

**CITY OF EMMETSBURG, IOWA
JUNE 30, 2007 AUDIT REPORT**

Table of Contents

	<u>Page</u>
City Officials.....	1
Independent Auditor's Report.....	2
Management's Discussion and Analysis.....	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	14
Statement of Activities.....	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Net Assets – Proprietary Funds.....	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.....	20
Statement of Cash Flows – Proprietary Funds.....	21
Notes to Financial Statements.....	22
Required Supplementary Information:	
Budgetary Comparison Schedule – Function Budget.....	44
Notes to Required Supplementary Information.....	45
Other Supplementary Information:	
Combining Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	46
Combining Statement of Revenues, Expenditures, and Changes In Fund Balances – Nonmajor Governmental Funds.....	49
Schedule of Revenues by Source and Expenditures by Function- All Governmental Funds.....	52
Independent Auditors' 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.....	53
Schedule of Findings.....	55

CITY OF EMMETSBURG, IOWA

CITY OFFICIALS

<u>Official Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Myrna Hedding	January 2, 2008
Mayor Pro Tem	Bill Zeigler	January 2, 2008
Council member	Patrick Degen	January 2, 2008
Council member	Pam Smith	January 2, 2010
Council member	Kirk Haack	January 2, 2008
Council member	Brian Campbell	January 2, 2010
Council member	Steve Finer	January 2, 2010
City Clerk	Jill R. Kliegl	
City Attorney	Brian W. Thul	
City Administrator	John Bird	

Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

Edwin J. Burdorf, CPA
Patrick J. Parrott, CPA
www.accountant-city.com/burdorf

INDEPENDENT AUDITORS' REPORT

3131 Main, P.O. Box 359
Emmetsburg, Iowa 50536
Phone: 712-852-3347
Fax: 712-852-3348

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Emmetsburg, Iowa. Our responsibility is to express opinions on these financial statements based on our audit.

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

Capital assets policies of the City's governmental funds and the component units (gas, water and sanitation) do not conform to generally accepted accounting principles as described in Note 1 C (4) and Note 3 B to the financial statements. The amount by which this departure would affect the assets, fund balances, and expenditures/expenses of the governmental and component unit's funds (gas, water and sanitation) is not reasonably determinable.

In our opinion, except for the effects, if any, of not using capital asset policies that fully conform to generally accepted accounting principles for the governmental and component units (gas, water and sanitation), as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Emmetsburg, Iowa, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Members American Institute of Certified Public Accountants

In accordance with *Government Auditing Standards*, we have also issued our report, under separate cover, dated February 5, 2008, on our consideration of the City's internal control over financial reporting and on 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Emmetsburg, Iowa. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed qualified opinions, for the effects on the financial statements, if any, of the omissions described in the third paragraph of this report, on those financial statements. Other supplementary information including the combining nonmajor fund financial statements, and schedule of revenues by source and expenditures by function - all governmental funds, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects, if any, of the omissions described in the third paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burdorf, Parrott And Associates, P.C.

February 5, 2008

Management's Discussion and Analysis

Our discussion and analysis of the City of Emmetsburg, Iowa's financial performance provides an overview of the City's financial activities for the year ended June 30, 2007. Please read this information in conjunction with the City's financial statements, which follow.

Financial Highlights

- Revenues of the City's governmental activities increased \$156,835 or 5.2% from fiscal year 2006 to fiscal year 2007. Property taxes increased \$79,173 for all activities.
- Program expenses of the City's governmental activities increased \$231,862 or 11.2% in fiscal year 2007 from fiscal year 2006. Public Safety and Community and Economic Development expenses increased \$20,730, \$80,417, respectively. Expenses for dredging the Lake decreased by \$42,621.
- The City's net assets for the primary government increased \$1,116,910 from June 30, 2006 to June 30, 2007. Of this amount, the net assets of the governmental activities increased \$1,066,116 and the net assets of the business-type activities increased by \$50,794.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City as a whole and present an overall view of the City's finances.
- The Fund Financial Statements tell how governmental activities 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 statements by providing information about the City's most significant funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor Special Revenue and Capital Projects Funds and the Internal Service Funds.

Reporting the City's Financial Activities

Government-wide Financial Statements

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

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. A person will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's infrastructure, to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

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

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, interest on debt and debt related fees and capital outlay not included in capital assets. Property tax, franchise fees, fines, and state and federal grants finance most of these activities.
- Business-type activities include garbage pickup (solid waste) and the City's Cemetery. These activities are financed primarily by user charges.

Fund Financial Statements

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

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

Government-Wide Financial Analysis

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

error	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$ 3,396,502	3,534,095	389,892	334,056	3,786,394	3,868,151
Capital assets	5,415,567	4,423,260	43,259	64,769	5,458,826	4,488,029
Total assets	8,812,069	7,957,355	433,151	398,825	9,245,220	8,356,180
Liabilities:						
Long-term debt	2,282,166	2,210,000	-	-	2,282,166	2,210,000
Other liabilities	1,734,945	2,018,513	2,553	19,021	1,737,498	2,037,534
Total liabilities	4,017,111	4,228,513	2,553	19,021	4,019,664	4,247,534
Net assets:						
Invested in capital assets, net of related debt	3,133,401	1,893,260	43,259	64,769	3,176,660	1,958,029
Restricted	329,252	1,159,448	-	-	329,252	1,159,448
Unrestricted	1,332,305	676,134	387,339	315,035	1,719,644	991,169
Total net assets	\$ 4,794,958	3,728,842	430,598	379,804	5,225,556	4,108,646

Net assets of governmental activities increased from June 30, 2006 by \$1,066,116 or 28.6%. Net assets of business-type activities increased from June 30, 2006 by \$50,794 or 13.4%. The City's net assets are primarily invested in cash and capital assets, less related debt. By definition, restricted net assets represent resources that are subject to external restrictions, bond covenants, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, are \$1,719,644 at the end of the year.

For the year ended June 30, 2007 and 2006, net assets changed as follows:

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues						
Charges for services	\$ 38,827	38,425	375,727	301,910	414,554	340,335
Operating grants and contributions	357,517	338,495	-	-	357,517	338,495
Capital grants and contributions	545,999	963,581	-	-	545,999	963,581
General Revenues						
Property taxes	1,184,841	1,084,062	-	-	1,184,841	1,084,062
Other City taxes	426,652	60,258	-	-	426,652	60,258
Unrestricted - Intergovernmental	30,241	273,758	-	-	30,241	273,758
Use of money and property						
Miscellaneous	95,116	77,524	15,551	11,915	110,667	89,439
Total revenues	<u>3,195,382</u>	<u>3,038,547</u>	<u>391,278</u>	<u>319,455</u>	<u>3,586,660</u>	<u>3,358,002</u>
Expenses						
Public safety	500,115	479,385	-	-	500,115	479,385
Public works	760,528	663,230	-	-	760,528	663,230
Culture and recreation	300,231	262,848	-	-	300,231	262,848
Community and economic development	196,160	115,743	-	-	196,160	115,743
General government	288,524	271,499	-	-	288,524	271,499
Debt service	113,102	91,472	-	-	113,102	91,472
Capital outlay not included in assets	141,527	184,148	-	-	141,527	184,148
Solid waste	-	-	325,028	318,415	325,028	318,415
Cemetery	-	-	23,456	23,687	23,456	23,687
Total expenses	<u>2,300,187</u>	<u>2,068,325</u>	<u>348,484</u>	<u>342,102</u>	<u>2,648,671</u>	<u>2,410,427</u>
Increase (decrease) in net assets						
before transfers	895,195	970,222	42,794	(22,647)	937,989	947,575
Transfers in	82,804	92,010	8,000	8,000	90,804	100,010
Increase (decrease) in net assets	977,999	1,062,232	50,794	(14,647)	1,028,793	1,047,585
Net assets, beginning	<u>3,816,959</u>	<u>2,754,727</u>	<u>379,804</u>	<u>394,451</u>	<u>4,196,763</u>	<u>3,149,178</u>
Net assets, ending	\$ <u>4,794,958</u>	<u>3,816,959</u>	<u>430,598</u>	<u>379,804</u>	<u>5,225,556</u>	<u>4,196,763</u>

Property tax revenue increased by \$79,173 and miscellaneous revenue increased by \$308,115 from June 30, 2006. Capital grants and contributions decreased by \$417,582.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,594,840. \$88,503 is reserved for debt service. This leaves an unreserved balance of \$1,506,337.

This governmental fund balance decreased by \$186,597 or 10.5%. The decrease was due to expenditures in excess of revenues. The significant expenditure over revenue was in Airport Taxiway and Apron Fund.

The General Fund is the chief operating fund of the City of Emmetsburg. At the end of the current fiscal, unreserved fund balance of the General Fund was \$466,950. As a measure of the General Funds liquidity, it may be useful to compare both unreserved fund balances and total fund balances to total fund expenditures. Unreserved fund balance represents 37% of the total General Fund expenditures.

The following fund balances in the other major funds, which comprise the Total Governmental Funds are listed below:

	FY07 Amount	FY06 Amount	Increase (Decrease)
General Fund	\$ 466,950	497,803	(30,853)
Road Use Tax Fund	240,749	261,612	(20,863)
PA Gaming Corporation Allocation Fund	23,636	-	23,636
Debt Service Fund	33,314	29,542	3,772
Special Assessments Fund	55,189	28,889	26,300
Lake Project Fund	282,784	210,796	71,988
Airport Taxiway and Apron Fund	(367,947)	(4,933)	(363,014)
Other Governmental Funds	860,165	720,610	139,555

The largest increase in fund balance for the major funds occurred in the Lake Project Fund. This was due to increased grant revenue and a large insurance recovery that had not been spent as of June 30, 2007.

The Airport Taxiway and Apron Fund had the largest decrease in fund balance for the major funds. This decrease was caused by capital project expenditures prior to the receipt of revenue to fund them.

