

CITY OF ESTHERVILLE

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

JUNE 30, 2007

## Table of Contents

		<u>Page</u>
Officials		4
Independent Auditor’s Report		6-7
Management’s Discussion and Analysis		8-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	16
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	17
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	19
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	20
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	21
Notes to Financial Statements		22-31
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		33
Notes to Required Supplementary Information – Budgetary Reporting		34
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	36-37
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2	38
Schedule of Indebtedness	3	39
Bond and Note Maturities	4	40
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	41

Table of Contents - Continued

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 <u>Government Auditing Standards</u>	43-45
Schedule of Findings	46-49

CITY OF ESTHERVILLE

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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

# Brinkman & Reed, CPA's

103 South Sixth Street    Estherville, Iowa 51334    712-362-5891 Phone    712-362-7172 Fax

## 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, 2007, 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, 2007, 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.

- 6 -

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Iowa Society of Certified Public Accountants

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In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2007 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 33 through 34 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 two years ended June 30, 2006 (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, 2007, 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, CPA's*

Brinkman & Reed, CPA's

September 11, 2007

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements.

This is the fourth 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.

### **2007 FINANCIAL HIGHLIGHTS**

Expenditures during fiscal year 2007 did not exceed budgeted appropriation.

The City's total revenues exceeded total expenses by \$347,583 during fiscal year 2007. Income had exceeded expenses by \$688,473 during fiscal year 2006.

The City's total expenditures increased from \$10,154,847 in fiscal year 2006 to \$10,250,397 in fiscal year 2007. This is an increase of \$95,550 or .9%.

The City's total revenue decreased from \$10,843,320 in fiscal year 2006 to \$10,597,980 in fiscal year 2007. This is a decrease of \$245,340 or 2.26%.

An electric rate increase was approved in fiscal year 2007. This was necessary to compensate for the city's increased cost of purchased power.

### **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 \$4.352 million to \$4.599 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,	
	2007	2006
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 638	\$ 656
Operating grants, contributions and restricted interest	656	709
Capital grants, contributions and restricted interest	23	95
General receipts:		
Property tax levied for:		
General purposes	1,720	1,625
Tax increment financing	280	321
Debt service	157	200
Hotel/Motel Tax	68	39
Unrestricted investment earnings	291	218
Miscellaneous	37	43
Loan Proceeds	0	102
Sale of Assets	2	17
Transfers, net	<u>1,082</u>	<u>1,257</u>
Total receipts and transfers	4,954	5,282
Disbursements:		
Public safety	1,066	1,136
Public works	1,606	1,177
Health and social services	6	4
Culture and recreation	730	599
Community and economic development	190	288
General government	836	820
Debt service	243	343
Capital projects	<u>30</u>	<u>472</u>
Total disbursements	4,707	4,839
Increase (decrease) in cash basis net assets	247	443
Cash basis net assets beginning of year	<u>4,352</u>	<u>3,909</u>
Cash basis net assets end of year	<u>\$ 4,599</u>	<u>\$ 4,352</u>

The City's cash balance for business type activities increased from \$4.255 million one year ago to \$4.355 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,	
	2007	2006
Receipts and transfers:		
Program receipts:		
Charges for service		
Water	\$1,179	\$ 1,231
Sewer rental	1,150	1,252
Electric	4,211	4,165
Electric emergency	11	0
Airport	53	54
Electric Aerial Service	6	3
General receipts:		
Unrestricted interest on investment	109	91
Miscellaneous	6	22
Sale of Assests	<u>0</u>	<u>1</u>
Total receipts	6,725	6,819
Disbursements and transfers:		
Water	1,150	1,002
Water emergency	0	49
Sewer rental	862	897
Electric	3,408	3,285
Electric emergency	30	29
Airport Revolving	0	0
Airport	65	48
Electric Aerial Service	3	1
Enterprise equipment revolving	25	4
Transfers	<u>1,082</u>	<u>1,257</u>
Total disbursements and transfers	6,625	6,572
Increase (decrease) in cash basis net assets	100	247
Cash basis net assets beginning of year	<u>4,255</u>	<u>4,008</u>
Cash basis net assets end of year	<u>\$4,355</u>	<u>\$ 4,255</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, 2007, governmental funds totaled \$4,598,965. This is an increase of \$247,409 from the June 30, 2006 balance of \$4,351,556.

