

**CITY OF ESTHERVILLE  
INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2014**

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**CITY OF ESTHERVILLE**

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2014)</b>		
Kenny Billings	Mayor	January 2014
Larry W. Anderson	Mayor Pro Tem	January 2016
Mike Neiland	Council Member	January 2016
Roger Guge	Council Member	January 2016
Larry W. Anderson	Council Member	January 2014
Gene Haukoos	Council Member	January 2016
Dave Seylar	Council Member	January 2014
Ann Goebel	Council Member	January 2014
Terry Nelson	Council Member	January 2014
Penny A. Clayton	City Administrator	Indefinite
Beth Burton	City Clerk/Finance Director/Treasurer	January 2014
Julie Miller	Deputy City Clerk	January 2014
Pelzer Law Firm	Attorney	January 2016
<b>(After January 2014)</b>		
Kenny Billings	Mayor	January 2016
Larry W. Anderson	Mayor Pro Tem	January 2018
Mike Neiland	Council Member	January 2016
Roger Guge	Council Member	January 2016
Larry W. Anderson	Council Member	January 2018
Gene Haukoos	Council Member	January 2016
Dave Seylar	Council Member	January 2018
Ann Goebel	Council Member	January 2018
Julie Clark	Council Member	January 2018
Penny A. Clayton	City Administrator	Indefinite
Beth Burton	City Clerk/Finance Director/Treasurer	January 2016
Julie Miller	Deputy City Clerk	January 2016
Pelzer Law Firm	Attorney	January 2016



## Independent Auditors' Report

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

### Report on Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

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, Iowa, as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in conformity with the cash basis of accounting.

## **Basis of Presentation**

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the cash basis financial statements that collectively comprise the City of Estherville's basic financial statements. We did not audit, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2012, included on pages 31 and 32. The supplementary information on pages 27-32 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4-9 and 25-26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2014 on our consideration of the City of Estherville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Spencer, Iowa  
August 22, 2014

*Williams + Company, P.C.*  
Certified Public Accountants

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**CITY OF ESTHERVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Estherville provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2014 FINANCIAL HIGHLIGHTS**

The City's total receipts exceeded total disbursements by \$170,390 during fiscal year 2014. Receipts had exceeded disbursements by \$1,253,043 during fiscal year 2013.

The City's total disbursements increased from \$14,517,342 in fiscal year 2013 to \$15,102,023 in fiscal year 2014. This is an increase of \$584,681 or 4%. The primary reasons for the increase in disbursements are increases in debt service payments, equipment replacement, and utilities.

The City's total receipts decreased from \$15,770,385 in fiscal year 2013 to \$15,272,413 in fiscal year 2014. This is a decrease of \$497,972 or 3%. The primary reason for the decrease in receipts is no bond proceeds in the current year.

**USING THIS ANNUAL REPORT**

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statements consist of a Cash Basis Statement of Activities and Net Position. 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 financial statement by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Supplementary Information provides detailed information about the nonmajor governmental 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 accounts principles. Therefore, when reviewing the financial information and discussion within this annual report, readers 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 Statements***

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 Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position 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 and state and federal grants finance most of these activities.
- Business type activities include the water, wastewater, electric, and airport operation systems. These activities are financed primarily by user charges.

### ***Fund Financial Statement***

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 Fund 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 statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.
- 2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the Water, Wastewater, 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 statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$6.8 million to approximately \$6.9 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Operating grants, contributions and restricted interest	\$ 881,304	\$ 880,395
Capital grants, contributions and restricted interest	727,560	680,359
General receipts	15,675	20,185
Property tax	2,477,537	2,427,897
Local option sales tax	552,304	549,501
Hotel/motel tax	70,348	78,520
Unrestricted interest on investments	29,432	25,582
Bond proceeds	-	-
Miscellaneous	30,875	40,812
Sale of capital assets	28,859	123,190
Total receipts	<u>4,813,894</u>	<u>4,826,441</u>
Disbursements:		
Public safety	1,408,755	1,342,679
Public works	2,389,852	2,110,187
Health and social services	3,915	3,915
Culture and recreation	749,282	670,710
Community and economic development	254,928	232,018
General government	834,454	822,820
Debt service	480,765	355,421
Capital projects	31,702	29,640
Total disbursements	<u>6,153,653</u>	<u>5,567,390</u>
Change in cash basis net position before transfers	(1,339,759)	(740,949)
Transfers, net	<u>1,443,317</u>	<u>1,307,171</u>
Change in cash basis net position	103,558	566,222
Cash basis net position - beginning of year	6,812,755	6,169,327
Prior period adjustment	-	77,206
Cash basis net position - beginning of year, as restated	<u>6,812,755</u>	<u>6,246,533</u>
Cash basis net position - end of year	<u>\$ 6,916,313</u>	<u>\$ 6,812,755</u>

The City's total receipts for governmental activities decreased 0.3%, or approximately \$13,000. The total cost of all programs and services before transfers increased approximately \$586,000, or 10.5%, with no new programs added this year. The decrease in receipts is reflected by decreased sales of capital assets this year and the increase in disbursement is the additional debt payment, increase in utility costs, and street and storm sewer projects.