The following schedule presents a summary of the governmental fund revenues for the fiscal year ended June 30, 2007 and June 30, 2006.

Revenues	FY07 Amount	Percent of Total	FY06 Amount	Increase (Decrease) from FY06	Percent of Increase (Decrease)
Property taxes	\$ 1,108,502	34.34%	\$ 1,029,329	\$ 79,173	7.69 %
Tax increment financing	76,339	2.36%	54,733	21,606	39.48
Other city tax	449,677	13.93%	60,258	389,419	646.25
Licenses and permits	17,869	0.55%	19,745	(1,876)	(9.50)
Use of money and property	95,116	2.95%	77,524	17,592	22.69
Intergovernmental	933,757	28.93%	1,575,834	(642,077)	(40.75)
Charges for services	35,706	1.11%	38,425	(2,719)	(7.08)
Special assessments	32,606	1.01%	87,327	(54,721)	(62.66)
Miscellaneous, including fines	478,416	14.82%	187,899	290,517	154.61
	<u>\$ 3,227,988</u>	<u>100.00%</u>	<u>\$ 3,131,074</u>	<u>\$ 96,914</u>	<u>3.10 %</u>

The following schedule presents a summary of governmental expenditures for the fiscal years ended June 30, 2007 and June 30, 2006.

Expenditures	FY07 Amount	Percent of Total	FY 06 Amount	Increase (Decrease) from FY06	Percent of Increase (Decrease)
Public safety	\$ 466,264	12.94%	\$ 443,517	\$ 22,747	5.13 %
Public works	642,917	17.85%	552,371	90,546	16.39
Culture and recreation	452,262	12.55%	237,741	214,521	90.23
Community and Economic Development	219,598	6.10%	115,743	103,854	89.73
General government	288,854	8.02%	270,822	18,032	6.66
Debt Service	422,997	11.74%	417,892	5,105	1.22
Capital projects	1,109,497	30.80%	2,055,638	(946,141)	(46.03)
	<u>\$ 3,602,389</u>	<u>100.00%</u>	<u>\$ 4,093,724</u>	<u>\$ (491,336)</u>	<u>(12.00) %</u>

The most significant decrease in expenditures occurred in the capital projects function. This was due to several projects occurring during FY06.

The most significant increase in expenditures occurred in the culture and recreation function. This was due primarily to a new fund, PA Gaming Corporation Allocation Fund, receiving grants that were expended in the culture and recreation function.

Proprietary Funds

City of Emmetsburg's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Solid Waste and Cemetery funds at the end of the year amounted to \$387,339.

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

The City's enterprise operations are comprised of two separate and distinct activities: Solid Waste and the Cemetery Fund. Results of operations for these funds for the year ended June 30, 2007 and June 30, 2006 are as follows:

	Solid Waste		Cemetery	
	2007	2006	2007	2006
Operating Revenues	\$ 359,198	288,210	16,529	16,330
Operating Expense	325,028	318,415	23,456	23,687
Non-Operating revenues	11,600	9,078	3,951	5,837
Operating transfers in	-	-	8,000	8,000
Changes in Net Assets	45,770	(21,127)	5,024	6,480

Budgetary Highlights

Over the course of the year, the City Council revised the budget one time. This budget amendment was an increase to appropriations to cover unplanned expenditures/ expenses and transfers. The budget was amended on May 14, 2007. The City did exceed the debt service budget by \$29,637 and culture and recreation by \$80,562.

Capital Asset and Debt Administration

Capital Assets

At the end of June 30, 2007, the City had \$5,458,826 net of depreciation invested in capital assets including police and fire equipment, buildings, park facilities, and infrastructure. This does not include the Component units that had \$10,506,518 invested in capital assets. Infrastructure prior to July 1, 2003 is not included in the financial statements unless they were considered as construction in progress on July 1, 2003.

A schedule of capital assets as of June 30, 2007 and 2006 is as follows.

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 2,920	2,525	17,646	18,341	20,566	20,866
Machinery, equipment, and vehicles	625,847	615,670	10,940	31,088	636,787	646,758
Buildings	423,076	339,867	14,673	15,340	437,749	355,207
Infrastructure	3,813,625	2,640,211	-	-	3,813,625	2,640,211
Construction in process	550,099	824,987	-	-	550,099	824,987
	<u>\$ 5,415,567</u>	<u>4,423,260</u>	<u>43,259</u>	<u>64,769</u>	<u>5,458,826</u>	<u>4,488,029</u>

The major capital assets added during the current fiscal year included the following:

- Completion of Highway 18/Urban streets
- Completion of the bath/shelter house at Kearny Park

More detailed information about the City's capital assets is presented in Note 3 to the financial statements.

Debt

At year-end, the City had \$2,315,000 in outstanding bonds and agreements compared to \$2,530,000 last year. That is a decrease of \$215,000, or 8.5%.

	<u>Governmental activities</u>	
	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ 2,210,000	2,530,000
Tax increment financing agreement	105,000	-
Total	<u>2,315,000</u>	<u>2,530,000</u>

State statutes limit the amount of general obligation debt a government entity may issue to 5% of its total assessed valuation. As of June 30, 2007, the City's legal debt margin was \$3,486,738.

More detailed information about the City's long-term debt is presented in Note 3 to the financial statements.

Economic Factors and Next Year's Budget and Rates

During the state legislative session in 2003, the legislature permanently eliminated certain state funding to local governments starting in the year ended June 30, 2004 and will continue in the future. This along with the continuation of the state rollback on residential properties greatly affects the City's general operating fund.

The City has been helped by the new Hotel/Motel tax and the PA Gaming Corporation allocations made annually to the City that can be used for capital improvements. However, the PA Gaming Corporation allocations can not be used for ongoing operating expenses or to fund operating deficits.

The tax levy rates per \$1,000 of taxable valuation for fiscal year 2007 are provided below:

General levy	\$ 8.10000
Liability, property & self insurance	.91828
Instrumental/vocal music levy	0.13500
Ag land levy	3.00375
Emergency levy	.27000
Employee benefit levy	4.36314
Debt service levy	<u>2.89548</u>
Total	\$ <u>19.68565</u>

REQUESTS FOR INFORMATION

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

John Bird
City Administrator

City of Emmetsburg, Iowa
Statement of Net Assets
June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 1,961,244	333,721	2,294,965
Certificates of deposit and investments	2,350	-	2,350
Receivables, net of allowance for uncollectible amounts:	22,595	16,181	38,776
Property taxes	23,124	-	23,124
Accrued interest	-	-	-
Special assessments	81,363	-	81,363
Current portion of notes receivable	-	-	-
Current portion of primary government - Urban Renewal Tax Increment Revenue Bond	-	-	-
Other	130	953	1,083
Due from component unit	26,356	30,446	56,802
Due from other governments	139,360	-	139,360
Inventories	9,387	8,591	17,978
Prepays and other assets	-	-	-
Restricted assets:			
Cash	-	-	-
Due from primary government - Urban Renewal Tax Increment Revenue Bond	-	-	-
Loan fees (net of \$2,330 amortization)	-	-	-
Succeeding year taxes receivable	1,130,593	-	1,130,593
Capital assets:			
Land, land improvements and construction in progress	553,019	19,792	572,811
Other capital assets, net of accumulated depreciation	4,862,548	23,467	4,886,015
Total assets	<u>8,812,069</u>	<u>433,151</u>	<u>9,245,220</u>
LIABILITIES			
Accounts payable	510,188	-	510,188
Accrued liabilities	615	-	615
Interest payable on bonds and other long-term debt	14,647	-	14,647
Due to primary government	-	-	-
Customer deposits	-	-	-
Compensated absences	38,902	-	38,902
Long-term liabilities:			
Succeeding year unearned revenue	1,130,593	2,553	1,133,146
Due to component unit	40,000	-	40,000
Portion due or payable within one year:			
Bonds and other payables	403,287	-	403,287
Portion due or payable after one year:			
Bonds and other payables	1,878,879	-	1,878,879
Total liabilities	<u>4,017,111</u>	<u>2,553</u>	<u>4,019,664</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,133,401	43,259	3,176,660
Restricted:			
Streets	240,749	-	240,749
Debt service	88,503	-	88,503
Unrestricted	1,332,305	387,339	1,719,644
Total net assets	<u>\$ 4,794,958</u>	<u>430,598</u>	<u>5,225,556</u>

See notes to financial statements

Component Units

Gas Utility	Water Utility	Sanitation Utility
1,589,136	789,370	484,538
599,750	460,000	100,000
244,988	-	44,767
-	-	-
811	1,839	798
-	-	-
43,607	-	-
-	-	-
791	922	922
63,013	38,455	28,023
-	-	-
-	-	-
-	-	-
5,452	15,953	12,283
50,065	11,270	-
11,209	13,078	13,078
-	30,875	7,295
1,039	67,067	84,542
803,971	5,051,969	4,497,930
<u>3,413,832</u>	<u>6,480,798</u>	<u>5,274,176</u>
56,779	15,620	11,674
12,285	6,369	2,597
38,173	8,364	8,460
50,065	11,270	-
-	-	-
-	102,000	55,000
-	2,546,000	902,000
<u>157,302</u>	<u>2,689,623</u>	<u>979,731</u>
805,010	2,471,036	3,625,472
-	-	-
-	-	-
2,448,019	1,315,722	667,331
<u>3,253,029</u>	<u>3,786,758</u>	<u>4,292,803</u>

City of Emmetsburg, Iowa
Statement of Activities
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Public safety	\$ 500,115	8,071	-	-
Public works	760,528	-	326,655	325,999
Culture and recreation	300,231	30,756	2,306	-
Community and economic development	196,160	-	28,556	-
General government	288,524	-	-	-
Interest on long-term debt and related fees	113,102	-	-	-
Capital outlay not included in capital assets	141,527	-	-	220,000
Total governmental activities	<u>2,300,187</u>	<u>38,827</u>	<u>357,517</u>	<u>545,999</u>
Business-type activities:				
Solid Waste	325,028	359,198	-	-
Cemetery	23,456	16,529	-	-
Total business-type activities	<u>348,484</u>	<u>375,727</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 2,648,671</u>	<u>414,554</u>	<u>357,517</u>	<u>545,999</u>
Component units				
Gas Utility	\$ 2,481,096	2,714,890	-	-
Water Utility	573,383	613,393	-	36,881
Sanitation Utility	564,371	540,645	-	-
Total component units	<u>\$ 3,618,850</u>	<u>3,868,928</u>	<u>-</u>	<u>36,881</u>

General revenues:
 Property taxes and assessments
 Tax increment financing
 Local option sales tax
 Hotel/motel taxes
 Use of money and property
 Intergovernmental, not restricted to specific programs
 Miscellaneous
 Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets - beginning
 Prior year adjustment - Special Assessments recorded as deferred revenue
 Net assets - ending

Note to statement of activities:

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

The City owns the assets used for the dredging project and those assets are recorded in capital asset on the Statement of Net Assets.

