

CITY OF ESTHERVILLE

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2011

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CITY OF ESTHERVILLE

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|---------------------------------------|---------------------|
| Lyle Hevern | Mayor | January 2012 |
| Harold Sawyer | Mayor Pro Tem | January 2012 |
| Susan Nelson | Council Member | Resigned June 2011 |
| Harold Sawyer | Council Member | January 2012 |
| Larry W. Anderson | Council Member | January 2014 |
| Gene Haukoos | Council Member | January 2012 |
| Dave Seylar | Council Member | January 2014 |
| John Wittneben | Council Member | Resigned Jan 2011 |
| Ann Goebel | Council Member | January 2014 |
| Terry Nelson | Council Member | January 2012 |
| Penny A. Clayton | City Administrator | Indefinite |
| Vaughn Brua | City Clerk/Finance Director/Treasurer | January 2012 |
| Marie Park | Deputy City Clerk | January 2012 |
| Forsyth Law Office | Attorney | January 2012 |

Note: There was one vacant council position on June 30, 2011. A replacement for Susan Nelson had not been appointed.

City of Estherville

Brinkman & Reed, CPA's

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

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Estherville, Iowa, as of and for the year ended June 30, 2011, 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, 2011, 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 9, 2011 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 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Estherville's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2010 (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, and 2002 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 9, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements.

This is the eighth 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.

FY 2011 FINANCIAL HIGHLIGHTS

Expenditures during fiscal year 2011 did not exceed budgeted appropriations.

The City's total expenses exceeded total revenues by \$222,843 during fiscal year 2011. Income had exceeded expenses by \$1,441,379 during fiscal year 2010.

The City's total expenditures increased from \$14,145,205 in fiscal year 2010 to \$14,158,088 in fiscal year 2011. This is an increase of \$12,883 or .09%.

The City's total revenue decreased from \$15,586,584 in fiscal year 2010 to \$13,395,245 in fiscal year 2011. This is a decrease of \$1,651,339 or 10.6%. The primary reason for this large decline is the fact bond proceeds of \$2,350,000 were received in fiscal year 2010. The proceeds provided funding of two large construction projects.

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 \$6.270 million to \$5.582 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, | |
| | 2011 | 2010 |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service | \$ 779 | \$ 763 |
| Operating grants, contributions and restricted interest | 671 | 702 |
| Capital grants, contributions and restricted interest | 300 | 714 |
| General receipts: | | |
| Property tax levied for: | | |
| General purposes | 2,025 | 1,862 |
| Tax increment financing | 143 | 164 |
| Debt service | 199 | 175 |
| Hotel/Motel Tax | 70 | 67 |
| Local Options Sales Tax | 554 | 419 |
| Unrestricted investment earnings | 38 | 91 |
| Miscellaneous | 102 | 22 |
| Bond Proceeds | 0 | 2,350 |
| Sale of Assets | 1 | 25 |
| Transfers, net | <u>1,329</u> | <u>1,239</u> |
| Total receipts and transfers | 6,211 | 8,593 |
| Disbursements: | | |
| Public safety | 1,268 | 1,315 |
| Public works | 2,082 | 1,643 |
| Health and social services | 4 | 5 |
| Culture and recreation | 679 | 661 |
| Community and economic development | 376 | 334 |
| General government | 839 | 884 |
| Debt service | 479 | 273 |
| Capital projects | <u>1,172</u> | <u>1,994</u> |
| Total disbursements | 6,899 | 7,109 |
| Increase (decrease) in cash basis net assets | (688) | 1,484 |
| Cash basis net assets beginning of year | <u>6,270</u> | <u>4,786</u> |
| Cash basis net assets end of year | <u>\$ 5,582</u> | <u>\$ 6,270</u> |

The City's cash balance for business type activities increased from \$4.283 million one year ago to \$4.748 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, | |
| | 2011 | 2010 |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service | | |
| Water | \$1,641 | \$ 1,621 |
| Sewer rental | 1,330 | 1,179 |
| Electric | 5,980 | 5,321 |
| Airport | 83 | 79 |
| Electric Aerial | 1 | 0 |
| General receipts: | | |
| Unrestricted*interest on investment | 9 | 25 |
| Miscellaneous | 7 | 5 |
| Sale of Assets | 1 | 1 |
| Total receipts | <u>9,052</u> | <u>8,231</u> |
| Disbursements and transfers: | | |
| Water | 1,099 | 1,153 |
| Water emergency | 0 | 38 |
| Sewer rental | 1,156 | 974 |
| Sewer emergency | 13 | 0 |
| Electric | 4,861 | 4,569 |
| Electric emergency | 55 | 217 |
| Airport | 73 | 62 |
| Electric Aerial | 1 | 0 |
| Enterprise equipment revolving | 0 | 21 |
| Transfers | <u>1,329</u> | <u>1,239</u> |
| Total disbursements and transfers | <u>8,587</u> | <u>8,273</u> |
| Increase (decrease) in cash basis net assets | 465 | (42) |
| Cash basis net assets beginning of year | <u>4,283</u> | <u>4,325</u> |
| Cash basis net assets end of year | <u>\$4,748</u> | <u>\$ 4,283</u> |

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, 2011, governmental funds totaled \$5,581,921. This is a decrease of \$688,139 from the June 30, 2010 balance of \$6,270,060.

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 \$28,771 from the prior year to \$1,835,805 on June 30, 2011. On June 30, 2010, the General Fund consisted of six balances. During the fiscal year the undesignated General Fund decreased \$22,718 to \$867,236. The designated Parks & Recreation Revolving Fund increased \$74,220 to \$144,147, the designated Equipment Revolving Fund - General decreased \$19,661 to \$558,892, the designated Library - Sanborn Fund decreased \$1,119 to \$236,436, the designated Library - Pearson Fund decreased \$1,021 to \$20,449, and the designated Police Miscellaneous Fund decreased \$930 to \$8,645.
- The Road Use Tax Fund cash balance decreased during the fiscal year by \$732 to \$1,880,056 on June 30, 2011.
- The Water Plant Construction Fund balance was \$904,555 on June 30, 2010. During the fiscal year the construction project was completed. The remaining fund balance of \$48,988.97 was transferred to the Debt Service Fund to be applied toward future debt reduction.
- During fiscal year 2011 the Economic Development Fund met the criteria for classification as a major fund. The fund balance decreased \$21,296 during the year to \$566,881 on June 30, 2011.
- Detailed information on the major governmental funds is shown on page 17.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

For the year ended June 30, 2011, business type funds totaled \$4,748,039. This is an increase of \$465,296 from the June 30, 2010 balance of \$4,282,743.