The cost of all governmental activities this year was approximately \$6.15 million compared to approximately \$5.57 million last year. However, as shown in the Statement of Activities and Net Position on pages 10-11, the amount taxpayers ultimately financed for these activities was approximately \$4.53 million because some of the cost was paid by those directly benefited from the programs (approximately \$881,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$728,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2014 from approximately \$4.83 million to approximately \$4.81 million.

The City's cash balance for business type activities increased from a year ago, increasing from approximately \$6.0 million to approximately \$6.1 million. The analysis that follows focuses on the changes in cash basis net position of business type activities.

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,648,972	\$ 1,622,038
Wastewater	1,691,473	1,641,670
Electric	6,933,073	6,416,634
Airport	106,668	109,111
Operating grants, contributions and restricted interest:		
Airport	73,953	23,660
General receipts		
Unrestricted interest on investments	4,380	5,831
Bond Proceeds	-	1,125,000
Total receipts	<u>10,458,519</u>	<u>10,943,944</u>
Disbursements:		
Water	1,342,663	1,167,404
Wastewater	1,808,772	2,006,738
Electric	5,708,735	5,611,838
Airport	88,200	163,972
Total disbursements	<u>8,948,370</u>	<u>8,949,952</u>
Change in cash basis net position before transfers	1,510,149	1,993,992
Transfers, net	<u>(1,443,317)</u>	<u>(1,307,171)</u>
Change in cash basis net position	66,832	686,821
Cash basis net position - beginning of year	6,007,081	5,397,466
Prior period adjustment	-	(77,206)
Cash basis net position - beginning of year, as restated	<u>6,007,081</u>	<u>5,320,260</u>
Cash basis net position - end of year	<u>\$ 6,073,913</u>	<u>\$ 6,007,081</u>

Total business type activities receipts for the fiscal year were approximately \$10.46 million compared to approximately \$10.94 million last year. This decrease was due primarily to a decrease in usage. The cash balance increased approximately \$67,000 from the prior year. Total disbursements for the fiscal year remained comparable to the prior year at \$8.95 million.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

For the year ending June 30, 2014, governmental funds cash balances totaled \$6,433,682. This is an increase of \$64,634 from the June 30, 2013 balance of \$6,369,048.

- The total General Fund cash balance increased \$212,019 from the prior year to \$3,115,543 on June 30, 2014. On June 30, 2014, the General Fund consisted of eight balances. During the fiscal year the undesignated General Fund increased \$148,341 to \$1,041,765. The committed Parks & Recreation Revolving Fund increased \$65,172 to \$430,311, the committed Equipment Revolving Fund increased \$81,617 to \$846,182, the committed Library – Sanborn Fund increased \$166 to \$237,047, the committed Library – Pearson Fund increased \$10 to \$19,699, the committed Police Miscellaneous Fund decreased \$1,972 to \$14,305, the committed Housing Rehab Grant Fund increased \$9,177 to \$9,177 and the committed Economic Development Fund decreased \$89,564 to \$517,057.
- The Road Use Tax Fund cash balance decreased during the fiscal year by \$323,030 to \$1,478,931 on June 30, 2014 due to more road projects and special assessment income transferred to General Account and no longer deposited in Road Use Tax Account.
- The Local Option Sales Tax Fund cash balance increased \$177,448 during the year to \$781,714 on June 30, 2014 with the intent of saving for a larger capital project.

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

For the year ending June 30, 2014, business type funds cash balances totaled \$6,073,913. This is an increase of \$66,832 from the June 30, 2013 balance of \$6,007,081.

- The Water Fund cash balance increased \$24,298 to \$1,330,160 on June 30, 2014.
- The Wastewater Fund cash balance decreased \$413,143 to \$1,242,215 on June 30, 2014 due to a Debt Service payment and Capital Projects.
- The Electric Fund cash balance increased \$363,235 to \$3,367,644 on June 30, 2014 due to the increase in electric rates. The additional revenue received will be used to finance Capital Improvements in the Power Plant.

