CITY OF ESTHERVILLE

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

JUNE 30, 2009

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CITY OF ESTHERVILLE

Officials

Name	Title	Term Expires
Lyle Hevern	Mayor	January 2010
Harold Sawyer	Mayor Pro Tem	January 2012
Susan Nelson	Council Member	January 2012
Harold Sawyer	Council Member	January 2012
Richard Sidles	Council Member	Resigned, July 2008
Joseph Swisher	Council Member	Resigned, Oct 2008
Larry W. Anderson	Council Member	January 2010
Loralee Donovan	Council Member	January 2010
Gene Haukoos	Council Member	January 2012
Dave Seylar	Council Member	January 2010
John Wittneben	Council Member	January 2010
Steven D. Woodley	City Administrator	Retired, June 2009
Penny A. Clayton	City Administrator	Indefinite
Vaughn Brua	City Clerk/Finance Director/Treasurer	January 2010
Connie Hanson	Deputy City Clerk	January 2010
Forsyth Law Office	Attorney	January 2010

City of Estherville

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Estherville, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Estherville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Estherville as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2009 on our consideration of the City of Estherville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 13 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Estherville's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Brinkman & Reed, CPA's

Brinkman & Reed, CPA's

September 15, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements.

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

2009 FINANCIAL HIGHLIGHTS

Expenditures during fiscal year 2009 did not exceed budgeted appropriation.

The City's total expenses exceeded total revenues by $349,581 during fiscal year 2009. Income had exceeded expenses by $507,250 during fiscal year 2008.

The City's total expenditures increased from $11,558,586 in fiscal year 2008 to $12,938,352 in fiscal year 2009. This is an increase of $1,379,766 or 11.9%.

The City's total revenue increased from $12,065,836 in fiscal year 2008 to $12,588,771 in fiscal year 2009. This is an increase of $522,935 or 4.3%.

The increased revenue relates to an additional $569,000 generated from charges for services. Water and solid waste rate increases represent the majority of the increase.

Water, wastewater, and electrical account for approximately $508,000 of increased expenditures. The payment of $763,000 to the IDOT for the 2005 Highway #4 & #9 projects represent the remaining increase.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from one year ago, from $5.127 million to $4.786 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Change in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30, 2009	Year ended June 30, 2008
Receipts and transfers:		
Program receipts:		
Charges for service	$ 769	$ 688
Operating grants, contributions and restricted interest	723	646
Capital grants, contributions and restricted interest	96	133
General receipts:		
Property tax levied for:		
General purposes	1,746	1,724
Tax increment financing	354	207
Debt service	155	145
Hotel/Motel Tax	81	81
Local Options Sales Tax	141	0
Unrestricted investment earnings	151	234
Miscellaneous	30	38
Loan Proceeds	0	268
Sale of Assets	1	4
Transfers, net	1,127	1,209
Total receipts and transfers	5,374	5,377
Disbursements:		
Public safety	1,089	1,455
Public works	2,571	1,473
Health and social services	5	5
Culture and recreation	649	601
Community and economic development	254	196
General government	854	804
Debt service	269	237
Capital projects	24	78
Total disbursements	5,715	4,849
Increase (decrease) in cash basis net assets	(341)	528
Cash basis net assets beginning of year	5,127	4,599
Cash basis net assets end of year	$ 4,786	$ 5,127

The City's cash balance for business type activities decreased from $4.334 million one year ago to $4.325 million at year-end. The analysis that follows focuses on changes in business type activities.

Change in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30, 2009	2008
Receipts and transfers:		
Program receipts:		
Charges for service		
Water	$1,437	$ 1,098
Sewer rental	1,215	1,156
Electric	5,557	5,504
Electric emergency		0
Airport	93	54
Electric Aerial Service	0	1
General receipts:		
Unrestricted interest on investment	37	82
Miscellaneous	1	1
Sale of Assets		2
Total receipts	8,340	7,898
Disbursements and transfers:		
Water	1,220	1,030
Wastewater emergency	0	30
Sewer rental	1,043	1,094
Electric	4,325	4,469
Electric emergency	483	19
Airport	57	53
Electric Aerial Service	0	4
Enterprise equipment revolving	94	11
Transfers	1,127	1,209
Total disbursements and transfers	8,349	7,919
Increase (decrease) in cash basis net assets	(9)	(21)
Cash basis net assets beginning of year	4,334	4,355
Cash basis net assets end of year	$4,325	$ 4,334

To aid in the understanding of the Statement of Activities on page 16, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers and utility customers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

For the year ending June 30, 2009, governmental funds totaled $4,786,136. This is a decrease of $340,912 from the June 30, 2008 balance of $5,127,048.