- The Water Fund cash balance increased by \$23,722 to \$620,642 on June 30, 2011.
- During fiscal year 2011 the Water Emergency Fund met the criteria for classification as a major fund. The fund balance increased \$152,110 during the year to \$637,056 on June 30, 2011.
- The Wastewater Fund cash balance increased by \$34,990 to \$467,158 on June 30, 2011.
- The Electric Fund cash balance increased by \$31,946 to \$1,003,654 on June 30, 2011.
- The Electric Emergency Fund cash balance increased by \$113,798 to \$861,108 on June 30, 2011.
- The Equipment Revolving-Enterprise Fund cash balance increased by \$114,467 to \$781,320 on June 30, 2011.
- Detailed information on the major business-type funds is shown on page 20.

BUDGETARY HIGHLIGHTS

On May 16, 2011, an amendment to the fiscal year 2011 budget was approved for the amount of \$1,245,000. The amendment authorized police grant expenditures and repair of police and fire vehicles; snow removal and the City's share of South 9th Street reconstruction; unbudgeted grant expenditures and roof repair; miscellaneous administrative expenses; payments for Water Plant, WWTP Disinfection Building, and Airport Access Road Construction; and WWTP blower unit replacement, Ag Gator repair, and electric generator repair. Over \$1,000,000 of the increase was related to large capital projects.

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

DEBT ADMINISTRATION

On June 30, 2011, the City had \$3,000,000 in general obligation bonds/notes outstanding compared to \$3,305,000 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 \$3,000,000 is significantly below its constitutional debt limit of over \$11.2 million.

The balance of a loan for the purchase of a fire tanker truck decreased from \$39,399 on June 30, 2010, to \$22,152 on June 30, 2011.

The balance on a lease-purchase agreement for the purchase of a fire pumper truck decreased from \$223,012 on June 30, 2010, to \$199,059 on June 30, 2011.

The total City debt decreased from \$3,567,411 on June 30, 2010, to \$3,221,211 on June 30, 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The budget for fiscal year ending June 30, 2012, includes a decrease in expenditures of approximately \$240,000 (-1.63%). The primary reason for the decrease is a decline in construction projects budgeted.

The property tax levy remains at \$16.50/\$1,000 of taxable valuation. The budgeted fund balance for the General Fund declines by approximately \$230,000.

The City is 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, 2011

| Functions/Programs: | Program Receipts | | Net (Disbursements) Receipts and | | |
|---|----------------------|--|----------------------------------|--------------------------|-----------------------|
| | Charges for Service | | Changes in Cash Basis Net Assets | | |
| | Disbursements | Operating Grants, Contributions, and Restricted Interest | Governmental Activities | Business Type Activities | Total |
| Governmental activities: | | | | | |
| Public safety | \$ 1,268,132 | \$ 55,585 | \$ (1,150,399) | \$ - | \$ (1,150,399) |
| Public works | 2,082,442 | 600,702 | (775,445) | - | (775,445) |
| Health and social services | 4,223 | - | (4,223) | - | (4,223) |
| Culture and recreation | 678,704 | 14,647 | (625,765) | - | (625,765) |
| Community and economic development | 376,493 | - | (284,616) | - | (284,616) |
| General government | 838,737 | 90,832 | (747,905) | - | (747,905) |
| Debt service | 478,909 | - | (478,909) | - | (478,909) |
| Capital projects | 1,171,869 | - | (1,082,166) | - | (1,082,166) |
| Total governmental activities | 6,899,509 | 670,934 | (5,149,428) | - | (5,149,428) |
| Business type activities: | | | | | |
| Water | 1,099,273 | - | - | 541,652 | 541,652 |
| Wastewater | 1,156,285 | - | - | 174,192 | 174,192 |
| Wastewater Emergency | 12,416 | - | - | (12,416) | (12,416) |
| Electric | 4,861,246 | - | - | 1,118,929 | 1,118,929 |
| Electric emergency | 55,153 | - | - | (55,153) | (55,153) |
| Airport | 73,194 | 113 | - | 10,007 | 10,007 |
| Electric aerial services | 587 | - | - | (2) | (2) |
| Enterprise equipment revolving | 425 | - | - | (425) | (425) |
| Total business type activities | 7,258,579 | 113 | (5,149,428) | 1,776,784 | 1,776,784 |
| Total | \$ 14,158,088 | \$ 671,047 | \$ (5,149,428) | \$ 1,776,784 | \$ (3,372,644) |
| General Receipts: | | | | | |
| Property tax levied for: | | | | | |
| General purposes | 2,025,175 | - | - | - | 2,025,175 |
| Tax increment financing | 142,914 | - | - | - | 142,914 |
| Debt service | 199,366 | - | - | - | 199,366 |
| Local Option Sales Tax | 553,727 | - | - | - | 553,727 |
| Hotel/Motel Tax | 69,949 | - | - | - | 69,949 |
| Unrestricted interest on investments | 36,831 | 8,975 | - | 8,975 | 47,806 |
| Miscellaneous | 102,078 | 7,502 | - | 7,502 | 109,580 |
| Sale of capital assets | 587 | 702 | - | 582 | 1,284 |
| Transfers | 1,328,547 | (1,328,547) | - | - | - |
| Total general receipts and transfers | 4,461,289 | (1,311,488) | - | (1,311,488) | 3,149,801 |
| Change in cash basis net assets | (688,139) | - | 465,296 | - | (222,843) |
| Cash basis net assets beginning of year | 6,270,060 | - | 4,282,743 | - | 10,552,803 |
| Cash basis net assets end of year | \$ 5,581,921 | \$ 4,748,039 | \$ 4,748,039 | \$ - | \$ 10,329,960 |
| Cash Basis Net Assets | | | | | |
| Restricted: | | | | | |
| Nonexpendable: | | | | | |
| Library Trust | \$ 57,574 | \$ - | \$ - | \$ - | \$ 57,574 |
| Expendable: | | | | | |
| Insurance | 25,622 | - | - | - | 25,622 |
| Streets | 1,880,056 | - | - | - | 1,880,056 |
| Economic Development | 566,881 | - | - | - | 566,881 |
| Other Purposes | 1,321,176 | - | - | - | 1,321,176 |
| Unrestricted | 1,730,612 | 4,748,039 | 4,748,039 | - | 6,478,651 |
| Total cash basis net assets | \$ 5,581,921 | \$ 4,748,039 | \$ 4,748,039 | \$ - | \$ 10,329,960 |