See notes to financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units		
Governmental Activities	Business-type Activities	Total	Gas Utility	Water Utility	Sanitation Utility
(492,044)	-	(492,044)	-	-	-
(107,874)	-	(107,874)	-	-	-
(267,169)	-	(267,169)	-	-	-
(167,604)	-	(167,604)	-	-	-
(288,524)	-	(288,524)	-	-	-
(113,102)	-	(113,102)	-	-	-
78,473	-	78,473	-	-	-
<u>(1,357,844)</u>	<u>-</u>	<u>(1,357,844)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	34,170	34,170	-	-	-
-	(6,927)	(6,927)	-	-	-
-	<u>27,243</u>	<u>27,243</u>	-	-	-
<u>(1,357,844)</u>	<u>27,243</u>	<u>(1,330,601)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	233,794	-	-
-	-	-	-	76,891	-
-	-	-	-	-	(23,726)
-	-	-	<u>233,794</u>	<u>76,891</u>	<u>(23,726)</u>
\$ 1,108,502	-	1,108,502	-	-	-
76,339	-	76,339	-	-	-
321,474	-	321,474	-	-	-
105,178	-	105,178	-	-	-
95,116	15,551	110,667	34,764	33,043	14,493
30,241	-	30,241	-	-	-
516,189	-	516,189	-	-	-
82,804	8,000	90,804	(150,304)	(6,000)	65,500
<u>2,335,843</u>	<u>23,551</u>	<u>2,359,394</u>	<u>(115,540)</u>	<u>27,043</u>	<u>79,993</u>
977,999	50,794	1,028,793	118,254	103,934	56,267
3,728,842	379,804	4,108,646	3,186,300	3,593,069	4,274,766
88,117	-	88,117	-	-	-
<u>\$ 4,794,958</u>	<u>430,598</u>	<u>5,225,556</u>	<u>3,304,554</u>	<u>3,697,003</u>	<u>4,331,033</u>

City of Emmetsburg, Iowa
Balance Sheet
Governmental Funds
June 30, 2007

	Special Revenue			
	General Fund	Road Use Tax Fund	PA Gaming Corporation Allocation Fund	Debt Service Fund
ASSETS				
Cash	\$ 464,460	225,798	93,978	5,834
Investments				
Receivables, net of allowance for uncollectible amounts:				
Property taxes	11,851	-	-	4,111
Special assessments	-	-	-	-
Accounts	8,299	-	6,332	-
Other	75	-	-	-
Due from component unit	26,356	-	-	-
Due from other funds	-	-	-	23,368
Due from other governments	2,706	26,731	-	-
Inventories	9,387	-	-	-
Total assets	<u>\$ 523,134</u>	<u>252,529</u>	<u>100,310</u>	<u>33,313</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 5,079	-	76,674	-
Accrued liabilities	-	615	-	-
Deferred revenue	-	-	-	-
Compensated absences - current	27,737	11,165	-	-
Due to other funds	23,368	-	-	-
Due to Component Unit	-	-	-	-
Total liabilities	<u>56,184</u>	<u>11,780</u>	<u>76,674</u>	<u>-</u>
FUND BALANCES				
Reserved for:				
Debt service	-	-	-	33,314
Unreserved:				
Undesignated, reported in:				
General fund	466,950	-	-	-
Special revenue funds	-	240,749	23,636	-
Capital projects funds	-	-	-	-
Total fund balances	<u>466,950</u>	<u>240,749</u>	<u>23,636</u>	<u>33,314</u>
Total liabilities and fund balances	<u>\$ 523,134</u>	<u>252,529</u>	<u>100,310</u>	<u>33,314</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of

Long-term special assessments receivable are not considered available to pay for current period's expenditures and reported as

Accrued interest payable, is not due and payable in the current period and, therefore, is not reported in the funds.

Bonds payable and contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds, net of unamortized discount of \$32,835

Net assets of governmental activities

See notes to financial statements

Debt Service Special Assessments Fund	Capital Projects		Other Governmental Funds	Total Governmental Funds
	Lake Project Fund	Airport Taxiway and Apron Fund		
52,707	282,729	21,873	813,865 2,350	1,961,244 2,350
-	-	-	7,162	23,124
81,363	-	-	-	81,363
-	-	-	7,964	22,595
-	55	-	-	130
-	-	-	-	26,356
-	-	-	50,000	73,368
2,482	-	-	107,441	139,360
-	-	-	-	9,387
<u>136,552</u>	<u>282,784</u>	<u>21,873</u>	<u>988,782</u>	<u>2,339,277</u>
-	-	389,820	38,615	510,188
-	-	-	-	615
81,363	-	-	-	81,363
-	-	-	-	38,902
-	-	-	50,000	73,368
-	-	-	40,000	40,000
<u>81,363</u>	<u>-</u>	<u>389,820</u>	<u>128,615</u>	<u>744,436</u>
55,189	-	-	-	88,503
-	-	-	-	466,950
-	-	-	738,890	1,003,275
-	282,784	(367,947)	121,275	36,112
<u>55,189</u>	<u>282,784</u>	<u>(367,947)</u>	<u>860,165</u>	<u>1,594,840</u>
<u>136,552</u>	<u>282,784</u>	<u>21,873</u>	<u>988,780</u>	

accumulated depreciation of \$1,837,516 5,415,567

deferred revenues in the funds. 81,363

(14,647)

(2,282,165)

\$ 4,794,958

City of Emmetsburg, Iowa
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue			Debt Service
	General Fund	Road Use Tax Fund	PA Gaming Corporation Allocation Fund	Debt Service Fund
Revenues:				
Property taxes	\$ 584,952	-	-	205,934
Tax increment financing		-	-	-
Other city taxes	23,025	-	-	-
Licenses and permits	17,869	-	-	-
Use of money and property	51,990	-	2,316	3,278
Intergovernmental	32,595	326,655	-	-
Charges for services	34,067	-	-	-
Special Assessments	-	-	-	-
Fines and forfeitures	22,620	-	-	-
Miscellaneous	52,268	8,538	163,048	-
Total revenues	819,386	335,193	165,364	209,212
Expenditures:				
Current:				
Public safety	457,450	-	4,962	-
Public works	199,888	431,756	-	-
Culture and recreation	265,540	-	130,929	-
Community and economic development	51,864	-	5,837	-
General government	287,194	-	-	-
Debt service	-	-	-	393,360
Capital projects	-	-	-	-
Total expenditures	1,261,936	431,756	141,728	393,360
Excess (deficiency) of revenues over (under) expenditures	(442,550)	(96,563)	23,636	(184,148)
Other financing sources (uses)				
Transfers in	481,226	75,700	-	187,920
Transfers out	(58,561)	-	-	-
Tax increment agreement	-	-	-	-
Total other financing sources (uses)	422,665	75,700	-	187,920
Net change in fund balances	(19,885)	(20,863)	23,636	3,772
Fund balances (deficits), beginning	486,835	261,612	-	29,542
Fund balances, ending	\$ 466,950	240,749	23,636	33,314

See notes to financial statements

Debt Service	Capital Projects		Other Governmental Funds	Total Governmental Funds
Special Assessments Fund	Lake Project Fund	Airport Taxiway and Apron Fund		
-	-	-	317,616	1,108,502
-	-	-	76,339	76,339
-	-	-	426,652	449,677
-	-	-	-	17,869
13,751	-	510	23,271	95,116
-	220,000	50,879	303,628	933,757
-	-	-	1,639	35,706
32,606	-	-	-	32,606
-	-	-	-	22,620
-	50,474	-	181,468	455,796
<u>46,357</u>	<u>270,474</u>	<u>51,389</u>	<u>1,330,613</u>	<u>3,227,988</u>
-	-	-	3,852	466,264
-	-	-	11,273	642,917
-	-	-	55,793	452,262
-	-	-	161,897	219,598
-	-	-	1,660	288,854
-	-	-	29,637	422,997
-	141,527	395,914	572,056	1,109,497
-	<u>141,527</u>	<u>395,914</u>	<u>836,168</u>	<u>3,602,389</u>
<u>46,357</u>	<u>128,947</u>	<u>(344,525)</u>	<u>494,445</u>	<u>(374,401)</u>
-	6,469	9,583	227,090	987,988
(57,175)	(40,480)	(28,072)	(720,896)	(905,184)
-	-	-	105,000	105,000
<u>(57,175)</u>	<u>(34,011)</u>	<u>(18,489)</u>	<u>(493,806)</u>	<u>187,804</u>
(10,818)	94,936	(363,014)	105,639	(186,597)
66,007	187,848	(4,933)	754,526	1,781,437
<u>55,189</u>	<u>282,784</u>	<u>(367,947)</u>	<u>860,165</u>	<u>1,594,840</u>

City of Emmetsburg, Iowa
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ (186,597)