### **BUDGETARY HIGHLIGHTS**

On May 19, 2014, an amendment to the fiscal year 2014 budget was approved to increase revenues by \$2.3 million and increase expenses by \$3.3 million. The amendment authorized transfers, capital projects, and miscellaneous other expenses. A budget amendment was also made on June 16, 2014 to increase capital projects expenses by \$50,000.

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

## **DEBT ADMINISTRATION**

At June 30, 2014, the City had \$3,205,000 in general obligation bonds outstanding compared to \$3,560,000 the year before. The balance on a lease-purchase agreement for the purchase of a fire pumper truck decreased from \$148,026 on June 30, 2013 to \$120,855 on June 30, 2014. The total City debt decreased from \$3,708,026 on June 30, 2013 to \$3,325,855 on June 30, 2014.

Debt decreased as a result of making the regular payments on the obligations.

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's outstanding general obligation of \$3,205,000 is significantly below its constitutional debt limit. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

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

The budget for fiscal year ending June 30, 2015, includes a decrease in disbursements of approximately \$773,166 (4%). The primary reasons for the decreased budget are decreases in capital projects.

The property tax levy remains at \$16.50 per \$1,000 of taxable valuation. The budgeted fund balance for the General Fund increases by approximately \$9,332.

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 DISTRICT'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 Elizabeth Burton, City Clerk, 2 North 7<sup>th</sup> Street, Estherville, Iowa 51334 or telephone (712) 362-7771.

## **BASIC FINANCIAL STATEMENTS**

CITY OF ESTHERVILLE, IOWA  
 STATEMENT OF ACTIVITIES AND NET POSITION  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
Public Safety	\$ 1,408,755	\$ 6,577	\$ 80,949	\$ 12,416
Public Works	2,389,852	742,213	635,070	-
Health and Social Services	3,915	-	-	-
Culture and Recreation	749,282	33,176	11,541	3,259
Community and Economic Development	254,928	-	-	-
General Government	834,454	99,338	-	-
Debt Service	480,765	-	-	-
Capital Projects	31,702	-	-	-
<b>Total Governmental Activities</b>	<u>6,153,653</u>	<u>881,304</u>	<u>727,560</u>	<u>15,675</u>
<b>Business-Type Activities:</b>				
Water	1,342,663	1,648,972	-	-
Wastewater	1,808,772	1,691,473	-	-
Electric	5,708,735	6,933,073	-	-
Airport	88,200	106,668	73,953	-
<b>Total Business-Type Activities</b>	<u>8,948,370</u>	<u>10,380,186</u>	<u>73,953</u>	<u>-</u>
<b>Total Primary Government</b>	<u>\$ 15,102,023</u>	<u>\$ 11,261,490</u>	<u>\$ 801,513</u>	<u>\$ 15,675</u>

**General Receipts:**

Property and Other City Tax Levied for:  
 General Purposes  
 Debt Service  
 Tax Increment Financing  
 Local Option Sales Tax  
 Hotel/Motel Tax  
 Unrestricted interest on investments  
 Miscellaneous  
 Sale of Assets  
 Transfers

**Total General Receipts and Transfers**

**Change in Cash Basis Net Position**

**Cash Basis Net Position at Beginning of Year**

**Cash Basis Net Position at End of Year**

**Cash Basis Net Position**

Restricted:

Nonexpendable:

Library Trust

Expendable:

Streets

Debt Service

Other Purposes

Unrestricted

**Total Cash Basis Net Position**

Net (Disbursements) Receipts  
and Changes in Cash Basis Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (1,308,813)		\$ (1,308,813)
(1,012,569)		(1,012,569)
(3,915)		(3,915)
(701,306)		(701,306)
(254,928)		(254,928)
(735,116)		(735,116)
(480,765)		(480,765)
(31,702)		(31,702)
<u>(4,529,114)</u>		<u>(4,529,114)</u>
	\$ 306,309	306,309
	(117,299)	(117,299)
	1,224,338	1,224,338
	92,421	92,421
	<u>1,505,769</u>	<u>1,505,769</u>
<u>(4,529,114)</u>	<u>1,505,769</u>	<u>(3,023,345)</u>
2,344,583	-	2,344,583
38,928	-	38,928
94,026	-	94,026
552,304	-	552,304
70,348	-	70,348
29,432	4,380	33,812
30,875	-	30,875
28,859	-	28,859
1,443,317	(1,443,317)	-
<u>4,632,672</u>	<u>(1,438,937)</u>	<u>3,193,735</u>
103,558	66,832	170,390
<u>6,812,755</u>	<u>6,007,081</u>	<u>12,819,836</u>
<u>6,916,313</u>	<u>6,073,913</u>	<u>12,990,226</u>
57,574	-	57,574
1,478,931	-	1,478,931
113,861	-	113,861
1,667,773	-	1,667,773
3,598,174	6,073,913	9,672,087
<u>\$ 6,916,313</u>	<u>\$ 6,073,913</u>	<u>\$ 12,990,226</u>