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 \$99,616 from the prior year to \$1,568,772 on June 30, 2007. On June 30, 2006, the General Fund consisted of seven balances. During the fiscal year the undesignated General Fund increased \$167,127 to \$967,545. The designated Parks & Recreation Revolving Fund increased \$2,873 to \$38,463, the designated Equipment Revolving Fund increased \$79,370 to \$270,628, the designated Library - Sanborn Fund decreased \$80,809 to \$230,583, the designated Library - Pearson Fund increased \$1,725 to \$50,593, and the designated Forfeiture Fund increased \$4,194 to \$10,960. The designated Parks & Recreation - Stow Fund declined from \$74,864 to a -0- balance. These funds were used to purchase and assemble the new playground equipment at Thoreson Park.
- The Road Use Tax Fund cash balance increased by \$47,994 to \$2,184,899 during the fiscal year. The City had agreed to participate in Iowa Department of Transportation (IDOT) 2005 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 2007 and has not as of this date, September 5, 2007.

## **INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS**

- The water fund cash balance decreased by \$178,292 to \$467,779 on June 30, 2007. The decrease is due to reduced sales, higher salt prices, and more capital expenditures.
- The water emergency fund increased by \$22,043 to \$500,879 on June 30, 2007.
- The sanitary sewer fund cash balance increased by \$132,966 to \$446,737 on June 30, 2007.
- The electric fund cash balance decreased by \$57,786 to \$916,659 on June 30, 2007.
- The electric emergency fund cash balance increased by \$63,920 to \$1,205,029 on June 30, 2007.

## **BUDGETARY HIGHLIGHTS**

On May 21, 2007, an amendment in the amount of \$271,500 was approved. This amendment provided additional funds for vehicle operation and maintenance, payment of a prior year expense not billed, library capital outlays, playground equipment, carryover of computer software purchases, emergency repairs at city hall, and increased purchased electric power costs.

This amendment was not necessary as disbursements for each activity did not exceed initial appropriations. Disbursements in four (4) of the nine (9) activities exceeded 98% of initial appropriations.

## **DEBT ADMINISTRATION**

On June 30, 2007, the City had \$1,425,000 in general obligation bonds/notes outstanding compared to \$1,575,000 last year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City of

Estherville's outstanding general obligation debt of \$1,425,000 is significantly below its constitutional debt limit of approximately \$9.2 million.

The balance of a loan for the purchase of a fire truck decreased from \$102,034 on June 30, 2006, to \$86,720 on June 30, 2007.

The total City debt on June 30, 2007, was \$1,511,720.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

For the upcoming fiscal year ending June 30, 2008, the City's total budgeted expenditures are approximately \$1,770,000 larger than fiscal year 2007. The budgeted cash balance declines by \$2,150,000. The majority of the change in expenditures is related to the increased cost of purchased power, estimated to be 59%. A significant portion of the decline in the cash balance is also related to Electric Fund. The budgeted electric fund revenue is based on the "old" electric rates in effect when the fiscal year 2008 budget was prepared. Electric rate increases have been approved since that time increasing revenue from the sale of electricity overall by 30%. This increase in revenue should offset the majority of the budgeted decline in fund balance.

The property tax levy remains at \$16.50/\$1,000 of taxable valuation. The budgeted fund balance for the General Fund declines by \$238,000 during fiscal year 2008.

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 final conditions contained in the discharge permit is one of the most important economic issues the City will face in the next 10 years.

An engineering report will be presented regarding required improvements to the water plant in the next few years. A water rate increase will be recommended in 2008.

### **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 7<sup>th</sup> 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, 2007