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

- The total General Fund cash balance increased $556 from the prior year to $1,722,796 on June 30, 2009. On June 30, 2008, the General Fund consisted of six balances. During the fiscal year the undesignated General Fund decreased $67,924 to $934,340. The designated Parks & Recreation Revolving Fund increased $16,257 to $49,651, the designated Equipment Revolving Fund - General increased $84,625 to $468,385, the designated Library - Sanborn Fund decreased $4,912 to $233,539, the designated Library - Pearson Fund decreased $27,916 to $24,074, and the designated Police Miscellaneous Fund increased $426 to $12,807.
- The Road Use Tax Fund cash balance decreased during the fiscal year by $764,267 to a balance of $1,692,105 on June 30, 2009. The reduction in fund balance was very close to the payment of $763,289 to the Iowa Department of Transportation (IDOT). The payment represented the city's share of the IDOT's 2005 construction projects on Highways #9 and #4.
- During fiscal year 2009 the Economic Development met the criteria for classification as a major fund. The fund balance on June 30, 2008, was $445,846. The ending balance increased by $156,378 to $602,224 on June 30, 2009. The primary reason for the increase in fund balance was revenue of $212,550 from Tax Increment Financing Districts.
- Detailed information on the major governmental funds is shown on page 17.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- The Water Fund cash balance increased by $5,020 to $329,151 on June 30, 2009.
- The Water Emergency Fund increased by $5,444 to $520,149 on June 30, 2009.
- The Wastewater Fund cash balance increased by $13,373 to $377,650 on June 30, 2009.
- The Electric Fund cash balance increased by $146,625 to $1,223,294 on June 30, 2009.
- The Electric Emergency Fund cash balance decreased by $260,049 to $918,426 on June 30, 2009.
- The Equipment Revolving-Enterprise Fund cash balance increased by $43,000 to $569,675 on June 30, 2009.
- Detailed information on the major business-type funds is shown on page 20.

BUDGETARY HIGHLIGHTS

On May 18, 2009, an amendment to the fiscal year 2009 budget was approved for the amount of $330,000. The amendment authorized the larger than anticipated city share of the 2005 state construction project, building repair and equipment replacement at the library, mandatory modifications at the swimming pool, costs related to filling the city administrator position, and engine repair at the power plant.

Total expenditures during the fiscal year did not exceed the authorized budget as amended.

DEBT ADMINISTRATION

On June 30, 2009, the City had $1,120,000 in general obligation bonds/notes outstanding compared to $1,275,000 last year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City of Estherville's outstanding general obligation debt of $1,120,000 is significantly below its constitutional debt limit of over $9.9 million.

The balance of a loan for the purchase of a fire tanker truck decreased from $71,601 on June 30, 2008, to $55,885 on June 30, 2009.

The balance on a lease-purchase agreement for the purchase of a fire pumper truck decreased from $268,000 on June 30, 2008, to $245,978 on June 30, 2009.

The total City debt on June 30,2009, was $1,421,863.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the upcoming fiscal year ending June 30, 2010, the City's budgeted expenditures are approximately $1,720,000 larger than fiscal year 2009. Two large construction projects are included in the fiscal year 2010 budget totaling $2,600,000. The projects include construction of a filter addition and a new ground storage reservoir at the water treatment plant and a mandated disinfection building at the wastewater treatment plant. These projects will require long-term financing. Water and wastewater rate increases will be proposed to fund the debt repayment.

The property tax levy remains at $16.50/$1,000 of taxable valuation. The budgeted fund balance for the General Fund declines by approximately $180,000.

The City was very fortunate the Local Option Sales Tax (LOST) referendum was approved in August 2008. The revenue generated by LOST supports General Fund activities and provides funds for Community Betterment Projects.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of Estherville

Basic Financial Statements

CITY OF ESTHERVILLE
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2009

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	$ 1,088,479	$ 41,059	$ 52,611	$ 4,500	$ (990,309)	$ -	$ (990,309)
Public works	2,570,899	612,690	552,247	57,244	(1,348,718)	-	(1,348,718)
Health and social services	5,297	-	-	-	(5,297)	-	(5,297)
Culture and recreation	648,557	18,140	16,660	6,549	(607,208)	-	(607,208)
Community and economic development	254,250	-	101,212	-	(153,038)	-	(153,038)
General government	853,777	97,053	-	-	(756,724)	-	(756,724)
Debt service	269,456	-	-	-	(269,456)	-	(269,456)
Capital projects	24,430	-	-	28,248	3,818	-	3,818
Total governmental activities	5,715,145	768,942	722,730	96,541	(4,126,932)	-	(4,126,932)
Business type activities:							
Water	1,220,276	1,437,139	-	-	-	216,863	216,863
Wastewater	1,043,467	1,215,228	-	-	-	171,761	171,761
Electric	4,324,932	5,556,919	-	-	-	1,231,987	1,231,987
Electric emergency	482,989	-	-	-	-	(482,989)	(482,989)
Airport	57,308	92,718	-	-	-	35,410	35,410
Electric aerial services	115	224	-	-	-	109	109
Enterprise equipment revolving	94,120	-	-	-	-	(94,120)	(94,120)
Total business type activities	7,223,207	8,302,228	-	-	-	1,079,021	1,079,021
Total	$ 12,938,352	$ 9,071,170	$ 722,730	$ 96,541	(4,126,932)	1,079,021	(3,047,911)
General Receipts:							
Property tax levied for:							
General purposes					1,746,201	-	1,746,201
Tax increment financing					353,698	-	353,698
Debt service					154,717	-	154,717
Local Option Sales Tax					141,514	-	141,514
Hotel/Motel Tax					80,594	-	80,594
Unrestricted interest on investments					150,819	38,609	189,428
Miscellaneous					30,589	709	31,298
Sale of capital assets					880	-	880
Transfers					1,127,008	(1,127,008)	-
Total general receipts and transfers					3,786,020	(1,087,690)	2,698,330
Change in cash basis net assets					(340,912)	(8,669)	(349,581)
Cash basis net assets beginning of year					5,127,048	4,333,957	9,461,005
Cash basis net assets end of year					$ 4,786,136	$ 4,325,288	$ 9,111,424
Cash Basis Net Assets							
Restricted:							
Road use tax					$ 1,692,105	$ -	$ 1,692,105
Economic Development					602,224	-	602,224
Other Purposes					651,717	-	651,717
Permanent fund:							
Expendable					45,908	-	45,908
Nonexpendable					57,574	-	57,574
Unrestricted					1,736,608	4,325,288	6,061,896
Total cash basis net assets					$ 4,786,136	$ 4,325,288	$ 9,111,424