See Accompanying Notes to Financial Statements

CITY OF ESTHERVILLE, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
 GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue				Total
	General	Road Use Tax	Local Option Sales Tax	Nonmajor	
<b>Receipts</b>					
Property Tax	\$1,267,230	\$ -	\$ -	\$1,095,902	\$ 2,363,132
Tax Increment Financing	-	-	-	94,026	94,026
Other City Tax	82,746	-	552,304	7,981	643,031
Licenses and Permits	75,068	-	-	-	75,068
Use of Money and Property	28,819	-	393	951	30,163
Intergovernmental	98,257	635,070	-	-	733,327
Charges for Services	739,594	-	-	-	739,594
Special Assessments	54,457	-	-	-	54,457
Miscellaneous	52,237	-	-	-	52,237
<b>Total Receipts</b>	<u>2,398,408</u>	<u>635,070</u>	<u>552,697</u>	<u>1,198,860</u>	<u>4,785,035</u>
<b>Disbursements</b>					
Operating:					
Public Safety	986,596	-	70,320	364,858	1,421,774
Public Works	1,251,225	958,100	-	191,134	2,400,459
Health and Social Services	3,915	-	-	-	3,915
Culture and Recreation	536,771	-	85,056	135,524	757,351
Community and Economic Development	131,732	-	109,603	13,593	254,928
General Government	686,011	-	-	155,672	841,683
Debt Service	-	-	-	480,765	480,765
Capital Projects	-	-	-	31,702	31,702
<b>Total Disbursements</b>	<u>3,596,250</u>	<u>958,100</u>	<u>264,979</u>	<u>1,373,248</u>	<u>6,192,577</u>
<b>Excess (Deficiency) of Receipts over (Under) Disbursements</b>	<u>(1,197,842)</u>	<u>(323,030)</u>	<u>287,718</u>	<u>(174,388)</u>	<u>(1,407,542)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	25,605	-	3,254	-	28,859
Operating Transfers In	1,399,499	-	-	231,013	1,630,512
Operating Transfers (Out)	(15,243)	-	(113,524)	(58,428)	(187,195)
<b>Total Other Financing Sources (Uses)</b>	<u>1,409,861</u>	<u>-</u>	<u>(110,270)</u>	<u>172,585</u>	<u>1,472,176</u>
<b>Change in Cash Balances</b>	212,019	(323,030)	177,448	(1,803)	64,634
<b>Cash Balances at Beginning of Year</b>	<u>2,903,524</u>	<u>1,801,961</u>	<u>604,266</u>	<u>1,059,297</u>	<u>6,369,048</u>
<b>Cash Balances at End of Year</b>	<u>\$3,115,543</u>	<u>\$1,478,931</u>	<u>\$ 781,714</u>	<u>\$1,057,494</u>	<u>\$ 6,433,682</u>
<b>Cash Basis Fund Balance</b>					
Nonspendable - Library Trust	\$ -	\$ -	\$ -	\$ 57,574	\$ 57,574
Restricted for:					
Streets	-	1,478,931	-	-	1,478,931
Debt Service	-	-	-	113,861	113,861
Other Purposes	-	-	781,714	886,059	1,667,773
Committed for:					
Parks and Recreation	430,311	-	-	-	430,311
Equipment	846,182	-	-	-	846,182
Library	256,746	-	-	-	256,746
Police	14,305	-	-	-	14,305
Housing Rehab Grant	9,177	-	-	-	9,177
Economic Development	517,057	-	-	-	517,057
Unassigned	1,041,765	-	-	-	1,041,765
<b>Total Cash Basis Fund Balance</b>	<u>\$3,115,543</u>	<u>\$1,478,931</u>	<u>\$ 781,714</u>	<u>\$1,057,494</u>	<u>\$ 6,433,682</u>

