10,843,320 in fiscal year 2006. This is an increase of \$46,385 or .4%.

The City's electric energy sales increased by approximately 8% kilowatt hours during fiscal year 2006, which required a similar increase in purchased power.

No rate increases occurred during fiscal year 2006.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$3.909 million to \$4.352 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

	Change in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 656	\$ 753
Operating grants, contributions and restricted interest	709	1,142
Capital grants, contributions and restricted interest	95	202
General receipts:		
Property tax levied for:		
General purposes	1,625	1,470
Tax increment financing	321	577
Debt service	200	230
Hotel/Motel Tax	39	0
Unrestricted investment earnings	218	105
Miscellaneous	43	27
Loan Proceeds	102	0
Sale of Assets	17	0
Transfers, net	<u>1,257</u>	<u>746</u>
Total receipts and transfers	5,282	5,252
Disbursements:		
Public safety	1,136	974
Public works	1,177	1,745
Health and social services	4	3
Culture and recreation	599	511
Community and economic development	288	188
General government	820	724
Debt service	343	226
Capital projects	<u>472</u>	<u>201</u>
Total disbursements	4,839	4,572
Increase (decrease) in cash basis net assets	443	680
Cash basis net assets beginning of year	<u>3,909</u>	<u>3,229</u>
Cash basis net assets end of year	<u>\$ 4,352</u>	<u>\$ 3,909</u>

The City's cash balance for business type activities increased from \$4.008 million one year ago to \$4.255 million at year-end. The analysis that follows focuses on changes in business type activities.

Change in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service		
Water	\$1,231	\$ 1,138
Sewer rental	1,252	1,114
Electric	4,165	3,921
Airport	54	52
Electric Aerial Service	3	0
General receipts:		
Unrestricted interest on investment	91	48
Miscellaneous	22	17
Sale of Assets	<u>1</u>	<u>0</u>
Total receipts	6,819	6,290
Disbursements and transfers:		
Water	1,002	898
Water emergency	49	20
Sewer rental	897	968
Electric	3,285	2,929
Electric emergency	29	149
Airport Revolving	0	0
Airport	48	54
Electric Aerial Service	1	0
Enterprise equipment revolving	4	15
Transfers	<u>1,257</u>	<u>746</u>
Total disbursements and transfers	6,572	5,779
Increase (decrease) in cash basis net assets	247	511
Cash basis net assets beginning of year	<u>4,008</u>	<u>3,497</u>
Cash basis net assets end of year	<u>\$4,255</u>	<u>\$ 4,008</u>

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

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

For the year ending June 30, 2006, governmental funds totaled \$4,351,556. This is an increase of \$442,260 from the June 30, 2005 balance of \$3,909,296.

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

- The total General Fund cash balance decreased \$18,714 from the prior year to \$1,469,156 on June 30, 2006. On June 30, 2005, the General Fund consisted of eight balances. During the fiscal year the undesignated General Fund increased \$130,914 to \$800,418. The designated Parks & Recreation Revolving Fund decreased \$127,135 to \$35,590, the designated Equipment Revolving Fund increased \$17,436 to \$191,258, the designated Library - Sanborn Fund decreased \$57,196 to \$311,392, the designated Library - Pearson Fund decreased \$9,466 to \$48,868, and the designated Forfeiture Fund increased \$5,246 to \$6,766. The designated Parks & Recreation - Sanborn Fund declined from \$53,378 to a -0- balance. These funds were used for the shelter house construction. During fiscal year 2006 a bequeath was received from the Stow Family. The June 30, 2006 balance for the Parks & Recreation - Stow Fund was \$74,864.
- The Road Use Tax Fund cash balance increased by \$513,481 to \$2,136,905 during the fiscal year. The City had agreed to participate in Iowa Department of Transportation (IDOT) construction projects on Highways #9 & #4. The City's share of the projects was estimated at approximately \$550,000 and this amount was budgeted. The IDOT did not bill the city during fiscal year 2006 and has not as of this date (10/5/06).

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- The water fund cash balance increased by \$24,877 to \$646,071 on June 30, 2006.
- The water emergency fund increased by \$2,090 to \$478,836 on June 30, 2006.
- The sanitary sewer fund cash balance increased by \$23,675 to \$333,771 on June 30, 2006.
- The electric fund cash balance increased by \$11,899 to \$974,445 on June 30, 2006.
- The electric emergency fund cash balance decreased by \$141,543 to \$1,141,109 on June 30, 2006. The decrease is due to an internal loan for a construction project.

BUDGETARY HIGHLIGHTS

During the year, the city amended the budget on two occasions. The first amendment was approved on September 19, 2005. The amendment authorized an additional \$360,000 for capital projects. This amendment was necessary as payment of the majority of expenses for the South 15th Street Tennis Court Project did not occur prior to June 30, 2005, as anticipated. In addition, authorization to proceed with the West Sanitary Sewer Project occurred after the fiscal year 2006 budget was adopted.