See notes to financial statements.

CITY OF ESTHERVILLE
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2009

	General	Special Revenue: Road Use Tax	Special Revenue: Economic Development	Nonmajor	Total
Receipts:					
Property tax	$ 1,002,269	$ -	$ -	$ 871,759	$ 1,874,028
Tax increment financing	-	-	-	353,698	353,698
Other city tax	96,297	-	-	152,702	248,999
Licenses and permits	78,378	-	-	-	78,378
Use of money and property	149,707	-	4,435	2,898	157,040
Intergovernmental	69,486	552,247	-	113,818	735,551
Charges for service	689,896	-	-	-	689,896
Special assessments	-	57,244	-	-	57,244
Miscellaneous	29,674	3,415	3,350	15,642	52,081
Total receipts	2,115,707	612,906	7,785	1,510,517	4,246,915
Disbursements:					
Operating:					
Public safety	868,173	-	-	220,306	1,088,479
Public works	1,050,254	1,377,173	-	143,472	2,570,899
Health and social services	5,297	-	-	-	5,297
Culture and recreation	550,177	-	-	98,380	648,557
Community and economic development	40,375	-	17,500	196,375	254,250
General government	703,576	-	-	150,201	853,777
Debt service	-	-	-	269,456	269,456
Capital projects	-	-	-	24,430	24,430
Total disbursements	3,217,852	1,377,173	17,500	1,102,620	5,715,145
Excess (deficiency) of receipts over (under) disbursements	(1,102,145)	(764,267)	(9,715)	407,897	(1,468,230)
Other financing sources (uses):					
Sale of capital assets	880	-	-	-	880
Operating transfers in	1,171,726	-	212,550	282,562	1,666,838
Operating transfers out	(69,905)	-	(46,457)	(423,468)	(539,830)
Total other financing sources (uses)	1,102,701	-	166,093	(140,906)	1,127,888
Net change in cash balances	556	(764,267)	156,378	266,991	(340,342)
Cash balances beginning of year	1,722,240	2,456,372	445,846	468,613	5,093,071
Cash balances end of year	$ 1,722,796	$ 1,692,105	$ 602,224	$ 735,604	$ 4,752,729
Cash Basis Fund Balances					
Reserved:					
Debt Service	$ -	$ -	$ -	$ 52,941	$ 52,941
Permanent fund	-	-	-	57,574	57,574
Unreserved:					
General fund	1,722,796	-	-	-	1,722,796
Special revenue funds	-	1,692,105	602,224	585,438	2,879,767
Capital projects funds	-	-	-	(6,257)	(6,257)
Permanent fund	-	-	-	45,908	45,908
Total cash basis fund balances	$ 1,722,796	$ 1,692,105	$ 602,224	$ 735,604	$ 4,752,729

See notes to financial statements.

City of Estherville

CITY OF ESTHERVILLE

Exhibit C

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the year ended June 30, 2009

Total governmental funds cash balances (page 17)	$ 4,752,729
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The assets of the Garage Fund are included in governmental activities in the Statement of Net Assets.	33,407
Cash basis net assets of governmental activities (page 16)	$ 4,786,136
Net change in governmental funds cash balances (page 17)	$ (340,342)
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The change in net assets of the Garage Fund is included in governmental activities in the Statement of Net Assets.	(570)
Change in cash balance of governmental activities (page 16)	$ (340,912)

See notes to financial statements.