See Accompanying 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 POSITION -  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Cash Balance- Governmental Funds (Page 12)	\$ 6,433,682
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 Activities and Net Position.	51,317
The Self-Funded Insurance Fund is used by management to charge costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Self-Funded Insurance Fund are included in governmental activities in the Statement of Activities and Net Position.	431,314
Cash Basis Net Position of Governmental Activities (Page 11)	\$ 6,916,313

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Net Change in Governmental Funds Cash Balances (Page 12)	\$ 64,634
The Self-Funded Insurance Fund is used by management to charge costs of partial self funding of the City's health insurance benefit plan to individual funds. The change in net position of the Self-Funded Insurance Fund is included in governmental activities in the Statement of Activities and Net Position.	38,924
Change in Cash Basis Net Position of Governmental Activities (Page 11)	\$ 103,558

**CITY OF ESTHERVILLE, IOWA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES**  
**PROPRIETARY FUNDS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Enterprise				Total	Internal Service Funds
	Water	Wastewater	Electric	Nonmajor Airport		
<b>Operating Receipts:</b>						
Charges for Services	\$ 1,648,972	\$ 1,691,473	\$ 6,885,619	\$ 22,883	\$ 10,248,947	\$ 1,109,059
Intergovernmental	-	-	-	73,953	73,953	-
Miscellaneous	-	-	47,454	-	47,454	-
<b>Total Operating Receipts</b>	<u>1,648,972</u>	<u>1,691,473</u>	<u>6,933,073</u>	<u>96,836</u>	<u>10,370,354</u>	<u>1,109,059</u>
<b>Operating Disbursements:</b>						
Business Type Activities	1,342,663	1,808,772	5,708,735	88,200	8,948,370	1,071,073
<b>Total Operating Disbursements</b>	<u>1,342,663</u>	<u>1,808,772</u>	<u>5,708,735</u>	<u>88,200</u>	<u>8,948,370</u>	<u>1,071,073</u>
<b>Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements</b>	306,309	(117,299)	1,224,338	8,636	1,421,984	37,986
<b>Non-Operating Receipts:</b>						
Interest Income	810	358	3,191	21	4,380	938
Lease Income	-	-	-	83,785	83,785	-
<b>Total Non-Operating Receipts</b>	<u>810</u>	<u>358</u>	<u>3,191</u>	<u>83,806</u>	<u>88,165</u>	<u>938</u>
<b>Excess (Deficiency) of Receipts Over (Under) Disbursements</b>	307,119	(116,941)	1,227,529	92,442	1,510,149	38,924
<b>Other Financing Sources (Uses)</b>						
Operating Transfers In	-	-	89,482	-	89,482	-
Operating Transfers (Out)	(282,821)	(296,202)	(953,776)	-	(1,532,799)	-
<b>Total Other Financing Sources (Uses)</b>	<u>(282,821)</u>	<u>(296,202)</u>	<u>(864,294)</u>	<u>-</u>	<u>(1,443,317)</u>	<u>-</u>
<b>Net Change in Cash Balances</b>	24,298	(413,143)	363,235	92,442	66,832	38,924
<b>Cash Balances at Beginning of Year</b>	1,305,862	1,655,358	3,004,409	41,452	6,007,081	443,706
<b>Cash Balances at End of Year</b>	<u>\$ 1,330,160</u>	<u>\$ 1,242,215</u>	<u>\$ 3,367,644</u>	<u>\$ 133,894</u>	<u>\$ 6,073,913</u>	<u>\$ 482,630</u>
<b>Cash Basis Fund Balances</b>						
Unrestricted	\$ 1,330,160	\$ 1,242,215	\$ 3,367,644	\$ 133,894	\$ 6,073,913	\$ 482,630
<b>Total Cash Basis Fund Balances</b>	<u>\$ 1,330,160</u>	<u>\$ 1,242,215</u>	<u>\$ 3,367,644</u>	<u>\$ 133,894</u>	<u>\$ 6,073,913</u>	<u>\$ 482,630</u>

**CITY OF ESTHERVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 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 of Estherville has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

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

**B. Basis of Presentation**

**Government-wide Financial Statements** – The Statement of Activities and Net Position (previously referred to as 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 service.

**CITY OF ESTHERVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Nonexpendable restricted net position* is subject to externally imposed stipulation which require the cash balance to be maintained permanently by the City, including a portion of the City's Permanent Fund.

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on cash balances imposed by management which can be removed or modified.

The Statement of Activities and Net Position 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 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.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment, and community programs and services.