The second amendment was approved on May 15, 2006, authorizing the expenditure of an additional \$380,000. This amendment provided additional funds for police operations, the purchase of a fire truck, library capital improvements, replacement of software and computers, repair of a well, replacement of an emergency generator at the wastewater treatment plant, and increased electrical power purchases.

Budgeted appropriations as amended were not exceeded in fiscal year 2006.

DEBT ADMINISTRATION

On June 30, 2006, the City had \$1,575,000 in general obligation bonds/notes outstanding compared to \$1,835,000 last year. During the year the \$120,000 outstanding 1994 Sewer Improvement Notes were called.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City of Estherville's outstanding general obligation debt of \$1,575,000 is significantly below its constitutional debt limit of approximately \$8.9 million.

During fiscal year 2006 the City obtained a loan of \$102,034 to purchase a fire truck.

The total City debt on June 30, 2006, is \$1,677,034.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the upcoming fiscal year ending June 30, 2007, the City's budget is approximately \$650,000 larger than fiscal year 2006. The property tax levy remains at \$16.50/\$1,000 of taxable valuation. The budgeted cash balance declines by \$980,000.

The current wholesale power agreement for the purchase of electricity will terminate on March 31, 2007. A new agreement must be negotiated prior to this date with a significant increase in cost anticipated. An increase in the City's electrical rates will be recommended to cover the higher cost of purchased power.

The City is appealing a number of conditions/requirements in the Iowa Department of Natural Resources' proposed Wastewater Treatment Discharge Permit. The proposed requirements would require extensive improvements at the Wastewater Treatment Plant and dramatically increase Sanitary Sewer Rates.

The new wholesale power rate and the final conditions contained in the discharge permit are two of the most important economic issues the City will face in the next 10 years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of Estherville

Basic Financial Statements

CITY OF ESTHERVILLE
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2006

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 1,136,265	\$ 31,588	\$ 61,070	\$ 9,830	\$ (1,033,777)	\$ -	\$ (1,033,777)
Public works	1,177,067	522,254	557,277	-	(97,536)	-	(97,536)
Health and social services	3,807	-	-	-	(3,807)	-	(3,807)
Culture and recreation	598,914	20,274	90,641	166	(487,833)	-	(487,833)
Community and economic development	288,216	-	-	-	(288,216)	-	(288,216)
General government	820,453	82,084	-	-	(738,369)	-	(738,369)
Debt service	343,096	-	-	-	(343,096)	-	(343,096)
Capital projects	471,702	-	-	85,010	(386,692)	-	(386,692)
Total governmental activities	4,839,520	656,200	708,988	95,006	(3,379,326)	-	(3,379,326)
Business type activities:							
Water	1,002,340	1,231,444	-	-	-	229,104	229,104
Water emergency	48,671	-	-	-	-	(48,671)	(48,671)
Wastewater	897,267	1,251,684	-	-	-	354,417	354,417
Electric	3,284,745	4,165,046	-	-	-	880,301	880,301
Electric emergency	29,000	-	-	-	-	(29,000)	(29,000)
Airport	48,012	53,521	-	-	-	5,509	5,509
Electric aerial services	977	3,085	-	-	-	2,108	2,108
Enterprise equipment revolving	4,315	-	-	-	-	(4,315)	(4,315)
Total business type activities	5,315,327	6,704,780	-	-	-	1,389,453	1,389,453
Total	\$ 10,154,847	\$ 7,360,980	\$ 708,988	\$ 95,006	(3,379,326)	1,389,453	(1,989,873)
General Receipts:							
Property tax levied for:							
General purposes					1,624,940	-	1,624,940
Tax increment financing					320,732	-	320,732
Debt service					200,103	-	200,103
Hotel/Motel Tax					38,511	-	38,511
Unrestricted interest on investments					217,947	91,060	309,007
Miscellaneous					43,422	21,568	64,990
Loan proceeds					102,034	-	102,034
Sale of capital assets					17,229	800	18,029
Transfers					1,256,668	(1,256,668)	-
Total general receipts and transfers					3,821,586	(1,143,240)	2,678,346
Change in cash basis net assets					442,260	246,213	688,473
Cash basis net assets beginning of year					3,909,296	4,008,403	7,917,699
Cash basis net assets end of year					\$ 4,351,556	\$ 4,254,616	\$ 8,606,172
Cash Basis Net Assets							
Restricted:							
Permanent fund:							
Expendable					\$ 36,370	\$ -	\$ 36,370
Nonexpendable					57,574	-	57,574
Unrestricted					4,257,612	4,254,616	8,512,228
Total cash basis net assets					\$ 4,351,556	\$ 4,254,616	\$ 8,606,172

See notes to financial statements.