Exhibit D

CITY OF ESTHERVILLE
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2009

	Enterprise								
	Water	Water Emergency	Wastewater	Electric	Electric Emergency	Equipment Revolving	Other Nonmajor Proprietary Funds	Total	Internal Service Funds
Operating receipts:									
Use of money and property	$ -	$ -	$ -	$ 20	$ -	$ -	$ 80,565	$ 80,585	$ -
Charges for service	1,437,139	-	1,215,228	5,556,899	-	-	12,377	8,221,643	325,478
Miscellaneous	-	-	-	-	-	-	-	-	9,277
Total operating receipts	1,437,139	-	1,215,228	5,556,919	-	-	92,942	8,302,228	334,755
Operating disbursements:									
Governmental activities:									
Public safety	-	-	-	-	-	-	-	-	52,858
Public works	-	-	-	-	-	-	-	-	138,979
Culture and recreation	-	-	-	-	-	-	-	-	15,916
General government	-	-	-	-	-	-	-	-	4,133
Business type activities	1,220,276	-	1,043,467	4,324,932	482,989	94,120	57,423	7,223,207	113,592
Total operating disbursements	1,220,276	-	1,043,467	4,324,932	482,989	94,120	57,423	7,223,207	325,478
Excess (deficiency) of operating receipts over (under) operating disbursements	216,863	-	171,761	1,231,987	(482,989)	(94,120)	35,519	1,079,021	9,277
Non-operating receipts (disbursements):									
Interest on investments	-	5,444	-	15,762	13,313	-	4,090	38,609	-
Non-program	-	-	-	-	-	-	-	-	(9,138)
Total non-operating receipts (disbursements)	-	5,444	-	15,762	13,313	-	4,090	38,609	(9,138)
Excess (deficiency) of receipts over (under) disbursements	216,863	5,444	171,761	1,247,749	(469,676)	(94,120)	39,609	1,117,630	139
Operating transfers in	-	-	-	67,890	293,258	137,120	5,000	503,268	-
Operating transfers out	(211,843)	-	(158,388)	(1,169,014)	(83,631)	-	(7,400)	(1,630,276)	-
Net change in cash balances	5,020	5,444	13,373	146,625	(260,049)	43,000	37,209	(9,378)	139
Cash balances beginning of year	324,131	514,705	364,277	1,076,669	1,178,475	526,675	331,824	4,316,756	51,178
Cash balances end of year	$ 329,151	$ 520,149	$ 377,650	$ 1,223,294	$ 918,426	$ 569,675	$ 369,033	$ 4,307,378	$ 51,317
Cash Basis Fund Balances									
Unrestricted	$ 329,151	$ 520,149	$ 377,650	$ 1,223,294	$ 918,426	$ 569,675	$ 369,033	$ 4,307,378	$ 51,317
Total cash basis fund balances	$ 329,151	$ 520,149	$ 377,650	$ 1,223,294	$ 918,426	$ 569,675	$ 369,033	$ 4,307,378	$ 51,317

See notes to financial statements.

CITY OF ESTHERVILLE

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the year ended June 30, 2009

Total enterprise funds cash balances (page 20)	$4,307,378
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The assets of the Garage Fund are included in business type activities in the Statement of Net Assets.	17,910
Cash basis net assets of business type activities (page 16)	$4,325,288
Net change in enterprise funds cash balances (page 20)	$ (9,378)
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The change in net assets of the Garage Fund is included in business type activities in the Statement of Net Assets.	570
The Computer Clearing Fund is used by management to record customer checks returned due to non-sufficient funds. The change in net assets of the Computer Clearing Fund is included in business type activities in the Statement of Net Assets.	139
Change in cash balance of business type activities (page 16)	$ (8,669)

See notes to financial statements.

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

Government-wide Financial Statement – Continued

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Economic Development Fund is used to account for the financing of economic development activities in the City.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

Fund Financial Statements - Continued

The City reports the following major proprietary funds:

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

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

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

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

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

The Enterprise Equipment Revolving Fund accounts for the accumulation of funds for capital equipment expenditures for the City's Enterprise funds.

The City also reports the following additional proprietary funds:

Internal Service:

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

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

C. Measurement Focus and Basis of Accounting

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

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

Measurement Focus and Basis of Accounting - Continued

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2009, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U. S. Treasury Note	$32,496	$32,984	September 2009
U. S. Treasury Note	5,047	5,012	November 2010
U. S. Treasury Note	4,922	5,108	March 2010
U. S. Treasury Note	13,764	14,854	February 2011

(2) Cash and Pooled Investments - Continued

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

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2010	165,000	54,528
2011	175,000	47,253
2012	180,000	39,315
2013	110,000	30,870
2014	115,000	25,370
2015	120,000	19,505
2016	125,000	13,325
2017	130,000	6,825
Totals	$1,120,000	$236,991

The note payable is for equipment purchased in 2005 and has a principal balance outstanding of $55,885 at June 30, 2009. This note is payable in equal yearly installments of $18,955 plus interest through the year ending June 30, 2013. The note interest rate is 4.5%.

The lease purchase is for equipment purchased in 2007 and has a principal balance outstanding of $245,978 at June 30, 2009. The lease purchase is payable in equal yearly installments of $33,524 plus interest through the year ending June 30, 2018. The lease interest rate is 4.29%.