**CITY OF ESTHERVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City reports the following major enterprise funds:

The Water Fund accounts for the operation and maintenance of the City's water system and 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 and the accumulation of funds for expenditures for the City in case of a wastewater emergency. It also includes the Wastewater Digester capital project.

The Electric Fund accounts for the operation and maintenance of the City's electrical system and the accumulation of funds for expenditures for the City in case of an electrical emergency. It also accounts for Enterprise Equipment Revolving funds that are set aside for capital equipment expenditures.

The City also reports the following additional proprietary funds:

An Internal Service 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 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 Self-Funded Insurance Fund is utilized to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements which is an other comprehensive basis of accounting 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 as well as fixed assets. 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.

**CITY OF ESTHERVILLE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council through resolution, unless the City Council removes or changes the specified use by taking the same type of action used to commit the amounts.

Unassigned – All amounts not included in the preceding classifications.

**E. Budgeting and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

**Note 2 – CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2014, 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.

**CITY OF ESTHERVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 2 – CASH AND POOLED INVESTMENTS (Continued)**

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, 2014, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
U.S. Treasury Note	<u>\$33,392</u>	<u>\$33,884</u>	September 2014
U.S. Treasury Note	<u>\$14,023</u>	<u>\$14,004</u>	February 2015
U.S. Treasury Note	<u>\$10,006</u>	<u>\$9,993</u>	December 2014

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.

**Note 3 – BONDS AND LEASES PAYABLE**

The following is a summary of bond and lease transactions of the City for the year ended June 30, 2014:

<u>Primary Government</u>	<u>Governmental Activities Bonds and Lease Payable by Debt Service Fund</u>
Bonds and Leases Payable July 1, 2012	\$ 3,708,026
Plus: Bonds and Leases Issued	-
Less: Payments	(382,171)
Bonds and Leases Payable June 30, 2013	<u>3,325,855</u>
Due Within One Year	<u>\$ 388,337</u>

**CITY OF ESTHERVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 3 – BONDS AND LEASES PAYABLE (Continued)**

The City of Estherville had the following outstanding bonds and leases as of June 30, 2014:

<b>Bond/Lease</b>	<b>Date of Issue</b>	<b>Interest Rate</b>	<b>Final Due Date</b>	<b>Annual Principal Payments</b>	<b>Amount Originally Issued</b>	<b>Outstanding June 30, 2014</b>	<b>Due Within One Year</b>
General Obligation- Series 2010	6/1/2010	1.00-4.15%	2025	\$135,000 - \$200,000	\$ 2,350,000	\$ 1,825,000	\$ 135,000
General Obligation- Series 2011	12/22/2011	0.45-1.45%	2017	\$120,000	705,000	360,000	120,000
General Obligation- Series 2013	3/1/2013	0.40-1.90%	2023	\$105,000 - \$120,000	1,125,000	1,020,000	105,000
Pumper Truck Lease	12/21/2007	4.29%	2018	\$28,000 - \$33,000	268,000	120,855	28,337
<b>Total Bonds/Lease Due</b>					<b>\$ 4,448,000</b>	<b>\$ 3,325,855</b>	<b>\$ 388,337</b>

Annual debt service requirements to maturity of General Obligation Bonds and Leases are as follows:

<b>Interest Rate</b>	<b>2010</b>		<b>2011</b>		<b>2013</b>		<b>2007</b>		<b>Total</b>	
	<b>G.O. Water &amp; Wastewater Bonds</b>		<b>G.O. Refunding Bonds</b>		<b>G.O. Sanitary Sewer Bonds</b>		<b>Pumper Truck Lease</b>		<b>Governmental</b>	
<b>Year Ended</b>	<b>1.00% - 4.15%</b>		<b>0.45% 1.45%</b>		<b>0.40% - 1.90%</b>		<b>4.29%</b>			
<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2015	135,000	64,748	120,000	4,380	105,000	12,375	28,337	5,187	388,337	86,689
2016	140,000	61,643	120,000	3,180	110,000	11,850	29,553	3,971	399,553	80,643
2017	145,000	57,933	120,000	1,740	110,000	11,190	30,821	2,702	405,821	73,565
2018	155,000	53,583			110,000	10,310	32,144	1,380	297,144	65,272
2019	160,000	48,623			115,000	9,210			275,000	57,833
2020-2024	890,000	150,880			470,000	20,710			1,360,000	171,590
2025	200,000	8,300							200,000	8,300
<b>Total</b>	<b>\$1,825,000</b>	<b>\$445,708</b>	<b>\$360,000</b>	<b>\$9,300</b>	<b>\$1,020,000</b>	<b>\$75,645</b>	<b>\$120,855</b>	<b>\$13,240</b>	<b>\$3,325,855</b>	<b>\$543,893</b>

The amount of interest paid on the bonds and lease during the year ending June 30, 2014 was \$95,094.