	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
<b>Functions/Programs:</b>						
Governmental activities:						
Public safety	\$ 1,066,190	\$ 40,848	\$ 82,845	\$ 4,800	\$ (937,697)	\$ - \$ (937,697)
Public works	1,606,151	494,703	554,743	16,708	(539,997)	- (539,997)
Health and social services	5,727	-	-	-	(5,727)	- (5,727)
Culture and recreation	729,999	18,033	18,363	2,080	(691,523)	- (691,523)
Community and economic development	190,272	-	-	-	(190,272)	- (190,272)
General government	836,076	84,350	-	-	(751,726)	- (751,726)
Debt service	242,925	-	-	-	(242,925)	- (242,925)
Capital projects	29,749	-	-	-	(29,749)	- (29,749)
Total governmental activities	4,707,089	637,934	655,951	23,588	(3,389,616)	- (3,389,616)
Business type activities:						
Water	1,150,109	1,178,862	-	-	-	28,753 28,753
Wastewater	862,212	1,149,714	-	-	-	287,502 287,502
Electric	3,407,555	4,210,717	-	-	-	803,162 803,162
Electric emergency	30,000	11,277	-	-	-	(18,723) (18,723)
Airport	64,710	53,122	-	-	-	(11,588) (11,588)
Electric aerial services	3,320	5,636	-	-	-	2,316 2,316
Enterprise equipment revolving	25,402	-	-	-	-	(25,402) (25,402)
Total business type activities	5,543,308	6,609,328	-	-	-	1,066,020 1,066,020
<b>Total</b>	<b>\$ 10,250,397</b>	<b>\$ 7,247,262</b>	<b>\$ 655,951</b>	<b>\$ 23,588</b>	<b>(3,389,616)</b>	<b>1,066,020 (2,323,596)</b>
<b>General Receipts:</b>						
Property tax levied for:						
General purposes					1,719,729	- 1,719,729
Tax increment financing					279,749	- 279,749
Debt service					156,863	- 156,863
Hotel/Motel Tax					67,738	- 67,738
Unrestricted interest on investments					291,250	109,519 400,769
Miscellaneous					37,329	6,622 43,951
Sale of capital assets					2,380	- 2,380
Transfers					1,081,987	(1,081,987) -
Total general receipts and transfers					3,637,025	(965,846) 2,671,179
Change in cash basis net assets					247,409	100,174 347,583
Cash basis net assets beginning of year					4,351,556	4,254,616 8,606,172
Cash basis net assets end of year					\$ 4,598,965	\$ 4,354,790 \$ 8,953,755
<b>Cash Basis Net Assets</b>						
Restricted:						
Permanent fund:						
Expendable					\$ 40,295	\$ - \$ 40,295
Nonexpendable					57,574	- 57,574
Unrestricted					4,501,096	4,354,790 8,855,886
<b>Total cash basis net assets</b>					<b>\$ 4,598,965</b>	<b>\$ 4,354,790 \$ 8,953,755</b>

CITY OF ESTHERVILLE  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2007

	Special Revenue			Total
	General	Road Use Tax	Nonmajor	
<b>Receipts:</b>				
Property tax	\$ 989,990	\$ -	\$ 857,318	\$ 1,847,308
Tax increment financing	-	-	279,748	279,748
Other city tax	85,014	-	12,009	97,023
Licenses and permits	72,341	-	-	72,341
Use of money and property	287,514	-	12,967	300,481
Intergovernmental	96,317	554,743	-	651,060
Charges for service	566,992	-	-	566,992
Special assessments	-	16,708	-	16,708
Miscellaneous	31,263	6,467	3,188	40,918
<b>Total receipts</b>	<b>2,129,431</b>	<b>577,918</b>	<b>1,165,230</b>	<b>3,872,579</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	798,942	-	267,248	1,066,190
Public works	925,612	529,924	150,615	1,606,151
Health and social services	5,727	-	-	5,727
Culture and recreation	635,629	-	94,370	729,999
Community and economic development	36,443	-	153,829	190,272
General government	673,221	-	162,855	836,076
Debt service	-	-	242,925	242,925
Capital projects	-	-	29,749	29,749
<b>Total disbursements</b>	<b>3,075,574</b>	<b>529,924</b>	<b>1,101,591</b>	<b>4,707,089</b>
Excess (deficiency) of receipts over (under) disbursements	(946,143)	47,994	63,639	(834,510)
<b>Other financing sources (uses):</b>				
Sale of capital assets	2,380	-	-	2,380
Operating transfers in	1,103,787	-	424,713	1,528,500
Operating transfers out	(60,408)	-	(386,105)	(446,513)
<b>Total other financing sources (uses)</b>	<b>1,045,759</b>	<b>-</b>	<b>38,608</b>	<b>1,084,367</b>
Net change in cash balances	99,616	47,994	102,247	249,857
Cash balances beginning of year	1,469,156	2,136,905	708,280	4,314,341
Cash balances end of year	<b>\$ 1,568,772</b>	<b>\$ 2,184,899</b>	<b>\$ 810,527</b>	<b>\$ 4,564,198</b>
<b>Cash Basis Fund Balances</b>				
<b>Reserved:</b>				
Debt Service	\$ -	\$ -	\$ 46,158	\$ 46,158
Permanent fund	-	-	57,574	57,574
<b>Unreserved:</b>				
General fund	1,568,772	-	-	1,568,772
Special revenue funds	-	2,184,899	669,001	2,853,900
Capital projects funds	-	-	(2,501)	(2,501)
Permanent fund	-	-	40,295	40,295
<b>Total cash basis fund balances</b>	<b>\$ 1,568,772</b>	<b>\$ 2,184,899</b>	<b>\$ 810,527</b>	<b>\$ 4,564,198</b>

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, 2007

Exhibit C

**Total governmental funds cash balances (page 17)** \$ 4,564,198

***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.

34,767

**Cash basis net assets of governmental activities (page 16)** \$ 4,598,965

**Net change in governmental funds cash balances (page 17)** \$ 249,857

***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.

(2,448)