(4) Pension and Retirement Benefits

IPERS

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

IPERS – Continued

information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate, except police employees who are covered by the Municipal Fire and Police Retirement System of Iowa (see below). Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were $134,287, $122,611, and $113,831, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2009, 2008, and 2007 were $96,639, $125,273, and $128,226, respectively, which met the required contribution rate for each year.

(5) Contracts Receivable

The City has contracts receivable as follows:

Entity / Project	Balance	Interest Rate / Security
Loaned to Estherville Industrial Development Corporation:		
Medieval Glass	$67,269	7.00%/ Real Estate – Building

The City has provided the funding for Tax Increment Financing (TIF) projects. The City will be repaid through the collection of real estate taxes which are generated by the

(5) Contracts Receivable – continued

projects funded. Outstanding receivables for TIF projects at June 30, 2009 are as follows:

Project	Balance	Interest Rate / Security
Hy-Vee	$ 41,289	6.00 /Unsecured
Iowa Lakes Electric Cooperative	30,135	6.00 /Unsecured
WWTP Improvements	159,556	6.00 /Unsecured
Medieval Glass	6,947	6.00 /Unsecured
Industrial Park	17,263	6.00 /Unsecured

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	$129,991
Sick Leave	465,640
Total	$595,631

This liability has been computed based on rates of pay in effect at June 30, 2009.

(7) Related Party Transactions

The City had business transactions between the City and City employees and officials totaling $10,000 during the year ended June 30, 2009.

(8) Risk Management

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

(9) Lease

The City of Estherville entered into a twelve year operating lease agreement on May 31, 2001 with Estherville Housing, Inc. to lease office space. The lease amount is $8,000 per year through June 30, 2004. The City's total rent expense for the year ending June 30, 2009 was $8,320.

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

Future Minimum Rental Payments

Year ending June 30,	Amount
2010	9,568
2011	9,568
2012	9,568
2013	9,568
Total	$38,272

(10) Special Assessments Interest

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

(11) Joint Venture

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

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

(11) Joint Venture – continued

The City of Estherville owns an 8% interest in the project. The energy produced by the IDWGP will be apportioned among the parties based on their percentages of ownership. Currently, Algona Municipal Utilities is purchasing the generated power at their avoided cost which has been determined to be $.01639/KWH, effective June of 2009. It has not been determined how long this arrangement will continue.

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

(12) Interest Paid

During the year ended June 30, 2009, interest paid by the City on bonds, notes and customer utility deposits totaled $77,980.

(13) General Fund – Designated Balance

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

Designated Balances at June 30, 2009	Amount
Parks and Recreation Revolving	$49,651
Equipment Revolving	468,385
Library - Pearson	24,074
Library - Sanborn	233,539
Forfeiture	12,807
Total Designated Balances	$788,456

(14) Deficit Fund Balance

The Capital Projects Funds - Airport Hangar Construction had a deficit balance of $6,257 at June 30, 2009. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit balance will be eliminated upon receipt of federal grants.

The Special Revenue Funds - Housing Rehab Grant had a deficit balance of $13,338 at June 30, 2009. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit balance will be eliminated upon receipt of state grants.

(15) Construction Commitment

The City has entered into a contract totaling $200,000 for reconstruction of South 9th Street. As of June 30, 2009, costs of $0 on the project have been paid. The balance remaining on the project at June 30, 2009 ($200,000) will be paid when the City is billed for the work.

The City has entered into a contract totaling $567,351 for new airport hangar and taxi lanes. As of June 30, 2009, costs of $0 on the project have been paid. The balance remaining on the project at June 30, 2009 ($567,351) will be paid as work on the project progresses.

The City has entered into a contract totaling $444,978 for the wastewater treatment plant disinfection building. As of June 30, 2009, costs of $0 on the project have been paid. The balance remaining on the project at June 30, 2009 ($444,978) will be paid as work on the project progresses.

The City has entered into a contract totaling $70,459 for South 5th and South 7th Streets' alleys reconstruction. As of June 30, 2009, costs of $0 on the project have been paid. The balance remaining on the project at June 30, 2009 ($70,459) will be paid as work on the project progresses.

(16) Interfund Transfers

The City had numerous interfund transfers during the year ended June 30, 2009. The transfers generally move resources from funds with available resources to those funds with expenses that need to be paid.

(17) Subsequent Events

The City awarded the contract for the 2009 street resurfacing project in the amount of $213,139. The City awarded the contract for the 2009 water plant expansion schedule 4 project in the amount of $1,483,000. The City awarded the contract for the 2009 water ground storage reservoir schedule 2 project in the amount of $259,800. The City estimates the water and wastewater construction projects will total $2,596,772. The City is considering entering into a loan agreement for an amount not to exceed $2,600,000 to fund these projects.