**Note 4 – PENSION AND RETIREMENT BENEFITS**

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.

**CITY OF ESTHERVILLE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**Note 4 – PENSION AND RETIREMENT BENEFITS (Continued)**

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of annual 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 contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$198,587, \$183,616, and \$173,985, respectively, equal to the required contributions for each year.

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, is 30.12% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2014, 2013, and 2012 were \$192,537, \$163,516, and \$149,693, respectively, which met the required contribution rate for each year.

**Note 5 – CONTRACT RECEIVABLE**

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, 2014 are as follows:

<u>Project</u>	<u>Balance</u>	<u>Interest Rate/Security</u>
Iowa Lakes Electric Cooperative	\$ 23,303	6.00/Unsecured
WWTP Improvements	\$ 127,658	6.00/Unsecured
Industrial Park	\$ 457	5.00/Unsecured

**Note 6 – SELF-FUNDED INSURANCE**

*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 48 active and 6 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a self-funded insurance plan. Wellmark is the third party administrator for the plan. National Pharmaceutical Services is the third party benefit manager for the prescription drug portion of the program. The City is responsible for the first \$25,000 of claims after the deductible has been paid for each member covered under the plan. Specific stop loss reinsurance provides coverage after \$25,000 of claims has been paid. The City also has an aggregate stop loss, above a certain total of claims paid.

**CITY OF ESTHERVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 6 – SELF-FUNDED INSURANCE (Continued)**

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 and dental 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.

For the year ended June 30, 2014, the City contributed \$590,169 and plan members eligible for benefits contributed \$174,157 to the plan.

The dental premiums for fiscal year 2014 were \$20 per month for single coverage and \$54 per month for family coverage. For the year ended June 30, 2014, the City contributed \$17,215 and plan members eligible for benefits contributed \$4,024.

**Note 7 – 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.

**Note 8 – CONSTRUCTION COMMITMENTS**

The City has entered into contracts totaling \$748,783 for the airport apron project engineering. As of June 30, 2014, costs of \$80,102 on the project have been paid. The remaining balance of \$668,681 will be paid as work on the project progresses.

The City has entered into a contract totaling \$155,175 for the 2013 storm sewer improvements project. As of June 30, 2014, costs of \$89,121 on the project have been paid. The remaining balance of \$66,054 will be paid as work on the project progresses.

The City has entered into a contract totaling \$514,823 for the 2013 street improvement project. As of June 30, 2014, costs of \$493,500 on the project have been paid. The remaining balance of \$21,323 will be paid as work on the project progresses.

The City has entered into a contract totaling \$409,997 for the park road reconstruction project. As of June 30, 2014, costs of \$0 on the project have been paid. The remaining balance of \$409,997 will be paid as work on the project progresses.

**CITY OF ESTHERVILLE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**Note 8 – CONSTRUCTION COMMITMENTS (Continued)**

The City has entered into a contract totaling \$151,930 for the 2014 street improvement project. As of June 30, 2014, costs of \$0 on the project have been paid. The remaining balance of \$151,930 will be paid as work on the project progresses.

The City has entered into a contract totaling \$80,995 for the 2014 curb and gutter improvements. As of June 30, 2014, costs of \$0 on the project have been paid. The remaining balance of \$80,995 will be paid as work on the project progresses.

**Note 9 – OPERATING LEASE**

The City of Estherville entered into an operating lease agreement on February 4, 2013, with Estherville Housing, Inc. to lease office space. The city's total rent expense for the year ending June 30, 2014 was \$16,600. Rental adjustments in the amount of \$600 will occur annually beginning on July 1, 2014 and continue through June 30, 2018. After June 30, 2018, the lease amount may be renewed upon the same terms and conditions or upon any such other terms as mutually agreed upon. 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**

<b>Year Ending</b>	
<b>June 30,</b>	<b>Amount</b>
2015	\$ 17,200
2016	17,800
2017	18,400
2018	19,000

**Note 10 – 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 \$.014282/KWH, effective January of 2013. 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**  
**JUNE 30, 2014**

**Note 11 – GENERAL FUND – COMMITTED BALANCES**

The City had committed part of the balance of the general fund for specific future uses. The balance which has been committed 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 disbursements. The Forfeiture is for deterring criminal activity. The Housing Rehab Grant balance is to be used for future residential housing rehabilitation projects.