Amounts reported for governmental activities in the statement of activities are different because:

Government funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Net acquisition of capital assets	1,203,570
Depreciation expense	(211,263)

The change in long-term special assessments receivable is shown as deferred revenue in the funds and revenue in the government-wide statements	(32,606)
--	----------

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

New debt issued	(105,000)
Discount on general obligation bonds	(3,978)
Repaid	320,000
Accrued interest	(6,127)

Change in net assets of governmental activities	<u>\$ 977,999</u>
---	-------------------

See notes to financial statements

City of Emmetsburg, Iowa
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Business-type Activities- Enterprise Funds		
	Solid Waste	Cemetery	Total
ASSETS			
Current assets:			
Cash	\$ 296,446	37,275	333,721
Receivables			-
Customers	15,353	828	16,181
Other	926	27	953
Due from component unit	30,446	-	30,446
Inventories	8,591	-	8,591
Total current assets	<u>351,762</u>	<u>38,130</u>	<u>389,892</u>
Capital assets:			
Land and improvements	-	19,792	19,792
Buildings	21,096	2,795	23,891
Equipment and vehicles	187,378	7,034	194,412
Accumulated depreciation	<u>(184,392)</u>	<u>(10,444)</u>	<u>(194,836)</u>
Total capital assets	<u>24,082</u>	<u>19,177</u>	<u>43,259</u>
Total assets	<u>\$ 375,844</u>	<u>57,307</u>	<u>433,151</u>
LIABILITIES			
Current liabilities:			
Compensated absences - due within one year	\$ <u>2,553</u>	-	<u>2,553</u>
Total current liabilities	<u>2,553</u>	-	<u>2,553</u>
NET ASSETS			
Invested in capital assets, net of related debt	24,082	19,177	43,259
Unrestricted	<u>349,209</u>	<u>38,130</u>	<u>387,339</u>
Total net assets	<u>\$ 373,291</u>	<u>57,307</u>	<u>430,598</u>

See notes to financial statements

City of Emmetsburg, Iowa
Statement of Revenues, Expenses, and Changes in Fund Net Asset
Proprietary Funds
For the Year Ended June 30, 2007

	Business-type Activities- Enterprise Funds		
	Solid Waste	Cemetery	Total
Operating revenues:			
Charges for services	\$ 359,198	12,290	371,488
Other	-	4,239	4,239
Total operating revenues	<u>359,198</u>	<u>16,529</u>	<u>375,727</u>
Operating expenses:			
Personal services	142,953	1,369	144,322
Contractual services	139,428	17,886	157,314
Supplies and equipment	22,479	2,859	25,338
Depreciation	20,168	1,342	21,510
Total operating expenses	<u>325,028</u>	<u>23,456</u>	<u>348,484</u>
Operating income	<u>34,170</u>	<u>(6,927)</u>	<u>27,243</u>
Nonoperating revenues (expenses):			
Interest revenue	11,600	3,951	15,551
Income before transfers	<u>45,770</u>	<u>(2,976)</u>	<u>42,794</u>
Transfers in	-	8,000	8,000
Change in net assets	45,770	5,024	50,794
Net assets, beginning	327,521	52,283	379,804
Net assets, ending	<u>\$ 373,291</u>	<u>57,307</u>	<u>430,598</u>

See notes to financial statements

City of Emmetsburg, Iowa
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

	Business-type Activities- Enterprise Funds		
	Solid Waste	Cemetery	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 357,114	15,709	372,823
Payments to suppliers	(182,397)	(21,601)	(203,998)
Payments to employees	(136,265)	(1,369)	(137,634)
Net cash provided by operating activities	<u>38,452</u>	<u>(7,261)</u>	<u>31,191</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	-	8,000	8,000
Cash from or (to) Component Units	(30,446)	-	(30,446)
Net cash provided by (used for) noncapital financing activities	<u>(30,446)</u>	<u>8,000</u>	<u>(22,446)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	11,600	3,951	15,551
Net increase (decrease) in cash	<u>19,606</u>	<u>4,690</u>	<u>24,296</u>
CASH BALANCES, Beginning	276,840	32,585	309,425
CASH BALANCES, Ending	<u>\$ 296,446</u>	<u>37,275</u>	<u>333,721</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 34,170	(6,927)	27,243
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	20,168	1,342	21,510
Change in assets and liabilities:			
(Increase) decrease in:			
Customer and other receivables	(2,084)	(820)	(2,904)
Inventories	1,810	-	1,810
Increase (decrease) in accounts payable, accrued and other liabilities	(15,612)	(856)	(16,468)
Net cash provided by operating activities	<u>\$ 38,452</u>	<u>(7,261)</u>	<u>31,191</u>

See notes to financial statements

**CITY OF EMMETSBURG, IOWA
NOTES TO FINANCIAL STATEMENTS
INDEX**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity
- B. Government-wide and Fund Financial Statements
- C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
- D. Assets, Liabilities, and Net Assets or Equity

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Budgetary Information
- B. Deficit Fund Balance

NOTE 3. DETAIL NOTES ON ALL FUNDS

- A. Deposits and Investments
- B. Capital Assets
- C. Long-term Debt
- D. Due to Component Unit
- E. Interfund Transactions
- F. Interfund Balances

NOTE 4. OTHER NOTES

- A. Retirement Systems
- B. Other Employee Benefits
- C. Related Party Transactions
- D. Risk Management
- E. New Governmental Accounting Standards Board (GASB) Standards

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Emmetsburg is a municipal corporation governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City. The discretely presented gas, water, and sanitation utilities each have a June 30 year end.

Discretely Presented Component Units. The gas, water, and sanitation utilities serve all the citizens of the City and are governed by a five-member board appointed by the mayor of the City of Emmetsburg. The rates for user charges and bond issuance authorizations are approved by the City Council, and the legal liability for the general obligation portion of the Utilities' debt remains with the City.

Complete financial statements for the Utilities may be obtained at the administrative offices.

Emmetsburg Municipal Utilities
2021 Main Street
Emmetsburg, Iowa 50536

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain separate component units for which the primary government is financially accountable.

The statement of net assets presents the assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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 two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are, aggregated and reported as other governmental funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of

the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest, fines and forfeitures, and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred, all other grant requirements have been met, and the criteria for accrual has been met.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *road use tax fund* accounts for state revenues allocated to the City to be used to maintain and improve the City's streets.

The *PA Gaming Corporation allocation fund* accounts for resources allocated to the City by agreement with the Wild Rose Casino and for grants applied for by the City that is used for community improvements.

The *debt service fund* accounts for the servicing of general long-term debt not being financed by proprietary funds.

The *special assessments fund* account for the servicing of special assessment debt.

The *lake project fund* accounts for the dredging of Five Island Lake that owned by the State of Iowa.

The *airport taxiway and apron fund* accounts for the construction of major Capital improvements relating to the taxiway and apron at the Emmetsburg Municipal Airport.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments between the government's component unit and various other functions of the government. Elimination of the charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues do not include all taxes. The taxes are recorded as a liability and submitted to the taxing authority from the liability account.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the solid waste fund and cemetery funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City 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. Investments of the City are reported at fair value.

Due to legal reasons, the General Fund is assigned a portion of the investment earnings associated with the Road Use Tax fund. The Cemetery fund is assigned the investment earnings associated with the Cemetery Perpetual Care Fund. Due to budgetary and policy reasons the General Fund is assigned a portion of the investment earnings associated with the Employee Benefit Fund, Capital Improvements Revolving Fund and the Lake Project Fund. The City transfers the interest from the General Fund to the Lake Project Fund in the form of a transfer.

2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectibles. The City uses the direct write off method that does not materially differ from generally accepted accounting principles.

The County Treasurer bills and collects taxes for the City. Taxes for the year ended June 30, 2007, were certified with the County during the preceding fiscal year and were due in two equal installments by September 30, 2006 and March 31, 2007. On July 1, 2006 the taxes were levied by the County and became an enforceable lien against property. Any County collections on the 2006-2007 tax levy remitted to the City within sixty days subsequent to June 30, 2007, are recorded as property tax revenues. Taxes not collected and remitted to the City within sixty days subsequent to June 30, 2007, are delinquent but have not been recorded as receivables and deferred revenue due to their immateriality.

By statute, the City is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

3. *Inventories and Prepaid Items*

Inventories in the governmental fund types are valued at cost using the first-in/first-out method. The costs of governmental fund type inventories are not recognized as expenditures when purchased as required by generally accepted accounting principles. The cost is recognized as expenditures when consumed. However, the amount is not material to the financial statements.

Inventories in the proprietary fund types are valued at the lower of first-in/first-out cost or market. The cost of proprietary fund type inventories are recognized as expenses when consumed.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are defined by the government as equipment with initial, individual cost of \$1,000 or greater or a purchase of land, land improvements, building, or infrastructure with a value of \$5,000 or greater and an estimated useful life of greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City did not maintain a capital-assets record prior to the adoption of GASB 34. The City estimated the cost of buildings, equipment, vehicles and accumulated depreciation based on approximate date of purchase. Land related to parks, airport etc. has not been estimated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are not included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Machinery and equipment	1-15 years
Vehicles	5-15 years
Improvements	15-20 years
Infrastructure	40 years
Buildings	20-20 years

5. Compensated Absences

City employees accumulate vacation, sick leave, and comp-time hours for subsequent use or for payment upon termination, death, or retirement. Earned vacation pay may be paid upon termination of employment. The liability for compensated absences is recorded as current in the government-wide statements since historical trends indicate none are long-term.

The compensated absence liability has been computed based on rates of pay in effect on June 30, 2007.

6. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

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

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary information

The City prepares and adopts an annual budget on a function basis for the City as a whole, rather than at the fund level, as prescribed by Iowa statutes. The State of Iowa mandates that annual budgets for the fiscal year beginning July 1 be certified to the County Auditor no later than March 15 preceding the beginning of the fiscal year. The review and adoption of the budget for the City is in accordance with state laws and City budget procedures as stated in City Code, and amended by ordinance adoption thereafter. Budget proposals for all operating department requests are conducted by the City Clerk who prepares, for the Council's, a preliminary budget during the month of February of each year for the coming fiscal year. The budget proposal presented to the City Council by the Mayor and City Clerk is a complete financial plan for the upcoming fiscal year. The City Council holds various budget meetings with the Mayor, City Clerk, department heads, and boards and commissions, as well as holding a public hearing prior to adopting the budget. The Council adopts the budget by resolution and certifies it to the County Auditor by the 15th of March preceding the beginning of the fiscal year. This budget becomes the appropriation for operations of the City.

The adopted budget presents expenditures in eight functions - Public Safety, Public Works, Culture and Recreation, Community and Economic Development, General Government, Debt Service, Capital Projects, and Business-type Activities. The legal level of control (the level on which expenditures may not legally exceed appropriations) is the function level. Appropriations as adopted lapse at the end of the fiscal year.

Amendments to the City budget are considered annually as funding sources are available. Management is not authorized to amend the budget or to make budgetary transfers between functions without the approval of the City Council. An additional levy of property taxes is not allowed, by state law. The City budget for the current year may be amended for any of the following purposes:

- To permit the appropriation and expenditure of unexpended, unencumbered fund balances on hand at the end of the preceding fiscal year.
- To permit the appropriation and expenditure of amounts anticipated being available from sources other than property taxation.
- To permit transfers between funds as prescribed by state law.
- To permit transfers between functions.

The Council adopts the amended budget by resolution and certifies it to the County Auditor by May 31 of the budget year. The amended budget becomes the appropriation for operations of the City. The City Council adopted one budget amendment resolution during the year ended June 30, 2007.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Due to the emphasis placed on monitoring budgets, as a result of limited resources to provide City services, major classifications such as personal services, capital outlays, contractual services, and commodities are monitored throughout the year by the City Clerk.

Monthly reports are prepared by department and activity. Any major deviations must be approved by the City Council. While the legal level of control is the program level of expenditure, departments are responsible for not expending more than the amount of the appropriation for each activity within their area of responsibility, unless approved by City Council.

The City budgets all revenues, expenditures and expenses, and interfund and intrafund transfers on the modified accrual basis. The budget amounts included in this report are the final modified accrual basis budget for the year for all funds. Budgeted interfund transfers and intrafund transfers have been eliminated in the statement of budgetary comparison schedule of revenues, expenditures/expenses and changes in fund balances - budget and actual.

Individual fund budgets are, in all cases where appropriations are required, the same as the appropriation amounts. In the case of the General Fund and most of the special revenue funds, unexpended budgeted amounts lapse at the end of the budget year.

B. Deficit Fund Balance

The Airport Taxiway and Apron fund, a major fund, has a deficit balance of \$367,947 and the Housing Development and Kearny Park funds, nonmajor capital projects funds, have deficit fund balances of \$90,000 and \$12,377, respectively. The deficits are expected to be recovered through future grant payments and property tax assessments, respectively.

Note 3. Detailed Notes on All Funds

A. Deposits and 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.

The City received as a donation insured registered corporate stock with a book value of \$2,041. No determination of the market value of this stock has been determined.

The City had no investments meeting the disclosure requirements, of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

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

Credit risk: The City's investment policy does not allow investments in commercial paper, other corporate debt, commercial paper or other corporate debt during the year.

Concentration of credit risk: The City's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances.

Custodial credit risk – deposits: In the case of deposits, this is the risk that in the

event of a bank failure, the government's deposits may not be returned to it. The City's deposits are 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.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City did not hold any investments during the year.

The component units' deposits were entirely covered by Federal depository insurance and by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there is no loss of public funds.

B. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government

Governmental Activities:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Asset costs				
Land and land improvements	2,525	395	-	2,920
Machinery and equipment, vehicles	\$ 1,829,222	120,183	-	1,949,405
Buildings	651,914	100,946	-	752,860
Infrastructure	2,740,866	1,256,935	-	3,997,801
Construction in progress	824,987	494,541	769,429	550,099
Total assets costs	<u>6,049,514</u>	<u>1,973,000</u>	<u>769,429</u>	<u>7,253,085</u>
Less accumulated depreciation				
Machinery and equipment	1,213,552	110,006	-	1,323,558
Buildings	312,047	17,737	-	329,784
Infrastructure	100,655	83,521	-	184,176
Total accumulated depreciation	<u>1,626,254</u>	<u>211,264</u>	<u>-</u>	<u>1,837,518</u>
Governmental activities capital assets, net	<u>\$ 4,423,260</u>	<u>1,761,736</u>	<u>769,429</u>	<u>5,415,567</u>

Business-type activities:	Balance			Balance
	July 1, 2006	Additions	Disposals	June 30, 2007
Land and improvements	\$ 19,791	-	-	19,791
Machinery and equipment, vehicles	194,413	-	-	194,413
Building	23,891	-	-	23,891
Total assets cost	<u>238,095</u>	<u>-</u>	<u>-</u>	<u>238,095</u>
Less accumulated depreciation				
Land and improvements	1,450	696	-	2,146
Machinery and equipment, vehicles	163,325	20,147	-	183,472
Building	8,551	667	-	9,218
Total accumulated depreciation	<u>173,326</u>	<u>21,510</u>	<u>-</u>	<u>194,836</u>
Business-type assets, net	<u>\$ 64,769</u>	<u>(21,510)</u>	<u>-</u>	<u>43,259</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Public safety	\$ 38,813
Public works	147,472
Culture and recreation	23,638
Community and economic development	10
General government	1,330
Total depreciation expense - governmental funds	<u>\$ 211,263</u>

Business-type activities:

Solid waste	\$ 20,168
Cemetery	1,342
	<u>\$ 21,510</u>

Construction Commitments

The City has active construction projects as of June 30, 2007. At year-end the City's commitments with contractors are as follows:

	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Remaining Commitment</u>
Airport Taxiway and Apron	\$ 532,691	451,473	81,218
Airport Terminal Project	***	335	***
Industrial Park - Construction	776,804	21,618	755,186
Harrison Park Bathrooms	76,674	76,674	A

*** No project estimate

A Project costs are complete, but not put into service until next year.

Discretely Presented Component Units

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Gas Department:				
Land	\$ 1,039	-	-	1,039
Structures & plant	333,319	-	-	333,319
Distribution system	1,154,092	-	-	1,154,092
Equipment, meters & mains	794,619	12,723	-	807,342
Total asset costs	2,283,069	12,723	-	2,295,792
Less accumulated depreciation	(1,434,722)	(56,060)	-	(1,490,782)
Gas Department assets, net	\$ 848,347	(43,337)	-	805,010
Water Department:				
Land	\$ 67,067	-	-	67,067
Structures & plant	517,471	3,424,969	-	3,942,440
Distribution system	1,889,404	19,484	-	1,908,888
Equipment, meters & mains	987,019	8,580	-	995,599
Construction in progress	3,205,371	-	3,205,371	-
Total asset costs	6,666,332	3,453,033	3,205,371	6,913,994
Less accumulated depreciation	(1,610,685)	(184,273)	-	(1,794,958)
Water Department assets, net	\$ 5,055,647	3,268,760	3,268,760	5,119,036
Sanitation Department:				
Land	\$ 84,542	-	-	84,542
Structures & plant	4,348,889	-	-	4,348,889
Distribution system	1,411,983	18,389	-	1,430,372
Equipment, meters & mains	542,432	1,101,227	-	1,643,659
Construction in progress	1,007,484	-	1,007,484	-
Total asset costs	7,395,330	1,119,616	1,007,484	7,507,462
Less accumulated depreciation	(2,759,892)	(165,098)	-	(2,924,990)
Sanitation Department assets, net	\$ 4,635,438	954,518	1,007,484	4,582,472

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

C. Long-term Debt

General Obligation Bonds

Unmatured general obligation bonds totaling \$2,177,166, net of unamortized discount, are outstanding as of June 30, 2007. These bonds bear interest with rates ranging from 1.50% to 5.45%; mature in varying annual amounts through June 30, 2017; and were originally issued for \$3,920,000. Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2,008	\$ 390,000	86,923
2,009	320,000	70,933
2,010	210,000	57,793
2,011	220,000	50,417
2,012	230,000	42,463
2013-2017	840,000	84,035
Total	\$ 2,210,000	392,564

Tax Increment Financing Agreement

A Palo Alto County Company has constructed public infrastructure located in the South Urban Renewal Area. In recognition of the Company's obligation the City agreed to make ten semi-annual tax increment payments in the aggregate principal amount of \$105,000 plus interest at 8.30% per annum, maturing June 1, 2012. Annual debt service requirements to maturity for the tax increment financing agreement are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2,008	\$ 13,287	14,126
2,009	20,212	7,201
2,010	21,924	5,489
2,011	23,781	3,632
2,012	25,796	1,617
Total	\$ 105,000	32,065

As of June 30, 2007, the outstanding general obligation debt of the City did not exceed its legal debt margin computed as follows:

Estimated Actual valuation of taxable property with the City	\$	<u>113,934,760</u>
Debt limit - 5% of total actual valuation	\$	5,696,738
Debt applicable to debt limit:		
General obligation bonds		<u>2,210,000</u>
Legal debt margin	\$	<u>3,486,738</u>

All tax-exempt debt issued by the City is subject to IRS arbitrage rebate unless the City meets the \$5 million small issuers exemption in a given year. As of June 30, 2007, the City had no arbitrage liability.

Debt Summary

Following is a summary of the City's debt transactions for the year ended June 30, 2007, and the total bonded indebtedness of the City as of that date.