Required Supplementary Information

CITY OF ESTHERVILLE
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
Receipts:							
Property tax	$ 1,874,028	$ -	$ -	$ 1,874,028	$ 1,876,730	$ 1,876,730	$ (2,702)
Tax increment financing	353,698	-	-	353,698	358,876	358,876	(5,178)
Other city tax	248,999	-	-	248,999	156,162	156,162	92,837
Licenses and permits	78,378	-	-	78,378	11,100	11,100	67,278
Use of money and property	157,040	119,194	-	276,234	273,700	273,700	2,534
Intergovernmental	735,551	-	-	735,551	2,250,498	2,250,498	(1,514,947)
Charges for service	689,896	8,547,121	325,478	8,911,539	8,383,780	8,383,780	527,759
Special assessments	57,244	-	-	57,244	12,924	12,924	44,320
Miscellaneous	52,081	9,277	9,277	52,081	272,985	272,985	(220,904)
Total receipts	4,246,915	8,675,592	334,755	12,587,752	13,596,755	13,596,755	(1,009,003)
Disbursements:							
Public safety	1,088,479	52,858	52,858	1,088,479	1,165,770	1,165,770	77,291
Public works	2,570,899	138,979	138,979	2,570,899	2,560,900	2,700,900	130,001
Health and social services	5,297	-	-	5,297	6,200	6,200	903
Culture and recreation	648,557	15,916	15,916	648,557	638,400	688,400	39,843
Community and economic development	254,250	-	-	254,250	936,150	936,150	681,900
General government	853,777	4,133	4,133	853,777	875,550	915,550	61,773
Debt service	269,456	-	-	269,456	270,457	270,457	1,001
Capital projects	24,430	-	-	24,430	1,207,500	1,207,500	1,183,070
Business type activities	-	7,336,799	113,592	7,223,207	7,810,600	7,910,600	687,393
Non-program	-	9,138	9,138	-	-	-	-
Total disbursements	5,715,145	7,557,823	334,616	12,938,352	15,471,527	15,801,527	2,863,175
Excess (deficiency) of receipts over (under) disbursements	(1,468,230)	1,117,769	139	(350,600)	(1,874,772)	(2,204,772)	1,854,172
Other financing sources, net	1,127,888	(1,127,008)	-	880	-	-	880
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(340,342)	(9,239)	139	(349,720)	(1,874,772)	(2,204,772)	1,855,052
Balances beginning of year	5,093,071	4,366,284	108,752	9,350,603	8,427,908	8,427,908	922,695
Balances end of year	$ 4,752,729	$ 4,357,045	$ 108,891	$ 9,000,883	$ 6,553,136	$ 6,223,136	$ 2,777,747

See accompanying independent auditor's report.

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine 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 disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by $330,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted in any function.

Other Supplementary Information

CITY OF ESTHERVILLE
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2009

	Special Revenue									
	Group Insurance	Police Retirement	FICA & IPERS	Local Option Sales Tax	Industrial Park TIF	Oakridge TIF	Subdivision Development	Morrell TIF	Hy-Vee TIF	Housing Rehab Grant
Receipts:										
Property tax	$ 432,848	$ 113,437	$ 172,624	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Tax increment financing	-	-	-	-	91,168	73,258	-	162,233	27,039	-
Other city tax	5,612	1,471	2,238	141,514	-	-	-	-	-	-
Use of money and property	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	85,570
Miscellaneous	-	-	-	-	-	-	-	-	-	15,642
Total receipts	438,460	114,908	174,862	141,514	91,168	73,258	-	162,233	27,039	101,212
Disbursements:										
Operating:										
Public safety	117,160	96,639	6,507	-	-	-	-	-	-	-
Public works	98,008	-	45,464	-	-	-	-	-	-	-
Culture and recreation	61,241	-	37,139	-	-	-	-	-	-	-
Community and economic development	-	-	-	-	17,263	13,861	1,808	12,199	26,694	124,550
General government	86,137	-	64,064	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-	-	-
Total disbursements	362,546	96,639	153,174	-	17,263	13,861	1,808	12,199	26,694	124,550
Excess (deficiency) of receipts over (under) disbursements	75,914	18,269	21,688	141,514	73,905	59,397	(1,808)	150,034	345	(23,338)
Other financing sources (uses):										
Operating transfers in	-	-	-	-	17,263	83,631	1,759	12,199	26,694	2,500
Operating transfers out	-	-	-	-	(91,168)	(143,028)	-	(162,233)	(27,039)	-
Total other financing sources (uses)	-	-	-	-	(73,905)	(59,397)	1,759	(150,034)	(345)	2,500
Net change in cash balances	75,914	18,269	21,688	141,514	-	-	(49)	-	-	(20,838)
Cash balances beginning of year	253,183	42,967	45,208	-	-	-	82	-	-	7,500
Cash balances end of year	$ 329,097	$ 61,236	$ 66,896	$ 141,514	$ -	$ -	$ 33	$ -	$ -	$ (13,338)
Cash Basis Fund Balances										
Reserved:										
Debt Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Permanent fund	-	-	-	-	-	-	-	-	-	-
Unreserved:										
Special revenue funds	329,097	61,236	66,896	141,514	-	-	33	-	-	(13,338)
Capital projects funds	-	-	-	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	-	-	-	-
Total cash basis fund balances	$ 329,097	$ 61,236	$ 66,896	$ 141,514	$ -	$ -	$ 33	$ -	$ -	$ (13,338)