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, 2011

| | Special Revenue | | Capital Projects | | Nonmajor | Total |
|--|-----------------|--------------|----------------------|--------------------------|--------------|--------------|
| | General | Road Use Tax | Economic Development | Water Plant Construction | | |
| Receipts: | | | | | | |
| Property tax | \$ 1,177,274 | \$ - | \$ - | \$ - | \$ 1,025,009 | \$ 2,202,283 |
| Tax increment financing | - | - | - | - | 142,914 | 142,914 |
| Other city tax | 83,083 | - | - | - | 562,851 | 645,934 |
| Licenses and permits | 79,104 | - | - | - | 79,104 | 79,104 |
| Use of money and property | 37,137 | - | 2,618 | 1,359 | 2,146 | 43,260 |
| Intergovernmental | 102,402 | - | - | - | 179,730 | 879,999 |
| Charges for service | 697,076 | - | - | - | - | 697,076 |
| Special assessments | - | 79,612 | - | - | - | 79,612 |
| Miscellaneous | 21,035 | 12,415 | 2,998 | 57,155 | 15,934 | 109,537 |
| Total receipts | 2,197,111 | 689,894 | 5,616 | 58,514 | 1,928,584 | 4,879,719 |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public safety | 946,172 | - | - | - | 321,960 | 1,268,132 |
| Public works | 1,201,689 | 690,626 | - | - | 190,127 | 2,082,442 |
| Health and social services | 4,223 | - | - | - | 4,223 | 4,223 |
| Culture and recreation | 548,985 | - | - | - | 129,719 | 678,704 |
| Community and economic development | 35,826 | - | 33,000 | - | 307,667 | 376,493 |
| General government | 686,876 | - | - | - | 151,861 | 838,737 |
| Debt service | - | - | - | - | 478,909 | 478,909 |
| Capital projects | - | - | - | 914,080 | 257,789 | 1,171,869 |
| Total disbursements | 3,423,771 | 690,626 | 33,000 | 914,080 | 1,838,032 | 6,899,509 |
| Excess (deficiency) of receipts over (under) disbursements | (1,226,660) | (732) | (27,384) | (855,566) | 90,552 | (2,019,790) |
| Other financing sources (uses): | | | | | | |
| Sale of capital assets | 702 | - | - | - | - | 702 |
| Operating transfers in | 1,297,185 | - | 36,998 | - | 467,752 | 1,801,935 |
| Operating transfers out | (42,456) | - | (30,910) | (48,989) | (351,033) | (473,388) |
| Total other financing sources (uses) | 1,255,431 | - | 6,088 | (48,989) | 116,719 | 1,329,249 |
| Net change in cash balances | 28,771 | (732) | (21,296) | (904,555) | 207,271 | (690,541) |
| Cash balances beginning of year | 1,807,034 | 1,880,788 | 588,177 | 904,555 | 1,061,472 | 6,242,026 |
| Cash balances end of year | 1,835,805 | 1,880,056 | 566,881 | - | 1,268,743 | 5,551,485 |
| Cash Basis Fund Balances | | | | | | |
| Nonspendable - Library trust | \$ - | \$ - | \$ - | \$ - | \$ 57,574 | \$ 57,574 |
| Restricted for: | | | | | | |
| Insurance | 25,622 | - | - | - | - | 25,622 |
| Streets | - | 1,880,056 | - | - | - | 1,880,056 |
| Economic development | - | - | 566,881 | - | - | 566,881 |
| Other purposes | - | - | - | - | 1,321,176 | 1,321,176 |
| Assigned for: | | | | | | |
| Parks and recreation | 144,147 | - | - | - | - | 144,147 |
| Equipment | 558,892 | - | - | - | - | 558,892 |
| Library | 256,885 | - | - | - | - | 256,885 |
| Police | 8,645 | - | - | - | - | 8,645 |
| Other purposes | - | - | - | - | 19,465 | 19,465 |
| Unassigned | 841,614 | - | - | - | (129,472) | 712,142 |
| Total cash basis fund balances | 1,835,805 | 1,880,056 | 566,881 | - | 1,268,743 | 5,551,485 |

See notes to financial statements.

City of Estherville

CITY OF ESTHERVILLE
Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the year ended June 30, 2011

Exhibit C

Total governmental funds cash balances (page 17) \$ 5,551,485

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.

30,436

Cash basis net assets of governmental activities (page 16) \$ 5,581,921

Net change in governmental funds cash balances (page 17) \$ (690,541)

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

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

2,402

Change in cash basis net assets of governmental activities (page 16) \$ (688,139)

See notes to financial statements.