	Date of Issue	Balance July 1, 2006	Incurred/ Issued	Redeemed/ Paid	Balance June 30, 2007
Governmental Activities:					
General obligation bonds:					
\$1,060,000 street improvement	1996	\$ 330,000	-	105,000	225,000
\$665,000 corporate purpose	1998	155,000	-	75,000	80,000
\$475,000 corporate purpose	2004	390,000	-	45,000	345,000
\$1,050,000 corporate purpose	2005	985,000	-	95,000	890,000
\$670,000 street improvement	2006	<u>670,000</u>	<u>-</u>	<u>-</u>	<u>670,000</u>
		2,530,000	-	320,000	2,210,000
Less unamortized discount		<u>36,813</u>	<u>-</u>	<u>3,977</u>	<u>32,834</u>
		2,493,187	-	316,021	2,177,166
Tax increment financing agreement	2006	<u>-</u>	<u>105,000</u>	<u>-</u>	<u>105,000</u>
Governmental activity total					
Long-term debt		\$ <u>2,493,187</u>	<u>105,000</u>	<u>316,021</u>	<u>2,282,166</u>

Component Unit Debt Information:

Revenue Bonds and Installment Agreements – Water and Sanitation Utility

The Series 1998A, 1998B, 2005MC60R, 2005 revenue bonds and Iowa Finance Authority Loan and Disbursement Agreement require annual principal payments, due December 1, and semi-annual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 3.00% and 4.23%. The Iowa Finance Authority Loan and Disbursement Agreement' interest rate is 0%. The bonds are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 160,000	110,601	270,601
2009	164,000	105,463	269,463
2010	217,000	100,205	317,205
2011	170,000	94,857	264,857
2012	174,000	89,419	263,419
2013-2025	<u>2,720,000</u>	<u>626,226</u>	<u>3,346,226</u>
	\$ <u>3,605,000</u>	<u>1,126,771</u>	<u>4,731,771</u>

Debt Summary – Water and Sanitation Utility

Long-term debt activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Incurred/ Issued	Redeemed/ Paid	Balance June 30, 2007
Revenue bonds:				
Water Utility:				
Series 2005	\$ 2,750,000	-	102,000	2,648,000
Sanitation Utility:				
Series 1998A	250,000	-	20,000	230,000
Series 1998B	132,000	-	10,000	122,000
Series 2005 MC60R	580,000	-	25,000	555,000
Total revenue bonds	3,712,000	-	157,000	3,555,000
Sanitation Utility:				
Loan and disbursement agreement	50,000	-	-	50,000
Total long-term debt	\$ 3,762,000	-	157,000	3,605,000

D. Due to Component Unit

The City issued the Emmetsburg Municipal Utilities a \$40,000 Urban Renewal Tax Increment Revenue Bond dated October 11, 2006. Principal on this bond shall bear interest at the rate of 4% per annum. The bond is due in 20 equal semi-annual installments of \$2,508 each December 1 and June 1, commencing December 1, 2007. The bond matures on June 1, 2017.

E.. Interfund Transactions

The following transfers represent individual fund interfund transfers as stated in the Fund Financial Statements.

Transfer To	Transfer From	Amount
General Fund	Airport Taxiway Fund	\$ 13,030
	Component Unit	90,804
	Non-major Governmental Funds	<u>377,392</u>
		<u>481,226</u>
Road Use Tax Fund	Non-major Governmental Funds	<u>75,700</u>
Debt Service Fund	General Fund	26,990
	Special Assessments Fund	52,175
	Lake Project Fund	40,480
	Non-major Governmental Funds	<u>68,275</u>
		<u>187,920</u>
Lake Project	General Fund	<u>6,469</u>
Airport Taxiway and Apron Fund	Non-major Governmental Funds	<u>9,583</u>
Non-major Governmental Funds	General Fund	25,102
	Special Assessments Fund	5,000
	Airport Taxiway and Apron	15,042
	Non-major Governmental Funds	<u>181,946</u>
		<u>227,090</u>
	Total	<u>\$ 987,988</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them, to the fund that statute or budget requires to expend them, (2) move debt service payments from general fund, capital projects funds or special revenue funds to the debt service fund as debt service payments come due, (3) to move Interest receipts for the lake project fund for interest earned on its investments and deposited in the general fund by City policy, and (4) to move funds to and from various capital projects funds for the purchase or construction of new capital assets.

F. Interfund Balances

Individual interfund receivables and payable balances by fund type as of June 30, 2007, were stated in the fund financial statements as follows:

Fund	Receivable	Payable
General Fund		\$23,368
Debt Service Fund	\$23,368	
Nonmajor Governmental Funds	\$50,000	\$50,000

Note 4. Other Notes

A. Retirement Systems

IPERS

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$55,008, \$50,900, and \$ 49,588 respectively, equal to the required contributions for each year.

Deferred Compensation Plan

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

B. Other Employee Benefits

The City maintains hospitalization and life insurance coverage for all of its full-time employees. The City pays all costs of the basic insurance. The City also partially self-insures a portion of the health insurance through a medical reimbursement plan. The City had no material claims incurred but not reported as of June 30, 2007.

C. Related Party Transactions

The Component Unit bills and collects for garbage and recycling services provided for by the Solid Waste Fund to its residents. During the year ended June 30, 2007, the Component Unit remitted \$300,784 in billings to the Solid Waste Fund.

D. Risk Management

The City 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.

E. New Governmental Accounting Standards Board (GASB) Standards

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

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* issued April 2004, will be effective for the City for the fiscal year ending June 30, 2008. This statement establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26. This statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* issued June 2004, will be effective for the City for the fiscal year ending June 30, 2010. This statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Statement No. 47, *Accounting for Termination Benefits* issued June 2005, establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of Statement No. 45. For all other termination benefits, this statement is effective for the fiscal year ended June 30, 2006.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenue and Intra—Entity Transfers of Assets and Future Revenues* issued September 2006, establishes criteria that government will use to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings. The statement also includes disclosure requirements for future revenues that are pledged or sold. This statement is effective for the fiscal year ending June 30, 2008.

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* issued November 2006, provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. This statement is effective for the fiscal year ending June 30, 2009.

Statement No. 50, *Pension Disclosures* issued May 2007, will be effective for the fiscal year ending June 30, 2008. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* issued June 2007, will be effective for the fiscal year ending June 30, 2010. This statement requires that all intangible assets not specifically excluded by its scope be classified as capital assets.

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

City of Emmetsburg, Iowa
 Budgetary Comparison Schedule - Function Budget
 For the Year Ended June 30, 2007

	Budgeted Amounts	
	Original	Final
Revenues:		
Property taxes and assessments	\$ 1,065,875	1,065,875
Tax increment financing	86,050	86,050
Other City taxes	430,071	430,071
Licenses and permits	29,886	29,886
Use of money and property	63,725	69,725
Intergovernmental	1,285,767	1,763,682
Charges for services	6,452,433	6,467,433
Special Assessments	70,000	70,000
Miscellaneous	353,451	353,451
Total revenues	<u>9,837,258</u>	<u>10,336,173</u>
Expenditures:		
Current:		
Public safety	488,404	507,984
Public works	669,431	750,146
Culture and recreation	310,017	371,680
Community and economic development	451,967	618,629
General government	278,414	299,074
Debt service	393,360	393,360
Capital projects	843,092	1,824,983
Business-type	6,287,678	6,296,103
Total expenditures	<u>9,722,363</u>	<u>11,061,959</u>
Excess (deficiency) of revenues over (under) expenditures	<u>114,895</u>	<u>(725,786)</u>
Other financing sources (uses):		
Transfers in	1,012,460	1,012,460
Transfers out	(1,012,460)	(1,212,460)
Tax increment agreement	-	564,185
Total other financing sources (uses)	<u>-</u>	<u>364,185</u>
Excess (deficiency) of revenues and other financing sources	114,895	(361,601)
over (under) expenditures and other financing uses	114,895	(361,601)
Fund balances, beginning	<u>12,450,623</u>	<u>12,450,623</u>
Fund balances, ending	<u>\$ 12,565,518</u>	<u>12,089,022</u>

See notes to the required supplementary information.

<u>Actual Amounts</u>	<u>Variance with Final Budget - (Negative)</u>
1,108,502	42,627
76,339	(9,711)
449,677	19,606
17,869	(12,017)
192,967	123,242
970,638	(793,044)
4,223,074	(2,244,359)
32,606	(37,394)
535,703	182,252
<u>7,607,375</u>	<u>(2,728,798)</u>
466,264	41,720
642,917	107,229
452,262	(80,582)
219,598	399,031
288,854	10,220
422,997	(29,637)
1,109,497	715,486
<u>3,967,334</u>	<u>2,328,769</u>
<u>7,569,723</u>	<u>3,492,236</u>
<u>37,652</u>	<u>763,438</u>
995,988	(16,472)
(995,988)	216,472
105,000	(459,185)
<u>105,000</u>	<u>(259,185)</u>
142,652	504,253
<u>13,215,376</u>	<u>764,753</u>
<u>13,358,028</u>	<u>1,269,006</u>

City of Emmetsburg, Iowa
Notes to Required Supplementary Information - Budgetary Reporting
For the Year ended June 30, 2007

1. Budgetary Reporting

The budget includes the Component Unit's budgeted figures as well as the Primary Government's budgeted figures.

The budgetary comparison is presented as Required Supplementary Information in accordance with Government 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 modified accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the budget basis and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of expenditures known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function expenditures required to be budgeted include expenditures for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, and Enterprise Funds. Although the budget document presents function expenditures by fund, the legal level of control is at the aggregated function level, not by fund.

During the year, the budget amendments increased budgeted expenditures by \$1,339,596. These budget amendments are reflected in the final budgeted amounts.