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2009

		Capital Projects		Permanent	
	Debt Service	Parks & Recreation Construction	Airport Hangar Construction	Library Trust	Total
Receipts:					
Property tax	$ 152,850	$ -	$ -	$ -	$ 871,759
Tax increment financing	-	-	-	-	353,698
Other city tax	1,867	-	-	-	152,702
Use of money and property	1,112	-	-	1,786	2,898
Intergovernmental	-	-	28,248	-	113,818
Miscellaneous	-	-	-	-	15,642
Total receipts	155,829	-	28,248	1,786	1,510,517
Disbursements:					
Operating:					
Public safety	-	-	-	-	220,306
Public works	-	-	-	-	143,472
Culture and recreation	-	-	-	-	98,380
Community and economic development	-	-	-	-	196,375
General government	-	-	-	-	150,201
Debt service	269,456	-	-	-	269,456
Capital projects	-	15,622	8,808	-	24,430
Total disbursements	269,456	15,622	8,808	-	1,102,620
Excess (deficiency) of receipts over (under) disbursements	(113,627)	(15,622)	19,440	1,786	407,897
Other financing sources (uses):					
Operating transfers in	122,294	15,622	600	-	282,562
Operating transfers out	-	-	-	-	(423,468)
Total other financing sources (uses)	122,294	15,622	600	-	(140,906)
Net change in cash balances	8,667	-	20,040	1,786	266,991
Cash balances beginning of year	44,274	-	(26,297)	101,696	468,613
Cash balances end of year	$ 52,941	$ -	$ (6,257)	$ 103,482	$ 735,604
Cash Basis Fund Balances					
Reserved:					
Debt Service	$ 52,941	$ -	$ -	$ -	$ 52,941
Permanent fund	-	-	-	57,574	57,574
Unreserved:					
Special revenue funds	-	-	-	-	585,438
Capital projects funds	-	-	(6,257)	-	(6,257)
Permanent fund	-	-	-	45,908	45,908
Total cash basis fund balances	$ 52,941	$ -	$ (6,257)	$ 103,482	$ 735,604

See accompanying independent auditor's report.

CITY OF ESTHERVILLE

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds
As of and for the year ended June 30, 2009

	Airport	Wastewater Emergency	Electric Aerial Service	Airport Revolving	Total
Operating receipts:					
Use of money and property	$ 80,565	$ -	$ -	$ -	$ 80,565
Charges for service	12,153	-	224	-	12,377
Total operating receipts	92,718	-	224	-	92,942
Operating disbursements:					
Business type activities	57,308	-	115	-	57,423
Total operating disbursements	57,308	-	115	-	57,423
Excess (deficiency) of operating receipts over (under) operating disbursements	35,410	-	109	-	35,519
Non-operating receipts:					
Interest on investments	-	3,941	-	149	4,090
Total non-operating receipts	-	3,941	-	149	4,090
Excess (deficiency) of receipts over (under) disbursements	35,410	3,941	109	149	39,609
Operating transfers in	-	-	-	5,000	5,000
Operating transfers out	(7,400)	-	-	-	(7,400)
Net change in cash balances	28,010	3,941	109	5,149	37,209
Cash balances beginning of year	20,021	300,196	1,445	10,162	331,824
Cash balances end of year	$ 48,031	$ 304,137	$ 1,554	$ 15,311	$ 369,033
Cash Basis Fund Balances					
Unrestricted	$ 48,031	$ 304,137	$ 1,554	$ 15,311	$ 369,033
Total cash basis fund balances	$ 48,031	$ 304,137	$ 1,554	$ 15,311	$ 369,033

See accompanying independent auditor's report.

CITY OF ESTHERVILLE

Schedule of Indebtedness

Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes:									
Wastewater Treatment	June 1, 2002	2.75 - 5.25 %	1,465,000	990,000	-	90,000	900,000	49,140	-
Library	October 1, 2002	2.75 - 4.40 %	590,000	285,000	-	65,000	220,000	11,993	-
Total				$ 1,275,000	-	155,000	1,120,000	61,133	-
Note Payable:									
Fire Truck	December 14, 2005	4.50 %	102,034	$ 71,601	-	15,716	55,885	3,284	-
Lease Purchase:									
Fire Truck	December 21, 2007	4.29 %	268,000	$ 268,000	-	22,022	245,978	11,502	-

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
Bond and Note Maturities
June 30, 2009