CITY OF ESTHERVILLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2011

Exhibit D

| | Enterprise | | | | | | | Internal Service Funds |
|---|--------------|--------------------|--------------|--------------|-----------------------|------------------------|-----------------------------------|---------------------------|
| | Water | Water Emergency | Wastewater | Electric | Electric Emergency | Equipment Revolving | Other Normal Proprietary Funds | |
| Operating receipts: | | | | | | | | |
| Charges for service | \$ 1,642,157 | \$ - | \$ 1,334,280 | \$ 5,983,810 | \$ - | \$ - | \$ 18,311 | \$ 8,978,558 |
| Miscellaneous | - | - | - | - | - | - | 81 | 81 |
| Total operating receipts | 1,642,157 | - | 1,334,280 | 5,983,810 | - | - | 18,392 | 8,978,639 |
| Operating disbursements: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Public safety | - | - | - | - | - | - | - | - |
| Public works | - | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | - | - | - | - |
| General government | - | - | - | - | - | - | - | - |
| Business type activities | 1,099,273 | - | 1,156,285 | 4,860,846 | 55,153 | 425 | 86,197 | 7,258,179 |
| Total operating disbursements | 1,099,273 | - | 1,156,285 | 4,860,846 | 55,153 | 425 | 86,197 | 7,258,179 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | 542,884 | - | 177,995 | 1,122,964 | (55,153) | (425) | (67,805) | 1,720,460 |
| Non-operating receipts (disbursements): | | | | | | | | |
| Intergovernmental | - | - | - | - | - | - | 178 | 178 |
| Interest on investments | - | 2,110 | - | 3,366 | 2,574 | - | 925 | 8,975 |
| Lease Income | - | - | 1,088 | - | - | - | 65,362 | 66,450 |
| Sale of Capital Assets | - | - | - | - | - | 27 | 555 | 582 |
| Non-program | - | - | - | - | - | - | - | - |
| Total non-operating receipts (disbursements) | - | 2,110 | 1,088 | 3,366 | 2,574 | 27 | 67,020 | 76,185 |
| Excess (deficiency) of receipts over (under) disbursements | 542,884 | 2,110 | 179,083 | 1,126,330 | (52,579) | (398) | (785) | 1,796,645 |
| Operating transfers in | - | 150,000 | - | 13,932 | 236,984 | 114,865 | 5,000 | 520,781 |
| Operating transfers out | (519,162) | - | (144,093) | (1,108,316) | (70,607) | - | (7,150) | (1,849,328) |
| Net change in cash balances | 23,722 | 152,110 | 34,990 | 31,946 | 113,798 | 114,467 | (2,935) | 468,098 |
| Cash balances beginning of year | 596,920 | 484,946 | 432,168 | 971,708 | 747,310 | 666,853 | 359,555 | 4,259,460 |
| Cash balances end of year | \$ 620,642 | \$ 637,056 | \$ 467,158 | \$ 1,003,654 | \$ 861,108 | \$ 781,320 | \$ 356,620 | \$ 4,727,558 |
| Cash Basis Fund Balances | | | | | | | | |
| Unrestricted | \$ 620,642 | \$ 637,056 | \$ 467,158 | \$ 1,003,654 | \$ 861,108 | \$ 781,320 | \$ 356,620 | \$ 4,727,558 |
| Total cash basis fund balances | \$ 620,642 | \$ 637,056 | \$ 467,158 | \$ 1,003,654 | \$ 861,108 | \$ 781,320 | \$ 356,620 | \$ 4,727,558 |

See notes to financial statements.

CITY OF ESTHERVILLE
 Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets -
 Proprietary Funds
 As of and for the year ended June 30, 2011

Exhibit E

Total enterprise funds cash balances (page 20) \$4,727,558

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. 20,881

The Computer Clearing Fund is used by management to record customer checks returned due to non-sufficient funds. The assets of the Computer Clearing Fund are included in business type activities in the Statement of Net Assets. (400)

Cash basis net assets of business type activities (page 16) \$4,748,039

Net change in enterprise funds cash balances (page 20) \$ 468,098

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

The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The change in net assets of the Garage Fund is included in business type activities in the Statement of Net Assets. (2,402)

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. (400)

Change in cash basis net assets of business type activities (page 16) \$ 465,296

See notes to financial statements.

CITY OF ESTHERVILLE
Notes to Financial Statements
June 30, 2011

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2011

Government-wide Financial Statement – Continued

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including a portion of the City's Permanent Fund.

Expendable 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. Net assets restricted through enabling legislation consist of \$25,622 for insurance expenses.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. 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 from general and emergency levies 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2011

Fund Financial Statements – Continued

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

The Water Plant Construction Fund is used to account for the water plant construction.

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.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2011

Measurement Focus and Basis of Accounting - Continued

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.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted in the general government and business type activities function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2011

(2) Cash and Pooled Investments - Continued

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, 2011, the City had the following investments:

| Type | Carrying Amount | Fair Value | Maturity |
|---------------------|-----------------|-----------------|----------------|
| U. S. Treasury Note | <u>\$33,392</u> | <u>\$34,526</u> | September 2014 |
| U. S. Treasury Note | <u>10,000</u> | <u>10,041</u> | December 2012 |
| U. S. Treasury Note | <u>13,993</u> | <u>14,053</u> | February 2013 |

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) Bonds/Notes Payable

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

| Year Ending June 30, | General Obligation Bonds/Notes | |
|-------------------------|-----------------------------------|------------------|
| | Principal | Interest |
| 2012 | 310,000 | 110,598 |
| 2013 | 240,000 | 100,528 |
| 2014 | 250,000 | 92,818 |
| 2015 | 255,000 | 84,253 |
| 2016 | 265,000 | 74,968 |
| 2017-2021 | 925,000 | 247,390 |
| 2022-2026 | 755,000 | 78,756 |
| Totals | <u>\$3,000,000</u> | <u>\$789,311</u> |

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2011

(3) Bonds/Notes Payable - Continued

The note payable is for equipment purchased in 2005 and has a principal balance outstanding of \$22,163 at June 30, 2011. 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 \$199,059 at June 30, 2011. 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 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.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010, and 2009 were \$151,837, \$146,574, and \$134,287, 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 9.40% 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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2011

4) Pension and Retirement Benefits – Continued

established by state statute. The City's contributions to the Plan for the years ended June 30, 2011, 2010, and 2009 were \$115,662, \$97,318, and \$96,639, respectively, which met the required contribution rate for each year.

(5) Contracts Receivable

The City has contracts receivable as follows:

| <u>Entity / Project</u> | <u>Balance</u> | <u>Interest Rate / Security</u> |
|---|----------------|---------------------------------|
| Loaned to Estherville Industrial Development Corporation: Medieval Glass | \$72,616 | 5.00%/ 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 projects funded. Outstanding receivables for TIF projects at June 30, 2011 are as follows:

| <u>Project</u> | <u>Balance</u> | <u>Interest Rate / Security</u> |
|---------------------------------|----------------|---------------------------------|
| Hy-Vee | \$ 40,911 | 6.00 /Unsecured |
| Iowa Lakes Electric Cooperative | 18,164 | 6.00 /Unsecured |
| WWTP Improvements | 136,152 | 6.00 /Unsecured |
| Industrial Park | 2,641 | 6.00 /Unsecured |

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits and dental insurance for retirees and their spouses. Police officers do not participate in the dental plan. There are 53 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark and the dental benefits are provided through a fully-insured plan with Delta Dental. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are contained in the collective bargaining agreements. The City currently finances the retiree benefit on a pay-as-you-go basis. Retirees and their spouse pay the entire premium if they choose to continue under the City's plan. The City offers two medical/prescription plans. The most recent active member monthly premiums for the City and plan members are \$623 for single coverage and \$1,339 for family coverage and the alternate plan is \$696 for single coverage and \$1,739 for family coverage. The same monthly premiums apply to retirees.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2011

(6) Other Postemployment Benefits (OPEB)

For the year ended June 30, 2011, the City contributed \$602,818 and plan members eligible for benefits contributed \$177,167 to the plan.