**Change in cash balance of governmental activities (page 16)** \$ 247,409

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, 2007

Exhibit D

	Enterprise						Total	Internal Service Funds
	Water	Water Emergency	Wastewater	Electric	Electric Emergency	Other Nonmajor Proprietary Funds		
Operating receipts:								
Use of money and property	\$ -	\$ 34	\$ -	\$ 40	\$ -	\$ 39,468	\$ 39,542	\$ -
Charges for service	1,178,862	-	1,149,714	4,210,677	11,277	20,091	6,570,621	297,193
Miscellaneous	-	3,339	-	-	-	-	3,339	6,562
Total operating receipts	1,178,862	3,373	1,149,714	4,210,717	11,277	59,559	6,613,502	303,755
Operating disbursements:								
Governmental activities:								
Public safety	-	-	-	-	-	-	-	43,301
Public works	-	-	-	-	-	-	-	138,492
Culture and recreation	-	-	-	-	-	-	-	15,305
General government	-	-	-	-	-	-	-	4,250
Business type activities	1,150,109	-	862,212	3,407,555	30,000	93,432	5,543,308	95,845
Total operating disbursements	1,150,109	-	862,212	3,407,555	30,000	93,432	5,543,308	297,193
Excess (deficiency) of operating receipts over (under) operating disbursements	28,753	3,373	287,502	803,162	(18,723)	(33,873)	1,070,194	6,562
Non-operating receipts (disbursements):								
Interest on investments	-	18,670	-	27,030	49,573	14,246	109,519	-
Non-program	-	-	-	-	-	-	-	(6,562)
Total non-operating receipts (disbursements)	-	18,670	-	27,030	49,573	14,246	109,519	(6,562)
Excess (deficiency) of receipts over (under) disbursements	28,753	22,043	287,502	830,192	30,850	(19,627)	1,179,713	-
Operating transfers in	-	-	-	10,000	113,966	141,302	265,268	-
Operating transfers out	(207,045)	-	(154,536)	(897,978)	(80,896)	(6,800)	(1,347,255)	-
Net change in cash balances	(178,292)	22,043	132,966	(57,786)	63,920	114,875	97,726	-
Cash balances beginning of year	646,071	478,836	333,771	974,445	1,141,109	666,429	4,240,661	51,170
Cash balances end of year	\$ 467,779	\$ 500,879	\$ 466,737	\$ 916,659	\$ 1,205,029	\$ 781,304	\$ 4,338,387	\$ 51,170
<b>Cash Basis Fund Balances</b>								
Unrestricted	\$ 467,779	\$ 500,879	\$ 466,737	\$ 916,659	\$ 1,205,029	\$ 781,304	\$ 4,338,387	\$ 51,170
Total cash basis fund balances	\$ 467,779	\$ 500,879	\$ 466,737	\$ 916,659	\$ 1,205,029	\$ 781,304	\$ 4,338,387	\$ 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, 2007

Exhibit E

**Total enterprise funds cash balances (page 20)** \$4,338,387

***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. 16,550

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)** \$4,354,790

**Net change in enterprise funds cash balances (page 20)** \$ 97,726

***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. 2,448

**Change in cash balance of business type activities (page 16)** \$ 100,174

See notes to financial statements.

CITY OF ESTHERVILLE  
Notes to Financial Statements  
June 30, 2007

**(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 Statement – 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, 2007

Government-wide Financial Statement – 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 not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs 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, 2007

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 purchased by one department of the City and provided 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, 2007

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, 2007, disbursements did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 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, 2007, 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>\$32,944</u>	<u>\$32,746</u>	February 2008
U. S. Treasury Note	<u>5,000</u>	<u>4,965</u>	May 2008
U. S. Treasury Note	<u>4,922</u>	<u>4,863</u>	March 2010
U. S. Treasury Note	<u>13,764</u>	<u>13,749</u>	February 2011

CITY OF ESTHERVILLE  
Notes to Financial Statements – Continued  
June 30, 2007

**(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) to 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:

<u>Year Ending June 30,</u>	<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>
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>\$1,425,000</u>	<u>\$365,382</u>

The note payable is for equipment purchased in 2005 and has a principal balance outstanding of \$86,720 at June 30, 2007. 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 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.

CITY OF ESTHERVILLE  
Notes to Financial Statements – Continued  
June 30, 2007

**IPERS – Continued**

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, 2007, 2006, and 2005 were \$113,831, \$105,143, and \$102,466, 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, 7155 Lake Drive, West Des Moines, Iowa 50263.