CITY OF ESTHERVILLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

	Special Revenue			
	General	Road Use Tax	Nonmajor	Total
Receipts:				
Property tax	\$ 969,201	\$ -	\$ 829,633	\$ 1,798,834
Tax increment financing	-	-	320,731	320,731
Other city tax	54,163	-	10,559	64,722
Licenses and permits	70,507	-	-	70,507
Use of money and property	214,182	-	12,149	226,331
Intergovernmental	78,885	557,277	83,677	719,839
Charges for service	559,609	-	-	559,609
Special assessments	-	26,083	-	26,083
Miscellaneous	95,599	7,765	17,297	120,661
Total receipts	2,042,146	591,125	1,274,046	3,907,317
Disbursements:				
Operating:				
Public safety	880,388	-	255,877	1,136,265
Public works	970,140	77,644	129,283	1,177,067
Health and social services	3,807	-	-	3,807
Culture and recreation	507,518	-	91,396	598,914
Community and economic development	19,643	-	268,573	288,216
General government	669,471	-	150,982	820,453
Debt service	-	-	343,096	343,096
Capital projects	-	-	471,702	471,702
Total disbursements	3,050,967	77,644	1,710,909	4,839,520
Excess (deficiency) of receipts over (under) disbursements	(1,008,821)	513,481	(436,863)	(932,203)
Other financing sources (uses):				
Loan proceeds	102,034	-	-	102,034
Sale of capital assets	17,229	-	-	17,229
Operating transfers in	1,104,543	-	813,311	1,917,854
Operating transfers out	(233,699)	-	(427,487)	(661,186)
Total other financing sources (uses)	990,107	-	385,824	1,375,931
Net change in cash balances	(18,714)	513,481	(51,039)	443,728
Cash balances beginning of year	1,487,870	1,623,424	759,319	3,870,613
Cash balances end of year	\$ 1,469,156	\$ 2,136,905	\$ 708,280	\$ 4,314,341
Cash Basis Fund Balances				
Reserved:				
Debt Service	\$ -	\$ -	\$ 38,626	\$ 38,626
Permanent fund	-	-	57,574	57,574
Unreserved:				
General fund	1,469,156	-	-	1,469,156
Special revenue funds	-	2,136,905	578,204	2,715,109
Capital projects funds	-	-	(2,494)	(2,494)
Permanent fund	-	-	36,370	36,370
Total cash basis fund balances	\$ 1,469,156	\$ 2,136,905	\$ 708,280	\$ 4,314,341

City of Estherville

CITY OF ESTHERVILLE
Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the year ended June 30, 2006

Exhibit C

Total governmental funds cash balances (page 17) \$ 4,314,341

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

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

37,215

Cash basis net assets of governmental activities (page 16) \$ 4,351,556

Net change in governmental funds cash balances (page 17) \$ 443,728

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

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

(1,468)

Change in cash balance of governmental activities (page 16) \$ 442,260

See notes to financial statements.

CITY OF ESTHERVILLE
 Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Proprietary Funds
 As of and for the year ended June 30, 2006

	Enterprise Funds							Internal Service Funds
	Water	Water Emergency	Wastewater	Electric	Electric Emergency	Other Nonmajor Proprietary Funds	Total	
Operating receipts:								
Use of money and property	\$ -	\$ 622	\$ 500	\$ 40	\$ -	\$ 39,468	\$ 40,630	\$ -
Charges for service	1,231,444	-	1,251,184	4,165,006	-	23,747	6,671,381	261,235
Miscellaneous	-	12,869	-	-	-	-	12,869	7,287
Total operating receipts	1,231,444	13,491	1,251,684	4,165,046	-	63,215	6,724,880	268,522
Operating disbursements:								
Governmental activities:								
Public safety	-	-	-	-	-	-	-	39,028
Public works	-	-	-	-	-	-	-	135,973
Culture and recreation	-	-	-	-	-	-	-	11,573
General government	-	-	-	-	-	-	-	2,874
Business type activities	1,002,340	48,671	897,267	3,284,868	29,000	53,304	5,315,450	71,787
Total operating disbursements	1,002,340	48,671	897,267	3,284,868	29,000	53,304	5,315,450	261,235
Excess (deficiency) of operating receipts over (under) operating disbursements	229,104	(35,180)	354,417	880,178	(29,000)	9,911	1,409,430	7,287
Non-operating receipts (disbursements):								
Interest on investments	-	18,268	-	20,763	47,242	4,787	91,060	-
Sale of capital asset	-	-	-	-	-	800	800	-
Non-program	-	-	-	-	-	-	-	(7,164)
Total non-operating receipts (disbursements)	-	18,268	-	20,763	47,242	5,587	91,860	(7,164)
Excess (deficiency) of receipts over (under) disbursements	229,104	(16,912)	354,417	900,941	18,242	15,498	1,501,290	123
Operating transfers in	-	19,002	-	10,000	85,405	310,400	424,807	-
Operating transfers out	(204,227)	-	(330,742)	(899,042)	(245,190)	(2,274)	(1,681,475)	-
Net change in cash balances	24,877	2,090	23,675	11,899	(141,543)	323,624	244,622	123
Cash balances beginning of year	621,194	476,746	310,096	962,546	1,282,652	342,805	3,996,039	51,047
Cash balances end of year	\$ 646,071	\$ 478,836	\$ 333,771	\$ 974,445	\$ 1,141,109	\$ 666,429	\$ 4,240,661	\$ 51,170
Cash Basis Fund Balances								
Unrestricted	\$ 646,071	\$ 478,836	\$ 333,771	\$ 974,445	\$ 1,141,109	\$ 666,429	\$ 4,240,661	\$ 51,170
Total cash basis fund balances	\$ 646,071	\$ 478,836	\$ 333,771	\$ 974,445	\$ 1,141,109	\$ 666,429	\$ 4,240,661	\$ 51,170

See notes to financial statements.