The dental premiums for fiscal year 2011 were \$18 per month for single coverage and \$51 per month for family coverage. For the year ended June 30, 2011, the city contributed \$16,105 and plan members eligible for benefits contributed \$5,676.

(7) 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, 2011, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|------------------|
| Vacation | \$144,474 |
| Sick Leave | <u>515,516</u> |
| Total | <u>\$659,990</u> |

This liability has been computed based on rates of pay in effect at June 30, 2011.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,115 during the year ended June 30, 2011.

(9) 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.

(10) 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, 2011 was \$9,568.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2011

(10) Lease - continued

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 <u>June 30,</u> | <u>Amount</u> |
|--------------------------------|-----------------|
| 2012 | 16,000 |
| 2013 | <u>16,000</u> |
| Total | <u>\$32,000</u> |

(11) 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.

(12) 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.

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 \$.02015/KWH, effective June of 2011. 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.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2011

(13) Interest Paid

During the year ended June 30, 2011, interest paid by the City on bonds, notes and customer utility deposits totaled \$133,536.

(14) General Fund – Designated Balance

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

| <u>Designated Balances at June 30, 2011</u> | <u>Amount</u> |
|---|------------------|
| Parks and Recreation Revolving | \$144,147 |
| Equipment Revolving | 558,892 |
| Library - Pearson | 20,449 |
| Library - Sanborn | 236,436 |
| Forfeiture | <u>8,645</u> |
| Total Designated Balances | <u>\$968,569</u> |

(15) Deficit Fund Balance

The Capital Projects Funds – Airport Access Road had a deficit balance of \$129,472 at June 30, 2011. 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 and local match.

(16) Construction Commitment

The City has entered into a contract totaling \$166,075 for reconstruction of South 6th Street. As of June 30, 2011, costs of \$159,136 on the project have been paid. The balance remaining on the project at June 30, 2011 (\$6,939) will be paid when the City is billed for the work.

The City has entered into a contract totaling \$109,976 for the wastewater treatment plant's main switchgear. As of June 30, 2011, costs of \$94,977 on the project have been paid. The balance remaining on the project at June 30, 2011 (\$14,999) will be paid as work on the project progresses.

The City has entered into a contract totaling \$113,993 for 3rd Avenue North's storm sewer. As of June 30, 2011, costs of \$5,999 on the project have been paid. The balance remaining on the project at June 30, 2011 (\$107,994) will be paid as work on the project progresses.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2011

(16) Construction Commitment - continued

The City has entered into a contract totaling \$49,695 for the 2011 alley project. As of June 30, 2011, costs of \$32,544 on the project have been paid. The balance remaining on the project at June 30, 2011 (\$17,151) will be paid as work on the project progresses.

The City has entered into a contract totaling \$28,981 for the 22nd Avenue North's water main. As of June 30, 2011, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2011 (\$28,981) will be paid as work on the project progresses.

The City has entered into a contract totaling \$413,745 for 2011 street resurfacing. As of June 30, 2011, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2011 (\$413,745) will be paid as work on the project progresses.

(17) Interfund Transfers

The City had numerous interfund transfers during the year ended June 30, 2011. The transfers generally move resources from funds with available resources to those funds with expenses that need to be paid.

Required Supplementary Information

CITY OF ESTHERVILLE
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2011

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted | Net | Budgeted Amounts | | Final to Net Variance |
|---|---------------------------------|--------------------------------|---|---------------|------------------|--------------|-----------------------------|
| | | | | | Original | Final | |
| Receipts: | | | | | | | |
| Property tax | \$ 2,202,283 | \$ - | \$ - | \$ 2,202,283 | \$ 2,207,894 | \$ 2,207,894 | \$ (5,611) |
| Tax increment financing | 142,914 | - | - | 142,914 | 141,850 | 141,850 | 1,064 |
| Other city tax | 645,934 | - | - | 645,934 | 558,991 | 558,991 | 86,943 |
| Licenses and permits | 79,104 | - | - | 79,104 | 9,900 | 9,900 | 69,204 |
| Use of money and property | 43,260 | 75,425 | - | 118,685 | 132,860 | 132,860 | (14,175) |
| Intergovernmental | 879,999 | 178 | - | 880,177 | 1,056,574 | 1,056,574 | (176,397) |
| Charges for service | 697,076 | 9,313,060 | 334,502 | 9,675,634 | 9,316,478 | 9,316,478 | 359,156 |
| Special assessments | 79,612 | - | - | 79,612 | 7,524 | 7,524 | 72,088 |
| Miscellaneous | 109,537 | 9,241 | 9,160 | 109,618 | 47,000 | 47,000 | 62,618 |
| Total receipts | 4,879,719 | 9,397,904 | 343,662 | 13,933,961 | 13,479,071 | 13,479,071 | 454,890 |
| Disbursements: | | | | | | | |
| Public safety | 1,268,132 | 47,867 | 47,867 | 1,268,132 | 1,253,980 | 1,313,980 | 45,848 |
| Public works | 2,082,442 | 137,213 | 137,213 | 2,082,442 | 2,135,800 | 2,280,800 | 198,358 |
| Health and social services | 4,223 | - | - | 4,223 | 6,200 | 6,200 | 1,977 |
| Culture and recreation | 678,704 | 12,075 | 12,075 | 678,704 | 669,550 | 719,550 | 40,846 |
| Community and economic development | 376,493 | - | - | 376,493 | 937,800 | 937,800 | 561,307 |
| General government | 838,737 | 1,238 | 1,238 | 838,737 | 887,350 | 902,350 | 63,613 |
| Debt service | 478,909 | - | - | 478,909 | 498,887 | 498,887 | 19,978 |
| Capital projects | 1,171,869 | - | - | 1,171,869 | 449,595 | 1,249,595 | 77,726 |
| Business type activities | - | 7,394,288 | 136,109 | 7,258,179 | 8,000,353 | 8,175,353 | 917,174 |
| Non-program | - | 9,561 | 9,561 | - | - | - | - |
| Total disbursements | 6,899,509 | 7,602,242 | 344,063 | 14,157,688 | 14,839,515 | 16,084,515 | 1,926,827 |
| Excess (deficiency) of receipts over (under) disbursements | (2,019,790) | 1,795,662 | (401) | (223,727) | (1,360,444) | (2,605,444) | 2,381,717 |
| Other financing sources, net | 1,329,249 | (1,327,965) | - | 1,284 | 11,100 | 11,100 | (9,816) |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (690,541) | 467,697 | (401) | (222,443) | (1,349,344) | (2,594,344) | 2,371,901 |
| Balances beginning of year | 6,242,026 | 4,310,777 | 108,891 | 10,443,912 | 8,814,914 | 8,814,914 | 1,628,998 |
| Balances end of year | \$ 5,551,485 | \$ 4,778,474 | \$ 108,490 | \$ 10,221,469 | \$ 7,465,570 | \$ 6,220,570 | \$ 4,000,899 |

See accompanying independent auditor's report.