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 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2007, 2006, and 2005 were \$128,226, \$129,872, and \$113,537, 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	\$74,037	7.00%/ Real Estate – Building

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

CITY OF ESTHERVILLE  
Notes to Financial Statements – Continued  
June 30, 2007

**(5) Contracts Receivable – continued**

projects funded. Outstanding receivables for TIF projects at June 30, 2007 are as follows:

<u>Project</u>	<u>Balance</u>	<u>Interest Rate / Security</u>
Morrell Demolition	\$124,020	6.00 /Unsecured
Hy-Vee	21,195	6.00 /Unsecured
Iowa Lakes Electric Cooperative	184,172	6.00 /Unsecured
WWTP Improvements	77,923	6.00 /Unsecured
Industrial Park	1,194	5.00 /Unsecured
Northern Bio Energy	1,819	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, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$109,044
Sick Leave	<u>471,073</u>
Total	<u>\$580,117</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

**(7) Related Party Transactions**

The City had business transactions between the City and City employees and officials totaling \$23,227 during the year ended June 30, 2007.

**(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, 2007

**(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, 2007 was \$8,320.

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>
2008	8,320
2009	8,320
2010	8,320
2011	8,320
2012	8,320
2013	<u>8,320</u>
Total	<u>\$49,920</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, 2007

**(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, 2007, interest paid by the City on bonds, notes and customer utility deposits totaled \$79,301.

**(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 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, 2007</u>	<u>Amount</u>
Parks and Recreation Revolving	\$38,463
Library - Pearson	50,593
Library - Sanborn	230,583
Forfeiture	10,960
Equipment Revolving	<u>270,628</u>
Total Designated Balances	<u>\$601,227</u>

CITY OF ESTHERVILLE  
Notes to Financial Statements – Continued  
June 30, 2007

**(14) Deficit Fund Balance**

The Capital Projects Funds - Airport Taxilane Construction had a deficit balance of \$2,501 at June 30, 2007. 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, 2007, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2007 (\$541,403) 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, 2007, costs of \$44,386 on the project have been paid. The balance remaining on the project at June 30, 2007 (\$4,263) will be paid as work on the project progresses.

The City has entered into a contract totaling \$73,840 for repair of sanitary sewer. As of June 30, 2007, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2007 (\$73,840) will be paid as work on the project progresses.

The City has entered into a contract totaling \$54,451 for removal and replacement of curb and gutter. As of June 30, 2007, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2007 (\$54,451) will be paid as work on the project progresses.

The City has entered into a contract totaling \$216,340 for resurfacing of city streets. As of June 30, 2007, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2007 (\$216,340) will be paid as work on the project progresses.

**(16) Interfund Transfers**

The City had numerous interfund transfers during the year ended June 30, 2007. 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, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
<b>Receipts:</b>							
Property tax	\$ 1,847,308	\$ -	\$ -	\$ 1,847,308	\$ 1,832,513	\$ 1,832,513	\$ 14,795
Tax increment financing	279,748	-	-	279,748	264,650	264,650	15,098
Other city tax	97,023	-	-	97,023	110,081	110,081	(13,058)
Licenses and permits	72,341	-	-	72,341	10,975	10,975	61,366
Use of money and property	300,481	149,061	-	449,542	258,785	258,785	190,757
Intergovernmental	651,060	-	-	651,060	1,350,983	1,350,983	(699,923)
Charges for service	566,992	6,867,814	297,193	7,137,613	6,889,370	6,889,370	248,243
Special assessments	16,708	-	-	16,708	17,091	17,091	(383)
Miscellaneous	40,918	9,901	6,562	44,257	131,850	131,850	(87,593)
<b>Total receipts</b>	<b>3,872,579</b>	<b>7,026,776</b>	<b>303,755</b>	<b>10,595,600</b>	<b>10,866,298</b>	<b>10,866,298</b>	<b>(270,698)</b>
<b>Disbursements:</b>							
Public safety	1,066,190	43,301	43,301	1,066,190	1,120,040	1,135,040	68,850
Public works	1,606,151	138,492	138,492	1,606,151	2,135,480	2,135,480	529,329
Health and social services	5,727	-	-	5,727	6,200	7,200	1,473
Culture and recreation	729,999	15,305	15,305	729,999	733,625	762,625	32,626
Community and economic development	190,272	-	-	190,272	633,800	633,800	443,528
General government	836,076	4,250	4,250	836,076	842,695	869,195	33,119
Debt service	242,925	-	-	242,925	243,926	243,926	1,001
Capital projects	29,749	-	-	29,749	475,500	475,500	445,751
Business type activities	-	5,639,153	95,845	5,543,308	5,656,225	5,856,225	312,917
Non-program	-	6,562	6,562	-	-	-	-
<b>Total disbursements</b>	<b>4,707,089</b>	<b>5,847,063</b>	<b>303,755</b>	<b>10,250,397</b>	<b>11,847,491</b>	<b>12,118,991</b>	<b>1,868,594</b>
Excess (deficiency) of receipts over (under) disbursements	(834,510)	1,179,713	-	345,203	(981,193)	(1,252,693)	1,597,896
Other financing sources, net	1,084,367	(1,081,987)	-	2,380	-	-	2,380
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	249,857	97,726	-	347,583	(981,193)	(1,252,693)	1,600,276
Balances beginning of year	4,314,341	4,291,831	108,744	8,497,428	7,321,519	7,321,519	1,175,909
Balances end of year	\$ 4,564,198	\$ 4,389,557	\$ 108,744	\$ 8,845,011	\$ 6,340,326	\$ 6,068,826	\$ 2,776,185