CITY OF ESTHERVILLE
 Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets -
 Proprietary Funds
 As of and for the year ended June 30, 2006

Exhibit E

Total enterprise funds cash balances (page 20) \$4,240,661

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

The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The assets of the Garage Fund are included in business type activities in the Statement of Net Assets. 14,102

The Computer Clearing Fund is used by management to record customer checks returned due to non-sufficient funds. The assets of the Computer Clearing Fund are included in business type activities in the Statement of Net Assets. (147)

Cash basis net assets of business type activities (page 16) \$4,254,616

Net change in enterprise funds cash balances (page 20) \$ 244,622

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

The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The change in net assets of the Garage Fund is included in business type activities in the Statement of Net Assets. 1,468

The Computer Clearing Fund is used by management to record customer checks returned due to non-sufficient funds. The change in net assets of the Computer Clearing Fund is included in business type activities in the Statement of Net Assets. 123

Change in cash balance of business type activities (page 16) \$ 246,213

See notes to financial statements.

CITY OF ESTHERVILLE
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2006

Government-wide Financial Statements – Continued

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2006

Fund Financial Statements - Continued

The City reports the following major proprietary funds:

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

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

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

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

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

The City also reports the following additional proprietary funds:

Internal Service:

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

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

C. Measurement Focus and Basis of Accounting

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

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2006

Measurement Focus and Basis of Accounting - Continued

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2006, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
U. S. Treasury Note	<u>\$33,000</u>	<u>\$32,419</u>	February 2007
U. S. Treasury Note	<u>4,969</u>	<u>4,903</u>	May 2007
U. S. Treasury Note	<u>4,922</u>	<u>4,805</u>	March 2010
U. S. Treasury Note	<u>13,764</u>	<u>13,604</u>	February 2011

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2006

(2) Cash and Pooled Investments - Continued

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes	
	<u>Principal</u>	<u>Interest</u>
2007	150,000	73,126
2008	150,000	67,258
2009	155,000	61,133
2010	165,000	54,528
2011	175,000	47,253
2012	180,000	39,315
2013	110,000	30,870
2014	115,000	25,370
2015	120,000	19,505
2016	125,000	13,325
2017	130,000	6,825
Totals	<u>\$1,575,000</u>	<u>\$438,508</u>

The note payable is for equipment purchased in 2005 and has a principal balance outstanding of \$102,034 at June 30, 2006. This note is payable in equal yearly installments of \$18,955 plus interest through the year ending June 30, 2013. The note interest rate is 4.5%.

(4) Pension and Retirement Benefits

IPERS

The City contributes to the Iowa Public Employees Retirements System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2006

IPERS - Continued

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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate, except police employees who are covered by the Municipal Fire and Police Retirement System of Iowa (see below). Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$105,143, \$102,466, and \$102,642, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa

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

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 28.21% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2006, 2005, and 2004 were \$129,872, \$113,537, and \$87,302, respectively, which met the required contribution rate for each year.

(5) Contracts Receivable

The City has contracts receivable as follows:

<u>Entity / Project</u>	<u>Balance</u>	<u>Interest Rate / Security</u>
Loaned to Estherville Industrial Development Corporation:		
Medieval Glass	\$77,225	7.00%/ Real Estate – Building
Loaned to Local Enterprises:		
Medieval Glass	3,339	6.00 / Real Estate – Building

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2006

(5) Contracts Receivable - continued

The City has provided the funding for Tax Increment Financing (TIF) projects. The City will be repaid through the collection of real estate taxes which are generated by the projects funded. Outstanding receivables for TIF projects at June 30, 2006 are as follows:

<u>Project</u>	<u>Balance</u>	<u>Interest Rate / Security</u>
Morrell Demolition	\$245,481	6.00 /Unsecured
Hy-Vee	19,077	6.00 /Unsecured
Iowa Lakes Electric Cooperative	169,223	6.00 /Unsecured
WWTP Improvements	96,015	6.00 /Unsecured

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$124,984
Sick Leave	<u>438,049</u>
Total	<u>\$563,033</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(7) Related Party Transactions

The City had business transactions between the City and City employees totaling \$1,050 during the year ended June 30, 2006.

(8) Risk Management

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2006

(9) Lease

The City of Estherville entered into a twelve year operating lease agreement on May 31, 2001 with Estherville Housing, Inc. to lease office space. The lease amount is \$8,000 per year through June 30, 2004. The City's total rent expense for the year ending June 30, 2006 was \$8,000.