CITY OF ESTHERVILLE

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2011

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 \$1,245,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, 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, 2011

| | 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 | \$ 506,065 | \$ 123,587 | \$ 197,738 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Tax increment financing | - | - | - | - | 7,318 | 91,984 | - | 13,932 | 29,680 | - |
| Other city tax | 4,512 | 1,102 | 1,763 | 553,727 | - | - | - | - | - | - |
| Use of money and property | - | - | - | - | - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - | - | - | - | - | 90,027 |
| Miscellaneous | - | - | - | - | - | - | - | - | - | 1,850 |
| Total receipts | 510,577 | 124,689 | 199,501 | 553,727 | 7,318 | 91,984 | - | 13,932 | 29,680 | 91,877 |
| Disbursements: | | | | | | | | | | |
| Operating: | | | | | | | | | | |
| Public safety | 157,329 | 115,662 | 7,692 | 41,277 | - | - | - | - | - | - |
| Public works | 124,958 | - | 52,355 | 12,814 | - | - | - | - | - | - |
| Culture and recreation | 89,081 | - | 40,638 | - | - | - | - | - | - | - |
| Community and economic development | - | - | - | 167,829 | - | - | 3,417 | 12,509 | 26,910 | 97,002 |
| General government | 86,673 | - | 65,188 | - | - | - | - | - | - | - |
| Debt service | - | - | - | - | - | - | - | - | - | - |
| Capital projects | - | - | - | - | - | - | - | - | - | - |
| Total disbursements | 458,041 | 115,662 | 165,873 | 221,920 | - | - | 3,417 | 12,509 | 26,910 | 97,002 |
| Excess (deficiency) of receipts over (under) disbursements | 52,536 | 9,027 | 33,628 | 331,807 | 7,318 | 91,984 | (3,417) | 1,423 | 2,770 | (5,125) |
| Other financing sources (uses): | | | | | | | | | | |
| Operating transfers in | - | - | - | - | - | 70,607 | 3,417 | 12,509 | 26,910 | 4,000 |
| Operating transfers out | - | - | - | (137,512) | (7,318) | (162,591) | - | (13,932) | (29,680) | - |
| Total other financing sources (uses) | - | - | - | (137,512) | (7,318) | (91,984) | 3,417 | (1,423) | (2,770) | 4,000 |
| Net change in cash balances | 52,536 | 9,027 | 33,628 | 194,295 | - | - | - | - | - | (1,125) |
| Cash balances beginning of year | 419,417 | 93,936 | 91,344 | 226,035 | - | - | 33 | - | - | 1,125 |
| Cash balances end of year | \$ 471,953 | \$ 102,963 | \$ 124,972 | \$ 420,330 | \$ - | \$ - | \$ 33 | \$ - | \$ - | \$ - |
| Cash Basis Fund Balances | | | | | | | | | | |
| Nonspendable - Library trust | - | - | - | - | - | - | - | - | - | - |
| Restricted for other purposes | 471,953 | 102,963 | 124,972 | 420,330 | - | - | 33 | - | - | - |
| Assigned for other purposes | - | - | - | - | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - | - | - | - | - |
| Total cash basis fund balances | \$ 471,953 | \$ 102,963 | \$ 124,972 | \$ 420,330 | \$ - | \$ - | \$ 33 | \$ - | \$ - | \$ - |

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, 2011

| | Capital Projects | | | | | | | Library Trust | Total |
|---|-------------------|---------------------------------|-----------------------------|---------------------|---------------------|-----------------------|-------------------|---------------|---------------------|
| | Debt Service | Parks & Recreation Construction | Airport Hangar Construction | I-JOBS Construction | Airport Access Road | WWTP Disinfection Bid | Library Trust | | |
| Property tax | \$ 197,619 | - | - | - | - | - | - | \$ - | \$ 1,025,009 |
| Tax increment financing | - | - | - | - | - | - | - | - | 142,914 |
| Other city tax | 1,747 | - | - | - | - | - | - | - | 562,851 |
| Use of money and property | 335 | - | - | - | - | - | 1,811 | - | 2,146 |
| Intergovernmental | - | - | 54,331 | 35,372 | - | - | - | - | 179,730 |
| Miscellaneous | - | - | - | - | - | 14,084 | - | - | 15,934 |
| Total receipts | 199,701 | - | 54,331 | 35,372 | - | 14,084 | 1,811 | - | 1,928,584 |
| Disbursements: | | | | | | | | | |
| Operating: | | | | | | | | | |
| Public safety | - | - | - | - | - | - | - | - | 321,960 |
| Public works | - | - | - | - | - | - | - | - | 190,127 |
| Culture and recreation | - | - | - | - | - | - | - | - | 129,719 |
| Community and economic development | - | - | - | - | - | - | - | - | 307,667 |
| General government | - | - | - | - | - | - | - | - | 151,861 |
| Debt service | 478,909 | - | - | - | - | - | - | - | 478,909 |
| Capital projects | - | 20,039 | 32,717 | 41,467 | 128,733 | 34,833 | - | - | 257,789 |
| Total disbursements | 478,909 | 20,039 | 32,717 | 41,467 | 128,733 | 34,833 | - | - | 1,838,032 |
| Excess (deficiency) of receipts over (under) disbursements | (279,208) | (20,039) | 21,614 | (6,095) | (128,733) | (20,749) | 1,811 | - | 90,552 |
| Other financing sources (uses): | | | | | | | | | |
| Operating transfers in | 328,120 | 20,039 | 2,150 | - | - | - | - | - | 467,762 |
| Operating transfers out | - | - | - | - | - | - | - | - | (351,033) |
| Total other financing sources (uses) | 328,120 | 20,039 | 2,150 | - | - | - | - | - | 116,719 |
| Net change in cash balances | 48,912 | - | 23,764 | (6,095) | (128,733) | (20,749) | 1,811 | - | 207,271 |
| Cash balances beginning of year | 78,850 | - | (23,764) | 29,071 | (739) | 40,214 | 105,950 | - | 1,061,472 |
| Cash balances end of year | \$ 127,762 | \$ - | \$ - | \$ 22,976 | \$ (129,472) | \$ 19,465 | \$ 107,761 | \$ - | \$ 1,268,743 |
| Cash Basis Fund Balances | | | | | | | | | |
| Nonspendable - Library trust | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | 57,574 |
| Restricted for other purposes | 127,762 | - | - | 22,976 | - | - | 50,187 | - | 1,321,176 |
| Assigned for other purposes | - | - | - | - | - | 19,465 | - | - | 19,465 |
| Unassigned | - | - | - | - | (129,472) | - | - | - | (129,472) |
| Total cash basis fund balances | \$ 127,762 | \$ - | \$ - | \$ 22,976 | \$ (129,472) | \$ 19,465 | \$ 107,761 | \$ - | \$ 1,268,743 |