See accompanying independent auditor's report.

CITY OF ESTHERVILLE  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2007

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. 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, one budget amendment increased budgeted disbursements by \$271,500. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, 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, 2007

Special Revenue										
	Group Insurance	Police Retirement	FICA & IPERS	Economic Development	Industrial Park TIF	Oakridge TIF	Subdivision Development	Morrell TIF	Hy-Vee TIF	Debt Service
<b>Receipts:</b>										
Property tax	\$ 445,132	\$ 134,186	\$ 123,226	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,774
Tax increment financing	-	-	-	-	7,043	93,966	-	152,580	26,159	-
Other city tax	6,286	1,895	1,739	-	-	-	-	-	-	2,089
Use of money and property	-	-	-	5,305	-	-	4	-	-	3,733
Miscellaneous	-	-	-	3,188	-	-	-	-	-	-
Total receipts	451,418	136,081	124,965	8,493	7,043	93,966	4	152,580	26,159	160,596
<b>Disbursements:</b>										
<b>Operating:</b>										
Public safety	134,055	128,226	4,967	-	-	-	-	-	-	-
Public works	113,312	-	37,303	-	-	-	-	-	-	-
Culture and recreation	62,628	-	31,742	-	-	-	-	-	-	-
Community and economic development	-	-	-	79,577	16,520	501	1,296	29,115	26,820	-
General government	108,491	-	54,364	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	242,925
Capital projects	-	-	-	-	-	-	-	-	-	-
Total disbursements	418,486	128,226	128,376	79,577	16,520	501	1,296	29,115	26,820	242,925
Excess (deficiency) of receipts over (under) disbursements	32,932	7,855	(3,411)	(71,084)	(9,477)	93,465	(1,292)	123,465	(661)	(82,329)
<b>Other financing sources (uses):</b>										
Operating transfers in	-	-	-	167,938	16,520	71,362	1,200	21,270	26,820	89,861
Operating transfers out	-	-	-	(43,341)	(7,043)	(164,827)	-	(144,735)	(26,159)	-
Total other financing sources (uses)	-	-	-	124,597	9,477	(93,465)	1,200	(123,465)	661	89,861
Net change in cash balances	32,932	7,855	(3,411)	53,513	-	-	(92)	-	-	7,532
Cash balances beginning of year	152,400	29,887	60,900	334,896	-	-	121	-	-	38,626
Cash balances end of year	\$ 185,332	\$ 37,742	\$ 57,489	\$ 388,409	\$ -	\$ -	\$ 29	\$ -	\$ -	\$ 46,158
<b>Cash Basis Fund Balances</b>										
<b>Reserved:</b>										
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,158
Permanent fund	-	-	-	-	-	-	-	-	-	-
<b>Unreserved:</b>										
Special revenue funds	185,332	37,742	57,489	388,409	-	-	29	-	-	-
Capital projects funds	-	-	-	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 185,332	\$ 37,742	\$ 57,489	\$ 388,409	\$ -	\$ -	\$ 29	\$ -	\$ -	\$ 46,158