City of Emmetsburg, Iowa
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2007
 (Page 1 of 3)

	Special Revenue		
	Emergency Fund	Employee Benefit Fund	Local Option Sales Tax Fund
ASSETS			
Cash	\$ 168	45,316	232,818
Investments	-	-	-
Receivables			
Property taxes	345	6,101	-
Accounts	-	-	-
Accrued interest	-	-	-
Other	-	-	-
Due from other funds	-	-	-
Due from other governments	-	-	28,441
Total assets	<u>\$ 513</u>	<u>51,417</u>	<u>261,259</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	-	-
Due to other funds	-	-	-
Due to Component Unit	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Unreserved, undesignated, reported in:			
Special revenue funds	513	51,417	261,259
Capital projects funds	-	-	-
Total fund balances (deficit)	<u>513</u>	<u>51,417</u>	<u>261,259</u>
 Total liabilities and fund balances	 <u>\$ 513</u>	 <u>51,417</u>	 <u>261,259</u>

Special Revenue

Hotel and Motel Tax Fund	South TIF Fund	North TIF Fund	North TIF LMI Set Aside Fund	CDBG Housing Rehabilitation Fund	Wild Rose Allocation Fund
26,434	487	50,414	1,158	20,611	77,650
-	-	-	-	-	-
-	716	-	-	-	-
-	-	-	-	-	7,557
-	-	-	-	-	-
-	-	-	-	-	-
23,542	-	-	-	20,986	-
<u>49,976</u>	<u>1,203</u>	<u>50,414</u>	<u>1,158</u>	<u>41,597</u>	<u>85,207</u>
-	-	-	-	18,295	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,295</u>	<u>-</u>
49,976	1,203	50,414	1,158	23,302	85,207
<u>49,976</u>	<u>1,203</u>	<u>50,414</u>	<u>1,158</u>	<u>23,302</u>	<u>85,207</u>
<u>49,976</u>	<u>1,203</u>	<u>50,414</u>	<u>1,158</u>	<u>41,597</u>	<u>85,207</u>

City of Emmetsburg, Iowa
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007
(Page 2 of 3)

	Special Revenue		
	ECDC Trust Fund	Perpetual Care Fund	ECDC Revolving Loan Fund
ASSETS			
Cash	\$ 109,499	65,565	27,988
Investments	2,350	-	-
Receivables			
Property taxes	-	-	-
Accounts	407	-	-
Accrued interest	-	-	-
Other	-	-	-
Due from other funds	-	-	-
Due from other governments	-	-	-
Total assets	<u>\$ 112,256</u>	<u>65,565</u>	<u>27,988</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,400	-	-
Due to other funds	-	-	-
Due to Component Unit	-	-	-
Total liabilities	<u>1,400</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Unreserved, undesignated, reported in:			
Special revenue funds	110,856	65,565	27,988
Capital projects funds	-	-	-
Total fund balances (deficit)	<u>110,856</u>	<u>65,565</u>	<u>27,988</u>
Total liabilities and fund balances	<u>\$ 112,256</u>	<u>65,565</u>	<u>27,988</u>

Special Revenue	Capital Projects				
Community Beautification Fund	Improvement Revolving Fund	South Grand Fund	Rail Road Fund	Kearny Park Fund	First Street Fund
10,032	64,839	2,845	49,847	5,443	4,275
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>10,032</u>	<u>64,839</u>	<u>2,845</u>	<u>49,847</u>	<u>5,443</u>	<u>4,275</u>
-	-	1,100	-	17,820	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	<u>1,100</u>	-	<u>17,820</u>	-
10,032	-	-	-	-	-
-	64,839	1,745	49,847	(12,377)	4,275
<u>10,032</u>	<u>64,839</u>	<u>1,745</u>	<u>49,847</u>	<u>(12,377)</u>	<u>4,275</u>
<u>10,032</u>	<u>64,839</u>	<u>2,845</u>	<u>49,847</u>	<u>5,443</u>	<u>4,275</u>

City of Emmetsburg, Iowa
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007
(Page 3 of 3)

	Capital Projects		
	Highway 18/ Urban Fund	Airport Runway Fund	Airport Fuel Facility Fund
ASSETS			
Cash	\$ -	-	-
Investments	-	-	-
Receivables			
Property taxes	-	-	-
Accounts	-	-	-
Accrued interest	-	-	-
Other	-	-	-
Due from other funds	50,000	-	-
Due from other governments	-	34,472	-
Total assets	<u>\$ 50,000</u>	<u>34,472</u>	<u>-</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	-	-
Due to other funds	-	-	-
Due to Component Unit	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Unreserved, undesignated, reported in:			
Special revenue funds	-	-	-
Capital projects funds	50,000	34,472	-
Total fund balances (deficit)	<u>50,000</u>	<u>34,472</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 50,000</u>	<u>34,472</u>	<u>-</u>

Capital Projects			Total
Housing Development Fund	Airport Terminal Fund	Sewell Park Fund	Nonmajor Governmental Funds
-	1,405	17,071	813,865 2,350
-	-	-	7,162
-	-	-	7,964
-	-	-	-
-	-	-	50,000
-	-	-	107,441
-	1,405	17,071	988,782
-	-	-	38,615
50,000	-	-	50,000
40,000	-	-	40,000
90,000	-	-	128,615
-	-	-	738,890
(90,000)	1,405	17,069	121,275
(90,000)	1,405	17,069	860,165
-	1,405	17,069	988,780

City of Emmetsburg, Iowa
Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor governmental Funds
For the Year Ended June 30, 2007
(Page 1 of 3)

	Special Revenue			
	Emergency Fund	Employee Benefit Fund	Local Option Sales Tax Fund	Hotel and Motel Tax Fund
Revenues:				
Property taxes	\$ 17,015	300,601	-	-
Tax increment financing	-	-	-	-
Other city taxes	-	-	321,474	105,178
Licenses and permits	-	-	-	-
Use of money and property	-	-	6,382	1,054
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Special Assessments	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>17,015</u>	<u>300,601</u>	<u>327,856</u>	<u>106,232</u>
Expenditures:				
Current:				
Public safety	-	-	-	-
Public works	-	-	11,273	-
Health and social services	-	-	-	-
Culture and recreation	-	-	8,844	-
Community and economic development	-	-	235	12,000
General government	-	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>20,352</u>	<u>12,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>17,015</u>	<u>300,601</u>	<u>307,504</u>	<u>94,232</u>
Other financing sources (uses)				
Transfers in			11,770	-
Transfers out	(16,991)	(288,311)	(160,883)	(52,320)
Tax increment agreement				
Total other financing sources (uses)	<u>(16,991)</u>	<u>(288,311)</u>	<u>(149,113)</u>	<u>(52,320)</u>
Net change in fund balances	24	12,290	158,391	41,912
Fund balances (deficits), beginning	489	39,127	102,868	8,064
Fund balances (deficit), ending	<u>\$ 513</u>	<u>51,417</u>	<u>261,259</u>	<u>49,976</u>

Special Revenue				
South TIF Fund	North TIF Fund	North TIF LMI Set Aside Fund	CDBG Housing Rehabilitation Fund	Wild Rose Allocation Fund
-	-	-	-	-
29,114	47,225	-	-	-
-	-	-	-	-
659	2,052	1,222	-	-
-	-	-	25,486	-
-	-	-	281	1,358
-	-	-	-	-
-	-	-	48	120,472
<u>29,773</u>	<u>49,277</u>	<u>1,222</u>	<u>25,815</u>	<u>121,830</u>
-	-	-	-	3,852
-	-	-	-	-
-	-	-	-	-
-	-	-	-	18,126
-	26,261	-	58,652	19,790
-	-	-	-	1,660
-	-	-	-	-
-	<u>26,261</u>	<u>-</u>	<u>58,652</u>	<u>43,428</u>
<u>29,773</u>	<u>23,016</u>	<u>1,222</u>	<u>(32,837)</u>	<u>78,402</u>
-	-	20,910	52,068	-
(56,118)	(20,910)	(72,823)	-	(5,150)
<u>(56,118)</u>	<u>(20,910)</u>	<u>(51,913)</u>	<u>52,068</u>	<u>(5,150)</u>
(26,345)	2,106	(50,691)	19,231	73,252
27,548	48,308	51,849	4,071	11,955
<u>1,203</u>	<u>50,414</u>	<u>1,158</u>	<u>23,302</u>	<u>85,207</u>

City of Emmetsburg, Iowa
Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor governmental Funds
For the Year Ended June 30, 2007
(Page 2 of 3)

	Special Revenue			
	ECDC Trust Fund	Perpetual Care Fund	ECDC Revolving Loan Fund	Community Beautification Fund
Revenues:				
Property taxes	\$ -	-	-	-
Tax increment financing	-	-	-	-
Other city taxes	-	-	-	-
Licenses and permits	-	-	-	-
Use of money and property	4,685	-	1,067	32
Intergovernmental	3,022	-	-	-
Charges for services	-	-	-	-
Special Assessments	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	55,279	960	-	-
Total revenues	<u>62,986</u>	<u>960</u>	<u>1,067</u>	<u>32</u>
Expenditures:				
Current:				
Public safety	-	-	-	-
Public works	-	-	-	-
Health and social services	-	-	-	-
Culture and recreation	28,823	-	-	-
Community and economic development	44,959	-	-	-
General government	-	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total expenditures	<u>73,782</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,796)</u>	<u>960</u>	<u>1,067</u>	<u>32</u>
Other financing sources (uses)				
Transfers in	15,050	-	-	10,000
Transfers out	-	-	-	-
Tax increment agreement	-	-	-	-
Total other financing sources (uses)	<u>15,050</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Net change in fund balances	4,254	960	1,067	10,032
Fund balances (deficits), beginning	106,602	64,605	26,921	-
Fund balances (deficits), ending	<u>\$ 110,856</u>	<u>65,565</u>	<u>27,988</u>	<u>10,032</u>