Schedule 4

General Obligation Notes

Year Ending June 30,	Wastewater Treatment Issued June 1, 2002 Interest Rates	Amount	Library Issued October 1, 2002 Interest Rates	Amount	Total
2010	4.60	95,000	4.15	70,000	165,000
2011	4.75	100,000	4.25	75,000	175,000
2012	4.90	105,000	4.40	75,000	180,000
2013	5.00	110,000		-	110,000
2014	5.10	115,000		-	115,000
2015	5.15	120,000		-	120,000
2016	5.20	125,000		-	125,000
2017	5.25	130,000		-	130,000
		$ 900,000		$ 220,000	$ 1,120,000

Notes Payable

Year Ending June 30,	Fire Truck Issued December 14, 2005 Interest Rates	Amount	Fire Truck Issued December 21, 2007 Interest Rates	Amount
2010	4.50	16,482	4.29	22,967
2011	4.50	17,182	4.29	23,952
2012	4.50	17,956	4.29	24,980
2013	4.50	4,265	4.29	26,053
2014		-	4.29	27,171
2015		-	4.29	28,337
2016		-	4.29	29,553
2017		-	4.29	30,821
2018		-	4.29	32,144
		$ 55,885		$ 245,978

See accompanying independent auditor's report.

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001
Receipts:									
Property tax	$ 1,874,028	$ 1,841,129	$ 1,847,308	$ 1,798,834	$ 1,674,273	$ 1,706,875	$ 1,636,194	$ 1,478,584	$ 1,409,732
Tax increment financing	353,698	206,847	279,748	320,731	577,443	168,656	179,225	251,292	369,388
Other city tax	248,999	108,342	97,023	64,722	25,691	22,517	28,199	26,002	21,033
Licenses and permits	78,378	80,157	72,341	70,507	76,644	83,891	66,002	68,249	68,278
Use of money and property	157,040	242,809	300,481	226,331	116,872	80,634	145,136	259,440	234,934
Intergovernmental	735,551	691,222	651,060	719,839	865,068	1,453,906	2,037,598	799,337	724,459
Charges for service	689,896	608,147	566,992	559,609	563,944	537,278	463,147	463,627	460,452
Special assessments	57,244	11,366	16,708	26,083	87,700	79,995	51,232	65,860	17,856
Miscellaneous	52,081	105,863	40,918	120,661	518,983	136,524	247,303	139,536	111,614
Total	$ 4,246,915	$ 3,895,882	$ 3,872,579	$ 3,907,317	$ 4,506,618	$ 4,270,276	$ 4,854,036	$ 3,551,927	$ 3,417,746
Disbursements:									
Operating:									
Public safety	$ 1,088,479	$ 1,454,875	$ 1,066,190	$ 1,136,265	$ 974,212	$ 916,293	$ 884,005	$ 766,389	$ 759,155
Public works	2,570,899	1,473,098	1,606,151	1,177,067	1,745,394	1,658,703	1,484,713	2,037,301	1,196,441
Health and social services	5,297	4,923	5,727	3,807	2,817	5,165	2,296	3,486	3,507
Culture and recreation	648,557	600,593	729,999	598,914	511,257	536,188	519,666	496,403	476,867
Community and economic development	254,250	195,775	190,272	288,216	187,524	212,978	1,442,675	127,166	174,140
General government	853,777	803,714	836,076	820,453	723,623	692,456	642,890	650,038	602,320
Debt service	269,456	237,058	242,925	343,096	226,495	580,835	1,023,149	218,751	221,299
Capital projects	24,430	78,194	29,749	471,702	200,947	1,214,255	567,381	1,085,754	245,941
Total	$ 5,715,145	$ 4,848,230	$ 4,707,089	$ 4,839,520	$ 4,572,269	$ 5,816,873	$ 6,566,775	$ 5,385,288	$ 3,679,670

See accompanying independent auditor's report.

City of Estherville

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Estherville, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 15, 2009. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Estherville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Estherville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Estherville's internal control over financial reporting.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-09 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The

comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

Brinkman & Reed, CPA's

Brinkman & Reed, CPA's

September 15, 2009

Part I: Summary of the Independent Auditor's Results

a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.

c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that employees who handle cash receipts are also involved with the preparation of bank reconciliations and postings of payments. We also noted that one employee prepares and approves payroll input and prepares payroll checks. The employee that initiates investments also records and reconciles investments.

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

Response – The City will make every effort to comply.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Part III: Other Findings Related to Statutory Reporting:

III-A-09 Certified Budget – City disbursements during the year ended June 30, 2009 did not exceed the amount budgeted.

III-B-09 Questionable Disbursements – No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-C-09 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

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

III-D-09 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Dave Seylar, Council Member, Owner of Dave's Brown House Kitchens	House Grant	$5,000
Steven Woodley, City Administrator	House Grant	5,000

The transactions with the Council Member and City Administrator do not appear to represent conflicts of interest since the grants are available to any individual building a new home in the City.

III-E-09 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 the coverage is adequate for current operations.

III-F-09 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-09 Deposit and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-H-09 Financial Condition – The Housing Rehab Grant Fund had a deficit balance at June 30, 2009 of $13,338. The Capital Projects Fund - Airport Hangar Construction had a deficit balance at June 30, 2009 of $6,257.

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

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

Conclusion – Response accepted.