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

Future Minimum Rental Payments

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2007	8,320
2008	8,320
2009	8,320
2010	8,320
2011	8,320
2012 - 2013	<u>16,640</u>
Total	<u>\$58,240</u>

(10) Special Assessments Interest

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

(11) Joint Venture

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

This joint venture agreement is a collaborative effort of the parties above, the U.S. Department of Energy ("DOE"), and the Electric Power Research Institute ("EPRI") to develop, construct and operate a wind-powered electric generation facility (Iowa Distributed Wind Generation Project – "IDWGP"). The project is partially funded by a

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2006

(11) Joint Venture – continued

grant from EPRI consisting of 47.42% of construction and operating expenses for 1999 and 2000 funded by EPRI.

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

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

(12) Interest Paid

During the year ended June 30, 2006, interest paid by the City on bonds and customer utility deposits totaled \$84,185.

(13) General Fund – Designated Balance

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

<u>Designated Balances at June 30, 2006</u>	<u>Amount</u>
Parks and Recreation Revolving	\$35,590
Parks and Recreation – Stow	74,865
Library - Pearson	48,868
Library - Sanborn	311,392
Forfeiture	6,766
Equipment Revolving	<u>191,258</u>
Total Designated Balances	<u>\$668,739</u>

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2006

(14) Deficit Fund Balance

The Capital Projects Funds - Airport Taxilane Construction had a deficit balance of \$2,501 at June 30, 2006. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit balance will be eliminated upon receipt of federal grants.

(15) Construction Commitment

The City has entered into a contract totaling \$541,403 for improvements made to Highways # 4 & # 9. As of June 30, 2006, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2006 (\$541,403) will be paid as work on the project progresses.

The City has entered into a contract totaling \$332,816 for paving streets at Country Club Estates. As of June 30, 2006, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2006 (\$332,816) will be paid as work on the project progresses.

The City has entered into a contract totaling \$48,649 for tee hanger taxilanes. As of June 30, 2006, costs of \$44,386 on the project have been paid. The balance remaining on the project at June 30, 2006 (\$4,263) will be paid as work on the project progresses.

The City has entered into contracts totaling \$14,030 for construction on the shelter house at Thoreson Park. As of June 30, 2006, costs of \$1,580 on the project have been paid. The balance remaining on the project at June 30, 2006 (\$12,450) will be paid as work on the project progresses.

The City has entered into a contract totaling \$23,740 for installation of conduit for the new street lights and traffic signals. As of June 30, 2006, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2006 (\$23,740) will be paid as work on the project progresses.

The City has entered into a contract totaling \$155,263 for sanitary sewer extension. As of June 30, 2006, costs of \$149,015 on the project have been paid. The balance remaining on the project at June 30, 2006 (\$6,248) will be paid as work on the project progresses.

The City has entered into a contract totaling \$36,700 for installation of the foundations for the new street lights and traffic signals. As of June 30, 2006, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2006 (\$36,700) will be paid as work on the project progresses.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2006

(15) Construction Commitment - continued

The City has entered into a contract totaling \$12,525 for construction at the Thoreson Park playground. As of June 30, 2006, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2006 (\$12,525) will be paid as work on the project progresses.

(16) Interfund Transfers

The City had numerous interfund transfers during the year ended June 30, 2006. The transfers generally move resources from funds with available resources to those funds with expenses that need to be paid.

Required Supplementary Information

CITY OF ESTHERVILLE
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property tax	\$ 1,798,834	\$ -	\$ -	\$ 1,798,834	\$ 1,786,363	\$ 1,786,363	\$ 12,471
Tax increment financing	320,731	-	-	320,731	296,200	296,200	24,531
Other city tax	64,722	-	-	64,722	27,320	27,320	37,402
Licenses and permits	70,507	-	-	70,507	10,525	10,525	59,982
Use of money and property	226,331	131,690	-	358,021	190,810	190,810	167,211
Intergovernmental	719,839	-	-	719,839	1,146,050	1,146,050	(426,211)
Charges for service	559,609	6,932,616	261,235	7,230,990	6,463,720	6,463,720	767,270
Special assessments	26,083	-	-	26,083	14,119	14,119	11,964
Miscellaneous	120,661	20,156	7,287	133,530	167,950	167,950	(34,420)
Total receipts	3,907,317	7,084,462	268,522	10,723,257	10,103,057	10,103,057	620,200
Disbursements:							
Public safety	1,136,265	39,028	39,028	1,136,265	1,102,960	1,167,960	31,695
Public works	1,177,067	135,973	135,973	1,177,067	1,969,300	1,969,300	792,233
Health and social services	3,807	-	-	3,807	6,200	6,200	2,393
Culture and recreation	598,914	11,573	11,573	598,914	621,735	646,735	47,821
Community and economic development	288,216	-	-	288,216	774,800	774,800	486,584
General government	820,453	2,874	2,874	820,453	799,700	849,700	29,247
Debt service	343,096	-	-	343,096	344,056	344,056	960
Capital projects	471,702	-	-	471,702	232,100	592,100	120,398
Business type activities	-	5,387,237	71,787	5,315,450	5,352,375	5,592,375	276,925
Non-program	-	7,164	7,164	-	-	-	-
Total disbursements	4,839,520	5,583,849	268,399	10,154,970	11,203,226	11,943,226	1,788,256
Excess (deficiency) of receipts over (under) disbursements	(932,203)	1,500,613	123	568,287	(1,100,169)	(1,840,169)	2,408,456
Other financing sources, net	1,375,931	(1,255,868)	-	120,063	-	-	120,063
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	443,728	244,745	123	688,350	(1,100,169)	(1,840,169)	2,528,519
Balances beginning of year	3,870,613	4,047,086	108,621	7,809,078	6,852,880	7,860,125	(51,047)
Balances end of year	\$ 4,314,341	\$ 4,291,831	\$ 108,744	\$ 8,497,428	\$ 5,752,711	\$ 6,019,956	\$ 2,477,472