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, 2007

	Capital Projects			Permanent	Total
	Parks & Recreation Construction	Airport Taxilane Construction	West Sanitary Sewer	Library Trust	
Receipts:					
Property tax	\$ -	\$ -	\$ -	\$ -	\$ 857,318
Tax increment financing	-	-	-	-	279,748
Other city tax	-	-	-	-	12,009
Use of money and property	-	-	-	3,925	12,967
Miscellaneous	-	-	-	-	3,188
Total receipts	-	-	-	3,925	1,165,230
Disbursements:					
Operating:					
Public safety	-	-	-	-	267,248
Public works	-	-	-	-	150,615
Culture and recreation	-	-	-	-	94,370
Community and economic development	-	-	-	-	153,829
General government	-	-	-	-	162,855
Debt service	-	-	-	-	242,925
Capital projects	20,215	-	9,534	-	29,749
Total disbursements	20,215	-	9,534	-	1,101,591
Excess (deficiency) of receipts over (under) disbursements	(20,215)	-	(9,534)	3,925	63,639
Other financing sources (uses):					
Operating transfers in	20,208	-	9,534	-	424,713
Operating transfers out	-	-	-	-	(386,105)
Total other financing sources (uses)	20,208	-	9,534	-	38,608
Net change in cash balances	(7)	-	-	3,925	102,247
Cash balances beginning of year	7	(2,501)	-	93,944	708,280
Cash balances end of year	\$ -	\$ (2,501)	\$ -	\$ 97,869	\$ 810,527
<b>Cash Basis Fund Balances</b>					
Reserved:					
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 46,158
Permanent fund	-	-	-	57,574	57,574
Unreserved:					
Special revenue funds	-	-	-	-	669,001
Capital projects funds	-	(2,501)	-	-	(2,501)
Permanent fund	-	-	-	40,295	40,295
Total cash basis fund balances	\$ -	\$ (2,501)	\$ -	\$ 97,869	\$ 810,527

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, 2007

	Airport	Wastewater Emergency	Enterprise Equipment Revolving	Electric Aerial Service	Airport Revolving	Total
Operating receipts:						
Use of money and property	\$ 39,468	\$ -	\$ -	\$ -	\$ -	\$ 39,468
Charges for service	14,455	-	-	5,636	-	20,091
Total operating receipts	<u>53,923</u>	<u>-</u>	<u>-</u>	<u>5,636</u>	<u>-</u>	<u>59,559</u>
Operating disbursements:						
Business type activities	64,710	-	25,402	3,320	-	93,432
Total operating disbursements	<u>64,710</u>	<u>-</u>	<u>25,402</u>	<u>3,320</u>	<u>-</u>	<u>93,432</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(10,787)</u>	<u>-</u>	<u>(25,402)</u>	<u>2,316</u>	<u>-</u>	<u>(33,873)</u>
Non-operating receipts:						
Interest on investments	-	14,228	-	-	18	14,246
Total non-operating receipts	<u>-</u>	<u>14,228</u>	<u>-</u>	<u>-</u>	<u>18</u>	<u>14,246</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(10,787)</u>	<u>14,228</u>	<u>(25,402)</u>	<u>2,316</u>	<u>18</u>	<u>(19,627)</u>
Operating transfers in	20,000	-	116,302	-	5,000	141,302
Operating transfers out	<u>(6,800)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,800)</u>
Net change in cash balances	2,413	14,228	90,900	2,316	5,018	114,875
Cash balances beginning of year	<u>24,408</u>	<u>307,569</u>	<u>332,344</u>	<u>2,108</u>	<u>-</u>	<u>666,429</u>
Cash balances end of year	<u>\$ 26,821</u>	<u>\$ 321,797</u>	<u>\$ 423,244</u>	<u>\$ 4,424</u>	<u>\$ 5,018</u>	<u>\$ 781,304</u>
<b>Cash Basis Fund Balances</b>						
Unrestricted	<u>\$ 26,821</u>	<u>\$ 321,797</u>	<u>\$ 423,244</u>	<u>\$ 4,424</u>	<u>\$ 5,018</u>	<u>\$ 781,304</u>
Total cash basis fund balances	<u>\$ 26,821</u>	<u>\$ 321,797</u>	<u>\$ 423,244</u>	<u>\$ 4,424</u>	<u>\$ 5,018</u>	<u>\$ 781,304</u>

See accompanying independent auditor's report.

CITY OF ESTHERVILLE  
 Schedule of Indebtedness  
 Year ended June 30, 2007

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:									
Wastewater Treatment	June 1, 2002	2.75 - 5.25	1,465,000	1,160,000	-	85,000	1,075,000	56,323	-
Library	October 1, 2002	2.75 - 4.40	590,000	415,000	-	65,000	350,000	16,803	-
Total				<u>\$ 1,575,000</u>	-	<u>150,000</u>	<u>1,425,000</u>	<u>73,126</u>	-
Note Payable:									
Fire Truck	December 14, 2005	4.50 %	102,034	<u>\$ 102,034</u>	-	<u>15,314</u>	<u>86,720</u>	<u>3,686</u>	-

See accompanying independent auditor's report.