Receipts:
 Property tax
 Tax increment financing
 Other city tax
 Use of money and property
 Intergovernmental
 Miscellaneous
 Total receipts

Disbursements:
 Operating:
 Public safety
 Public works
 Culture and recreation
 Community and economic development
 General government
 Debt service
 Capital projects
 Total disbursements

Excess (deficiency) of receipts over (under) disbursements

Other financing sources (uses):
 Operating transfers in
 Operating transfers out
 Total other financing sources (uses)

Net change in cash balances

Cash balances beginning of year

Cash balances end of year

Cash Basis Fund Balances

Nonspendable - Library trust
 Restricted for other purposes
 Assigned for other purposes
 Unassigned
 Total cash basis fund balances

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, 2011

| | Airport | Wastewater Emergency | Electric Aerial Service | Airport Revolving | Total |
|---|------------------|-------------------------|-------------------------------|----------------------|-------------------|
| Operating receipts: | | | | | |
| Charges for service | \$ 17,726 | \$ - | \$ 585 | \$ - | \$ 18,311 |
| Miscellaneous | 81 | - | - | - | 81 |
| Total operating receipts | 17,807 | - | 585 | - | 18,392 |
| Operating disbursements: | | | | | |
| Business type activities | 73,194 | 12,416 | 587 | - | 86,197 |
| Total operating disbursements | 73,194 | 12,416 | 587 | - | 86,197 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | (55,387) | (12,416) | (2) | - | (67,805) |
| Non-operating receipts: | | | | | |
| Intergovernmental | 178 | - | - | - | 178 |
| Interest on investments | - | 880 | - | 45 | 925 |
| Lease Income | 65,362 | - | - | - | 65,362 |
| Sale of Capital Assets | 555 | - | - | - | 555 |
| Total non-operating receipts | 66,095 | 880 | - | 45 | 67,020 |
| Excess (deficiency) of receipts over (under) disbursements | 10,708 | (11,536) | (2) | 45 | (785) |
| Operating transfers in | - | - | - | 5,000 | 5,000 |
| Operating transfers out | (7,150) | - | - | - | (7,150) |
| Net change in cash balances | 3,558 | (11,536) | (2) | 5,045 | (2,935) |
| Cash balances beginning of year | 34,480 | 307,913 | 1,660 | 15,502 | 359,555 |
| Cash balances end of year | \$ 38,038 | \$ 296,377 | \$ 1,658 | \$ 20,547 | \$ 356,620 |
| Cash Basis Fund Balances | | | | | |
| Unrestricted | \$ 38,038 | \$ 296,377 | \$ 1,658 | \$ 20,547 | \$ 356,620 |
| Total cash basis fund balances | \$ 38,038 | \$ 296,377 | \$ 1,658 | \$ 20,547 | \$ 356,620 |

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
 Schedule of Indebtedness
 Year ended June 30, 2011

| 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 bonds/notes: | | | | | | | | | |
| Wastewater Treatment Library | June 1, 2002 | 2.75 - 5.25 % | 1,465,000 | 805,000 | - | 100,000 | 705,000 | 40,765 | - |
| Water and Wastewater | October 1, 2002 | 2.75 - 4.40 % | 590,000 | 150,000 | - | 75,000 | 75,000 | 6,488 | - |
| Total | June 1, 2010 | 1.00 - 4.15 % | 2,350,000 | 2,350,000 | - | 130,000 | 2,220,000 | 72,582 | - |
| | | | \$ 3,305,000 | \$ | \$ | \$ 305,000 | \$ 3,000,000 | \$ 119,835 | \$ |
| Note Payable: | | | | | | | | | |
| Fire Truck | December 14, 2005 | 4.50 % | 102,034 | \$ 39,400 | - | 17,237 | 22,163 | 1,763 | - |
| Lease Purchase: | | | | | | | | | |
| Fire Truck | December 21, 2007 | 4.29 % | 268,000 | \$ 223,011 | - | 23,952 | 199,059 | 9,571 | - |

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
 Bond and Note Maturities
 June 30, 2011

Schedule 4

General Obligation Bonds/Notes

| Year Ending June 30, | Wastewater Treatment | | Library | | Water and Wastewater | | Total |
|----------------------------|----------------------|-------------------|------------------------|------------------|----------------------|--------------------|--------------------|
| | Issued June 1, 2002 | | Issued October 1, 2002 | | Issued June 1, 2010 | | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | |
| 2012 | 4.90 | 105,000 | 4.40 | 75,000 | 1.25 | 130,000 | 310,000 |
| 2013 | 5.00 | 110,000 | - | - | 1.70 | 130,000 | 240,000 |
| 2014 | 5.10 | 115,000 | - | - | 2.00 | 135,000 | 250,000 |
| 2015 | 5.15 | 120,000 | - | - | 2.30 | 135,000 | 255,000 |
| 2016 | 5.20 | 125,000 | - | - | 2.65 | 140,000 | 265,000 |
| 2017 | 5.25 | 130,000 | - | - | 3.00 | 145,000 | 275,000 |
| 2018 | - | - | - | - | 3.20 | 155,000 | 155,000 |
| 2019 | - | - | - | - | 3.40 | 160,000 | 160,000 |
| 2020 | - | - | - | - | 3.60 | 165,000 | 165,000 |
| 2021 | - | - | - | - | 3.80 | 170,000 | 170,000 |
| 2022 | - | - | - | - | 4.00 | 180,000 | 180,000 |
| 2023 | - | - | - | - | 4.05 | 185,000 | 185,000 |
| 2024 | - | - | - | - | 4.10 | 190,000 | 190,000 |
| 2025 | - | - | - | - | 4.15 | 200,000 | 200,000 |
| | | <u>\$ 705,000</u> | | <u>\$ 75,000</u> | | <u>\$2,220,000</u> | <u>\$3,000,000</u> |