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2006

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$740,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in any function.

Other Supplementary Information

CITY OF ESTHERVILLE
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2006

Special Revenue										
	Group Insurance	Police Retirement	FICA & IPERS	Economic Development	Industrial Park TIF	Oakridge TIF	Subdivision Development	Morrell TIF	Hy-Vee TIF	Debt Service
Receipts:										
Property tax	\$ 381,564	\$ 127,146	\$ 123,227	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 197,696
Tax increment financing	-	-	-	-	50,380	85,405	-	149,519	35,427	-
Other city tax	4,923	1,640	1,589	-	-	-	-	-	-	2,407
Use of money and property	-	-	-	5,108	-	-	6	-	-	3,758
Intergovernmental	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	15,964	-	-	-	-	-	-
Total receipts	386,487	128,786	124,816	21,072	50,380	85,405	6	149,519	35,427	203,861
Disbursements:										
Operating:										
Public safety	121,127	129,872	4,878	-	-	-	-	-	-	-
Public works	94,798	-	34,485	-	-	-	-	-	-	-
Culture and recreation	63,001	-	28,395	-	-	-	-	-	-	-
Community and economic development	-	-	-	147,350	3,795	2,707	775	87,714	26,232	-
General government	99,795	-	51,187	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	343,096
Capital projects	-	-	-	-	-	-	-	-	-	-
Total disbursements	378,721	129,872	118,945	147,350	3,795	2,707	775	87,714	26,232	343,096
Excess (deficiency) of receipts over (under) disbursements	7,766	(1,086)	5,871	(126,278)	46,585	82,698	(769)	61,805	9,195	(139,235)
Other financing sources (uses):										
Operating transfers in	-	-	-	176,421	3,795	72,398	675	57,810	26,232	69,691
Operating transfers out	-	-	-	(66,969)	(50,380)	(155,096)	-	(119,615)	(35,427)	-
Total other financing sources (uses)	-	-	-	109,452	(46,585)	(82,698)	675	(61,805)	(9,195)	69,691
Net change in cash balances	7,766	(1,086)	5,871	(16,826)	-	-	(94)	-	-	(69,544)
Cash balances beginning of year	144,634	30,973	55,029	351,722	-	-	215	-	-	108,170
Cash balances end of year	\$ 152,400	\$ 29,887	\$ 60,900	\$ 334,896	\$ -	\$ -	\$ 121	\$ -	\$ -	\$ 38,626
Cash Basis Fund Balances										
Reserved:										
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,626
Permanent fund	-	-	-	-	-	-	-	-	-	-
Unreserved:										
Special revenue funds	152,400	29,887	60,900	334,896	-	-	121	-	-	-
Capital projects funds	-	-	-	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 152,400	\$ 29,887	\$ 60,900	\$ 334,896	\$ -	\$ -	\$ 121	\$ -	\$ -	\$ 38,626