CITY OF ESTHERVILLE  
Bond and Note Maturities  
June 30, 2007

Schedule 4

General Obligation Notes

Year Ending June 30,	Wastewater Treatment Issued June 1, 2002		Library Issued October 1, 2002		Total
	Interest Rates	Amount	Interest Rates	Amount	
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
		<u>\$ 1,075,000</u>		<u>\$ 350,000</u>	<u>\$ 1,425,000</u>

Note Payable

Year Ending June 30,	Fire Truck Issued December 14, 2005	
	Interest Rates	Amount
2008	4.50	15,053
2009	4.50	15,721
2010	4.50	16,438
2011	4.50	17,178
2012	4.50	17,951
2013	4.50	4,379
		<u>\$ 86,720</u>

See accompanying independent auditor's report.

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

	2007	2006	2005	2004	2003	2002	2001
<b>Receipts:</b>							
Property tax	\$ 1,847,308	\$ 1,798,834	\$ 1,674,273	\$ 1,706,875	\$ 1,636,194	\$ 1,478,584	\$ 1,409,732
Tax increment financing	279,748	320,731	577,443	168,656	179,225	251,292	369,388
Other city tax	97,023	64,722	25,691	22,517	28,199	26,002	21,033
Licenses and permits	72,341	70,507	76,644	83,891	66,002	68,249	68,278
Use of money and property	300,481	226,331	116,872	80,634	145,136	259,440	234,934
Intergovernmental	651,060	719,839	865,068	1,453,906	2,037,598	799,337	724,459
Charges for service	566,992	559,609	563,944	537,278	463,147	463,627	460,452
Special assessments	16,708	26,083	87,700	79,995	51,232	65,860	17,856
Miscellaneous	40,918	120,661	518,983	136,524	247,303	139,536	111,614
<b>Total</b>	<b>\$ 3,872,579</b>	<b>\$ 3,907,317</b>	<b>\$ 4,506,618</b>	<b>\$ 4,270,276</b>	<b>\$ 4,854,036</b>	<b>\$ 3,551,927</b>	<b>\$ 3,417,746</b>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public safety	\$ 1,066,190	\$ 1,136,265	\$ 974,212	\$ 916,293	\$ 884,005	\$ 766,389	\$ 759,155
Public works	1,606,151	1,177,067	1,745,394	1,658,703	1,484,713	2,037,301	1,196,441
Health and social services	5,727	3,807	2,817	5,165	2,296	3,486	3,507
Culture and recreation	729,999	598,914	511,257	536,188	519,666	496,403	476,867
Community and economic development	190,272	288,216	187,524	212,978	1,442,675	127,166	174,140
General government	836,076	820,453	723,623	692,456	642,890	650,038	602,320
Debt service	242,925	343,096	226,495	580,835	1,023,149	218,751	221,299
Capital projects	29,749	471,702	200,947	1,214,255	567,381	1,085,754	245,941
<b>Total</b>	<b>\$ 4,707,089</b>	<b>\$ 4,839,520</b>	<b>\$ 4,572,269</b>	<b>\$ 5,816,873</b>	<b>\$ 6,566,775</b>	<b>\$ 5,385,288</b>	<b>\$ 3,679,670</b>

See accompanying independent auditor's report.

City of Estherville

# Brinkman & Reed, CPA's

103 South Sixth Street    Estherville, Iowa 51334    712-362-5891 Phone    712-362-7172 Fax

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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 11, 2007. Our report expressed unqualified opinions 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Estherville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Estherville's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

- 43 -

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A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Estherville's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Estherville's financial statements that is more than inconsequential will not be prevented or detected by the City of Estherville's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Estherville's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 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, 2007 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.

The City of Estherville's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Estherville's responses and, accordingly, we express no opinion on them.

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

September 11, 2007

CITY OF ESTHERVILLE  
Schedule of Findings  
Year ended June 30, 2007

**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) Significant deficiencies in internal control over financial reporting were 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, 2007

**Part II: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

II-A-07 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 segregation of duties is difficult with a limited number of office employees. 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.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**Part III: Other Findings Related to Statutory Reporting:**

III-A-07 Certified Budget – City disbursements during the year ended June 30, 2007 did not exceed the amount budgeted.

III-B-07 Questionable Disbursements – 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-07 Travel Expense – No disbursements 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, 2007

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

III-D-07 Business Transactions – Business transactions between the City and City employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Joe Swisher, City Councilman, Owner of Swisher, Inc.	Construction, per bid	\$23,001
Dennis Lukins, City Employee	Underground electrical conversion	100
Paul Trosin, City Employee	Underground electrical conversion	126

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 the City councilman does not appear to represent a conflict of interest since it was entered into through competitive bidding.

III-E-07 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 the coverage is adequate for current operations.

III-F-07 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-07 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, 2007

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

III-H-07 Financial Condition – The Capital Projects Fund - Airport Taxilane Construction had a deficit balance at June 30, 2007 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.