Capital Projects

Improvement Revolving Fund	South Grand Fund	Rail Road Fund	Kearny Park Fund	First Street Fund
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	40	1,267	235	541
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
2,315	-	-	-	-
<u>2,315</u>	<u>40</u>	<u>1,267</u>	<u>235</u>	<u>541</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	3,315	16,200	35,820	-
-	<u>3,315</u>	<u>16,200</u>	<u>35,820</u>	-
<u>2,315</u>	<u>(3,275)</u>	<u>(14,933)</u>	<u>(35,585)</u>	<u>541</u>
18,463	5,000	45,540	13,972	-
(24,390)	-	-	-	(23,000)
-	-	-	-	-
<u>(5,927)</u>	<u>5,000</u>	<u>45,540</u>	<u>13,972</u>	<u>(23,000)</u>
(3,612)	1,725	30,607	(21,613)	(22,459)
68,451	20	19,240	9,236	26,734
<u>64,839</u>	<u>1,745</u>	<u>49,847</u>	<u>(12,377)</u>	<u>4,275</u>

City of Emmetsburg, Iowa
Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor governmental Funds
For the Year Ended June 30, 2007
(Page 3 of 3)

	Capital Projects			
	Highway 18/ Urban Fund	Airport Runway Fund	Airport Fuel Facility Fund	Housing Development Fund
Revenues:				
Property taxes	\$ -	-	-	-
Tax increment financing	-	-	-	-
Other city taxes	-	-	-	-
Licenses and permits	-	-	-	-
Use of money and property	3,380	-	18	-
Intergovernmental	208,868	34,472	31,780	-
Charges for services	-	-	-	-
Special Assessments	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>212,248</u>	<u>34,472</u>	<u>31,798</u>	<u>-</u>
Expenditures:				
Current:				
Public safety	-	-	-	-
Public works	-	-	-	-
Health and social services	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	-	-
General government	-	-	-	-
Debt service	29,637	-	-	-
Capital projects	260,792	-	46,840	208,359
Total expenditures	<u>290,429</u>	<u>-</u>	<u>46,840</u>	<u>208,359</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(78,181)</u>	<u>34,472</u>	<u>(15,042)</u>	<u>(208,359)</u>
Other financing sources (uses)				
Transfers in	4,216	-	15,042	13,359
Transfers out	-	-	-	-
Tax increment agreement	-	-	-	105,000
Total other financing sources (uses)	<u>4,216</u>	<u>-</u>	<u>15,042</u>	<u>118,359</u>
Net change in fund balances	(73,965)	34,472	-	(90,000)
Fund balances (deficits), beginning	123,965	-	-	-
Fund balances (deficits), ending	<u>\$ 50,000</u>	<u>34,472</u>	<u>-</u>	<u>(90,000)</u>

Capital Projects		
Airport Terminal Fund	Sewell Park Fund	Nonmajor Governmental Funds
-	-	317,616
-	-	76,339
-	-	426,652
-	-	-
40	597	23,271
-	-	303,628
-	-	1,639
-	-	-
-	-	-
-	2,394	181,468
<u>40</u>	<u>2,991</u>	<u>1,330,613</u>
-	-	3,852
-	-	11,273
-	-	-
-	-	55,793
-	-	161,897
-	-	1,660
-	-	29,637
<u>335</u>	<u>395</u>	<u>572,056</u>
<u>335</u>	<u>395</u>	<u>836,168</u>
<u>(295)</u>	<u>2,596</u>	<u>494,445</u>
1,700	-	227,090
-	-	(720,896)
-	-	105,000
<u>1,700</u>	<u>-</u>	<u>(388,806)</u>
1,405	2,596	105,639
-	14,473	754,526
<u>1,405</u>	<u>17,069</u>	<u>860,165</u>

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

	Modified Accrual Basis			
	2007	2006	2005	2004
Revenues:				
Property taxes	\$ 1,108,502	1,029,329	1,037,229	956,789
Tax increment financing	76,339	54,733	135,058	97,240
Other City taxes	449,677	60,258	23,268	268,553
Licenses and permits	17,869	19,745	9,846	8,806
Use of money and property	95,116	77,524	56,203	46,966
Intergovernmental	933,757	1,575,834	712,256	663,115
Charges for services	35,706	38,425	55,368	85,757
Special Assessments	32,606	87,327	158,407	132,464
Miscellaneous	478,416	187,899	120,229	96,025
Total revenues	<u>\$ 3,227,988</u>	<u>3,131,074</u>	<u>2,307,864</u>	<u>2,355,715</u>
Expenditures:				
Current:				
Public safety	\$ 466,264	443,517	406,277	404,511
Public works	642,917	552,371	484,170	694,189
Culture and recreation	452,262	237,741	224,900	236,516
Community and economic development	219,598	115,743	139,648	172,840
General government	288,854	270,822	249,245	254,522
Debt service	422,997	417,892	375,832	272,031
Capital projects	1,109,497	2,055,638	1,261,356	396,755
Total expenditures	<u>\$ 3,602,389</u>	<u>4,093,724</u>	<u>3,141,428</u>	<u>2,431,364</u>

Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

Edwin J. Burdorf, CPA
Patrick J. Parrott, CPA
www.accountant-city.com/burdorf

3131 Main, P.O. Box 359
Emmetsburg, Iowa 50536
Phone: 712-852-3347
Fax: 712-852-3348

INDEPENDENT AUDITORS' 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 City
of Emmetsburg, Iowa

We have audited the financial statements of the City of Emmetsburg, Iowa as of and for the year ended June 30, 2007, and have issued our reports thereon dated February 5, 2008. 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

A control deficiency exists when the design or operation of a 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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs 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 that a material misstatement of the financial statements will not be prevented or detected by the City'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, we believe the reportable condition described in item I-B-07, is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Emmetsburg, Iowa and other parties to whom the City of Emmetsburg 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 Emmetsburg 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.

Burdorf, Parrott And Associates, P.C.

February 5, 2008

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS

I-A-07 Segregation of Duties – During our review of internal controls, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. Over the past years, the City has implemented various procedures to enhance their internal controls. However, due to time and staffing constraints, the City is still unable to fully segregate receipt and posting functions, disbursement preparation and posting functions and reconciliation function from receipt and disbursement functions.

Recommendation – We recognize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response – The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control. There will be no change until it is fiscally responsible to add additional staff.

Conclusion – Response accepted.

I-B-07 Audit Adjustments

Criteria - The City should have adequate procedures to provide for the accuracy and reliability of the trial balance given to the auditor.

Condition - During the course of the audit, misstatements that had a material effect on the City's financial statement were discovered. Adjusting journal entries were made to correct these misstatements.

Context - Although adjustments during the course of an audit are not uncommon, the independent auditor cannot be considered part of the City's internal control system.

Effect - As a result of this condition, there is a higher risk that misstatements that are material to the financial statements could occur and not be detected.

Cause - The City has relied on the independent auditor to some degree to provide assurance that the financial statements are not materially misstated.

Recommendation - We recommend that the City establish internal procedures to adjust all account balances prior to the audit.

Response - Management believes this change will result in potential financial statement misstatements being identified and corrected

prior to audit.

Conclusion - Response accepted.

I-C-07

Preparation of Financial Statements

Criteria - The City Council and management share the ultimate responsibility for the City's financial statements, including disclosures.

Condition - The City has not implemented procedures, to the degree necessary, to perform a review and assume responsibility of the City's financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors that are less material, but more inconsequential, would be identified and corrected.

Context: - While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced. The independent auditor cannot be considered part of the City's internal control system. The City has implemented procedures to review the financial statements and disclosures but has not utilized review aids, such as a disclosure checklist, and may not have monitored recent accounting developments to the extent necessary to provide a high level of assurance that financial statement omissions or other errors would be identified and corrected.

Effect - As a result of this condition, there is a higher risk that financial statement omissions or other errors could occur and not be detected.

Cause - The City has relied on the independent auditor to some degree to provide assurance that the financial statements, including disclosures, are not materially misstated.

Recommendation -

We recommend that sufficient financial statement and disclosure review procedures be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the City's activities and operations.

Response - The City does not have the resources to employ staff possessing the detailed understanding of applicable generally accepted accounting principles to the extent required to utilize such a disclosure checklist. We understand the list of GAAP requirements in these disclosure checklists exceeds 50 pages in length. As a result, the City of Emmetsburg has relied on the independent auditor to identify disclosures required in the financial statements.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-07 Official Depositories - A resolution naming official depositories has been adopted by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year.

II-B-07 Certified Budget – Expenditures during the year ended June 30, 2007 exceeded the amount budgeted in the debt service function by \$29,637 and culture and recreation by \$80,582.

Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - It appears that the budget was over expended because of misclassification of expenditures such as interest of \$29,637 recorded in the capital improvements fund equal to the over expended amount in the debt service budget. The over expenditure in the culture and recreation seemed to be due to classifying capital outlay in the special assessments funds as capital projects. The City should carefully review their records to make sure that items are correctly classified before amending their budget.

Response – The City will review the classification of expenditures prior to the next budget amendment to make sure that all expenditures are recorded in the correct function.

Conclusion – Response accepted.

II-C-07 Questionable Expenditures – There were no questionable expenditures that fell outside its established policy on such costs.

II-D-07 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

II-E-08 Business Transactions - Business transactions between the City and City officials or employees are as follows:

<u>Steve Finer, Council person</u>		
Jensvold Motor Company	Pickup Truck Repairs and Supplies	\$21,315 2,838

In accordance with Chapter 362.5 of the Code of Iowa, the transaction with Jensvold Motor Company may represent a conflict of interest for the repairs and supplies since the total purchases exceed a cumulative total of \$1,500 for the year. The pickup was entered into through competitive bidding in accordance with Chapter 362.5(4).

Recommendation: The City should use competitive bidding process when practicable.

Response: The transactions were for normal expenses. A competitive bidding process is not always practical, however, we will endeavor to competitively bid the work when practicable.

Conclusion: Response accepted.

- II-F-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 ensure that coverage is adequate for current operations.
- II-G-07 Council Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-07 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.