CITY OF ESTHERVILLE
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2006

	Capital Projects				Permanent	Total
	Airport Runway Lighting	Parks & Recreation Construction	Airport Taxilane Construction	West Sanitary Sewer	Library Trust	
Receipts:						
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 829,633
Tax increment financing	-	-	-	-	-	320,731
Other city tax	-	-	-	-	-	10,559
Use of money and property	-	-	-	-	3,277	12,149
Intergovernmental	26,331	-	57,346	-	-	83,677
Miscellaneous	-	1,333	-	-	-	17,297
Total receipts	26,331	1,333	57,346	-	3,277	1,274,046
Disbursements:						
Operating:						
Public safety	-	-	-	-	-	255,877
Public works	-	-	-	-	-	129,283
Culture and recreation	-	-	-	-	-	91,396
Community and economic development	-	-	-	-	-	268,573
General government	-	-	-	-	-	150,982
Debt service	-	-	-	-	-	343,096
Capital projects	10,200	234,391	54,319	172,792	-	471,702
Total disbursements	10,200	234,391	54,319	172,792	-	1,710,909
Excess (deficiency) of receipts over (under) disbursements	16,131	(233,058)	3,027	(172,792)	3,277	(436,863)
Other financing sources (uses):						
Operating transfers in	474	233,023	-	172,792	-	813,311
Operating transfers out	-	-	-	-	-	(427,487)
Total other financing sources (uses)	474	233,023	-	172,792	-	385,824
Net change in cash balances	16,605	(35)	3,027	-	3,277	(51,039)
Cash balances beginning of year	(16,605)	42	(5,528)	-	90,667	759,319
Cash balances end of year	\$ -	\$ 7	\$ (2,501)	\$ -	\$ 93,944	\$ 708,280
Cash Basis Fund Balances						
Reserved:						
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,626
Permanent fund	-	-	-	-	57,574	57,574
Unreserved:						
Special revenue funds	-	-	-	-	-	578,204
Capital projects funds	-	7	(2,501)	-	-	(2,494)
Permanent fund	-	-	-	-	36,370	36,370
Total cash basis fund balances	\$ -	\$ 7	\$ (2,501)	\$ -	\$ 93,944	\$ 708,280

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds
As of and for the year ended June 30, 2006

	Airport	Wastewater Emergency	Enterprise Equipment Revolving	Electric Aerial Service	Total
Operating receipts:					
Use of money and property	\$ 39,468	\$ -	\$ -	\$ -	\$ 39,468
Charges for service	20,662	-	-	3,085	23,747
Total operating receipts	<u>60,130</u>	<u>-</u>	<u>-</u>	<u>3,085</u>	<u>63,215</u>
Operating disbursements:					
Business type activities	48,012	-	4,315	977	53,304
Total operating disbursements	<u>48,012</u>	<u>-</u>	<u>4,315</u>	<u>977</u>	<u>53,304</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>12,118</u>	<u>-</u>	<u>(4,315)</u>	<u>2,108</u>	<u>9,911</u>
Non-operating receipts:					
Interest on investments	-	4,787	-	-	4,787
Sale of capital assets	-	-	800	-	800
Total non-operating receipts	<u>-</u>	<u>4,787</u>	<u>800</u>	<u>-</u>	<u>5,587</u>
Excess (deficiency) of receipts over (under) disbursements	12,118	4,787	(3,515)	2,108	15,498
Operating transfers in	-	200,000	110,400	-	310,400
Operating transfers out	<u>(2,274)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,274)</u>
Net change in cash balances	9,844	204,787	106,885	2,108	323,624
Cash balances beginning of year	<u>14,564</u>	<u>102,782</u>	<u>225,459</u>	<u>-</u>	<u>342,805</u>
Cash balances end of year	<u>\$ 24,408</u>	<u>\$ 307,569</u>	<u>\$ 332,344</u>	<u>\$ 2,108</u>	<u>\$ 666,429</u>
Cash Basis Fund Balances					
Unrestricted	<u>\$ 24,408</u>	<u>\$ 307,569</u>	<u>\$ 332,344</u>	<u>\$ 2,108</u>	<u>\$ 666,429</u>
Total cash basis fund balances	<u>\$ 24,408</u>	<u>\$ 307,569</u>	<u>\$ 332,344</u>	<u>\$ 2,108</u>	<u>\$ 666,429</u>

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes:									
Sewer	September 1, 1994	4.80 - 6.20 %	\$ 895,000	\$ 120,000	-	120,000	-	3,708	-
Wastewater Treatment	June 1, 2002	2.75 - 5.25	1,465,000	1,240,000	-	80,000	1,160,000	59,523	-
Library	October 1, 2002	2.75 - 4.40	590,000	475,000	-	60,000	415,000	18,783	-
Total				<u>\$ 1,835,000</u>	<u>-</u>	<u>260,000</u>	<u>1,575,000</u>	<u>82,014</u>	<u>-</u>
Note Payable:									
Fire Truck	December 14, 2005	4.50 %	102,034	\$ -	102,034	-	102,034	-	-

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
Bond and Note Maturities
June 30, 2006

Schedule 4

General Obligation Notes					
Year Ending June 30,	Wastewater Treatment		Library		Total
	Issued June 1, 2002		Issued October 1, 2002		
	Interest Rates	Amount	Interest Rates	Amount	
2007	4.15 %	\$ 85,000	3.60 %	\$ 65,000	150,000
2008	4.30	85,000	3.80	65,000	150,000
2009	4.45	90,000	4.00	65,000	155,000
2010	4.60	95,000	4.15	70,000	165,000
2011	4.75	100,000	4.25	75,000	175,000
2012	4.90	105,000	4.40	75,000	180,000
2013	5.00	110,000		-	110,000
2014	5.10	115,000		-	115,000
2015	5.15	120,000		-	120,000
2016	5.20	125,000		-	125,000
2017	5.25	130,000		-	130,000
		\$ 1,160,000		\$ 415,000	\$ 1,575,000

Note Payable

Year Ending June 30,	Fire Truck	
	Issued December 14, 2005	
	Interest Rates	Amount
2007	4.50 %	\$ 14,993
2008	4.50	15,039
2009	4.50	15,706
2010	4.50	16,422
2011	4.50	17,161
2012	4.50	17,933
2013	4.50	4,780
		\$ 102,034

See accompanying independent auditor's report.