Notes Payable

| Year Ending June 30, | Fire Truck | | Fire Truck | |
|----------------------------|--------------------------|------------------|--------------------------|-------------------|
| | Issued December 14, 2005 | | Issued December 21, 2007 | |
| | Interest Rates | Amount | Interest Rates | Amount |
| 2012 | 4.50 | 17,956 | 4.29 | 24,980 |
| 2013 | 4.50 | 4,207 | 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 |
| | | <u>\$ 22,163</u> | | <u>\$ 199,059</u> |

See accompanying independent auditor's report.

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

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Receipts: | | | | | | | | | | |
| Property tax | \$ 2,202,283 | \$ 2,012,054 | \$ 1,874,028 | \$ 1,841,129 | \$ 1,847,308 | \$ 1,798,834 | \$ 1,674,273 | \$ 1,706,875 | \$ 1,636,194 | \$ 1,478,584 |
| Tax increment financing | 142,914 | 164,369 | 353,698 | 206,847 | 279,748 | 320,731 | 577,443 | 168,656 | 179,225 | 251,292 |
| Other city tax | 645,934 | 511,508 | 248,999 | 108,342 | 97,023 | 64,722 | 25,691 | 22,517 | 28,199 | 26,002 |
| Licenses and permits | 79,104 | 82,977 | 78,378 | 80,157 | 72,341 | 70,507 | 76,644 | 83,891 | 66,002 | 68,249 |
| Use of money and property | 43,260 | 94,722 | 157,040 | 242,809 | 300,481 | 226,331 | 116,872 | 80,634 | 145,136 | 259,440 |
| Intergovernmental | 879,999 | 1,371,750 | 735,551 | 691,222 | 651,060 | 719,839 | 865,068 | 1,453,906 | 2,037,598 | 799,337 |
| Charges for service | 697,076 | 679,051 | 689,896 | 608,147 | 566,992 | 559,609 | 563,944 | 537,278 | 463,147 | 463,627 |
| Special assessments | 79,612 | 20,049 | 57,244 | 11,366 | 16,708 | 26,083 | 87,700 | 79,995 | 51,232 | 65,860 |
| Miscellaneous | 109,537 | 48,384 | 52,081 | 105,863 | 40,918 | 120,661 | 518,983 | 136,524 | 247,303 | 139,536 |
| Total | \$ 4,879,719 | \$ 4,984,864 | \$ 4,246,915 | \$ 3,895,882 | \$ 3,872,579 | \$ 3,907,317 | \$ 4,506,618 | \$ 4,270,276 | \$ 4,854,036 | \$ 3,551,927 |
| Disbursements: | | | | | | | | | | |
| Operating: | | | | | | | | | | |
| Public safety | \$ 1,268,132 | \$ 1,315,489 | \$ 1,088,479 | \$ 1,454,875 | \$ 1,066,190 | \$ 1,136,265 | \$ 974,212 | \$ 916,293 | \$ 884,005 | \$ 766,389 |
| Public works | 2,082,442 | 1,643,183 | 2,570,899 | 1,473,098 | 1,606,151 | 1,177,067 | 1,745,394 | 1,658,703 | 1,484,713 | 2,037,301 |
| Health and social services | 4,223 | 5,237 | 5,297 | 4,923 | 5,727 | 3,807 | 2,817 | 5,165 | 2,296 | 3,486 |
| Culture and recreation | 678,704 | 660,497 | 648,557 | 600,593 | 729,999 | 598,914 | 511,257 | 536,188 | 519,666 | 496,403 |
| Community and economic development | 376,493 | 334,115 | 254,250 | 195,775 | 190,272 | 288,216 | 187,524 | 212,978 | 1,442,675 | 127,166 |
| General government | 838,737 | 883,670 | 853,777 | 803,714 | 836,076 | 820,453 | 723,623 | 692,456 | 642,890 | 650,038 |
| Debt service | 478,909 | 272,851 | 269,456 | 237,058 | 242,925 | 343,096 | 226,495 | 580,835 | 1,023,149 | 218,751 |
| Capital projects | 1,171,869 | 1,994,359 | 24,430 | 78,194 | 29,749 | 471,702 | 200,947 | 1,214,255 | 567,381 | 1,085,754 |
| Total | \$ 6,899,509 | \$ 7,109,401 | \$ 5,715,145 | \$ 4,848,230 | \$ 4,707,089 | \$ 4,839,520 | \$ 4,572,269 | \$ 5,816,873 | \$ 6,566,775 | \$ 5,385,288 |

See accompanying independent auditor's report.

City of Estherville

Brinkman & Reed, CPA's

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

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Estherville, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 9, 2011. 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Estherville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as item II-A-11 to be 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, 2011 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, and 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 9, 2011

CITY OF ESTHERVILLE
Schedule of Findings
Year ended June 30, 2011

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) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF ESTHERVILLE
Schedule of Findings – Continued
Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 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.

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:

IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 did not exceed the amount budgeted.

IV-B-11 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.

IV-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title, and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|------------------------------------|---------------|
| Ann Goebel, Council Member, Owner of Riverside Hills Boarding | Boarding Dogs | \$1,115 |

CITY OF ESTHERVILLE
Schedule of Findings – Continued
Year Ended June 30, 2011

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

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with the Council Member does not appear to represent a conflict of interest since total transactions was less than \$1,500 during the fiscal year.

- IV-E-11 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.
- IV-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-11 Deposit 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.
- IV-H-11 Financial Condition – The Capital Projects Fund – Airport Access Road had a deficit balance at June 30, 2011 of \$129,472.

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 grants and local matches. The deficits will be subsequently eliminated.

Conclusion – Response accepted.