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

	2006	2005	2004	2003	2002	2001
Receipts:						
Property tax	\$ 1,798,834	\$ 1,674,273	\$ 1,706,875	\$ 1,636,194	\$ 1,478,584	\$ 1,409,732
Tax increment financing	320,731	577,443	168,656	179,225	251,292	369,388
Other city tax	64,722	25,691	22,517	28,199	26,002	21,033
Licenses and permits	70,507	76,644	83,891	66,002	68,249	68,278
Use of money and property	226,331	116,872	80,634	145,136	259,440	234,934
Intergovernmental	719,839	865,068	1,453,906	2,037,598	799,337	724,459
Charges for service	559,609	563,944	537,278	463,147	463,627	460,452
Special assessments	26,083	87,700	79,995	51,232	65,860	17,856
Miscellaneous	120,661	518,983	136,524	247,303	139,536	111,614
Total	\$ 3,907,317	\$ 4,506,618	\$ 4,270,276	\$ 4,854,036	\$ 3,551,927	\$ 3,417,746
Disbursements:						
Operating:						
Public safety	\$ 1,136,265	\$ 974,212	\$ 916,293	\$ 884,005	\$ 766,389	\$ 759,155
Public works	1,177,067	1,745,394	1,658,703	1,484,713	2,037,301	1,196,441
Health and social services	3,807	2,817	5,165	2,296	3,486	3,507
Culture and recreation	598,914	511,257	536,188	519,666	496,403	476,867
Community and economic development	288,216	187,524	212,978	1,442,675	127,166	174,140
General government	820,453	723,623	692,456	642,890	650,038	602,320
Debt service	343,096	226,495	580,835	1,023,149	218,751	221,299
Capital projects	471,702	200,947	1,214,255	567,381	1,085,754	245,941
Total	\$ 4,839,520	\$ 4,572,269	\$ 5,816,873	\$ 6,566,775	\$ 5,385,288	\$ 3,679,670

See accompanying independent auditor's report.

City of Estherville

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Estherville, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 6, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all

matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We noted certain matters that we reported to management of the City of Estherville in a separate letter dated October 6, 2006.

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

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

Brinkman & Reed, CPA's
Brinkman & Reed, CPA's

October 6, 2006

CITY OF ESTHERVILLE
Schedule of Findings
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

- a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF ESTHERVILLE
Schedule of Findings – Continued
Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that employees who handle cash receipts are also involved with the preparation of bank reconciliations. We also noted that one employee records sick leave and vacation, prepares and approves payroll input and prepares and distributes payroll checks.

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

Response – The City will make every effort to comply.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-06 Certified Budget – City disbursements during the year ended June 30, 2006 did not exceed the amount budgeted.

III-B-06 Questionable Expenses – No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-C-06 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF ESTHERVILLE
 Schedule of Findings – Continued
 Year Ended June 30, 2006

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

III-D-06 Business Transactions – Business transactions between the City and City employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Pete Redinius City Employee	Purchased 1998 Ford Crown Victoria, per bid	\$985
Dennis Lukins, City Employee	Underground electrical conversion	65

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the City employees do not appear to represent conflicts of interest since the total transactions with each individual were less than \$1,500 during the fiscal year and the transaction with one of the City employees does not appear to represent a conflict of interest since it was entered into through competitive bidding.

III-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that coverage is adequate for current operations.

III-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-06 Deposit and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy.

CITY OF ESTHERVILLE
Schedule of Findings – Continued
Year Ended June 30, 2006

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

III-H-06 Financial Condition – The Capital Projects Fund - Airport Taxilane Construction had a deficit balance at June 30, 2006 of \$2,501.

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

Response – The deficit was due to construction costs incurred prior to the receipt of a federal grant. The deficit will be subsequently eliminated.

Conclusion – Response accepted.

III-I-06 Financial Condition – On December 14, 2005, the City obtained a bank loan of \$102,034 to finance the purchase of a firetruck. However, the City did not hold a public hearing prior to obtaining this loan. Chapter 384.24A(3) of the Code of Iowa states the City shall follow the same authorization procedures required for the issuance of general obligation bonds issued for the same purpose to authorize a loan agreement. Pursuant to Chapter 384.25 of the Code of Iowa, the City should have published notice of and held a public hearing prior to entering into the loan agreement.

Recommendation – In the future, the City should comply with the requirements of Chapters 384.24A(3) and 384.25 of the Code of Iowa before entering into bank loans.

Response – The Code of Iowa will be followed and public hearings will be held for any debt agreement entered into.

Conclusion – Response accepted.