<u>Committed Balances at June 30, 2014</u>	<u>Amount</u>
Parks and Recreation Revolving	\$ 430,311
Equipment Revolving	846,182
Library – Pearson	19,699
Library – Sanborn	237,047
Forfeiture	14,305
Housing Rehab Grant	9,177
Economic Development	517,057
 Total Committed Balances	 <u>\$2,073,778</u>

**Note 12 – LITIGATION**

The City is a defendant in a lawsuit. The City has referred the matter to their insurance company. At the present time, the outcome of the matter is uncertain and the amount of loss, if any, cannot be reasonably estimated.

**Note 13 – INTERFUND TRANSFERS**

The City had numerous interfund transfers during the year ended June 30, 2014. The transfers generally move resources from funds with available resources to those funds with disbursements that need to be paid.

<u>Transfers Out</u>	<u>Transfers In</u>			
	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Electric</u>	<u>Total</u>
<b>General</b>	\$ -	\$ 15,243	\$ -	\$ 15,243
<b>LOST</b>	80,000	33,524	-	113,524
<b>Nonmajor Governmental</b>	44,349	-	14,079	58,428
<b>Water</b>	210,700	58,226	13,895	282,821
<b>Wastewater</b>	111,200	123,494	61,508	296,202
<b>Electric</b>	953,250	526	-	953,776
<b>Total</b>	<u>\$1,399,499</u>	<u>\$ 231,013</u>	<u>\$ 89,482</u>	<u>\$1,719,994</u>

**CITY OF ESTHERVILLE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**Note 14 – DEFICIT BALANCE**

The Parks and Recreation Construction Fund had a deficit cash balance as of June 30, 2014. This deficit was due to a timing difference and will be financed through a transfer from another fund.

## **OTHER INFORMATION**

**CITY OF ESTHERVILLE, IOWA**  
**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES**  
**BUDGET AND ACTUAL (CASH BASIS)**  
**ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**  
**OTHER INFORMATION**  
**YEAR ENDED JUNE 30, 2014**

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budget		Final to Actual Variance
				Original	Final	
<b>Receipts</b>						
Property Tax	\$ 2,363,132	\$ -	\$ 2,363,132	\$ 2,351,800	\$ 2,351,800	\$ 11,332
Tax Increment Financing	94,026	-	94,026	98,539	98,539	(4,513)
Other City Tax	643,031	-	643,031	633,927	663,927	(20,896)
Licenses and Permits	75,068	-	75,068	10,775	10,775	64,293
Use of Money and Property	30,163	89,103	119,266	36,755	37,755	81,511
Intergovernmental	733,327	73,953	807,280	1,765,700	1,765,700	(958,420)
Charges for Services	739,594	11,358,006	12,097,600	10,526,325	11,653,412	444,188
Special Assessments	54,457	-	54,457	5,000	40,000	14,457
Miscellaneous	52,237	47,454	99,691	11,250	201,550	(101,859)
Total Receipts	<u>4,785,035</u>	<u>11,568,516</u>	<u>16,353,551</u>	<u>15,440,071</u>	<u>16,823,458</u>	<u>(469,907)</u>
<b>Disbursements</b>						
Public Safety	1,421,774	-	1,421,774	1,472,218	1,533,218	111,444
Public Works	2,400,459	-	2,400,459	2,310,830	2,667,717	267,258
Health and Social Services	3,915	-	3,915	4,700	4,700	785
Culture and Recreation	757,351	-	757,351	860,425	883,925	126,574
Community and Economic Development	254,928	-	254,928	859,476	1,075,000	820,072
General Government	841,683	-	841,683	947,825	963,325	121,642
Debt Service	480,765	-	480,765	478,766	480,766	1
Capital Projects	31,702	-	31,702	1,396,600	65,000	33,298
Business Type Activities	-	10,019,443	10,019,443	8,397,981	11,533,435	1,513,992
Total Disbursements	<u>6,192,577</u>	<u>10,019,443</u>	<u>16,212,020</u>	<u>16,728,821</u>	<u>19,207,086</u>	<u>2,995,066</u>
<b>Excess (Deficiency) of Receipts Over (Under) Disbursements</b>	(1,407,542)	1,549,073	141,531	(1,288,750)	(2,383,628)	2,525,159
<b>Other Financing Sources (Uses)</b>						
Proceeds from Sale of Fixed Assets	28,859	-	28,859	40,500	40,500	(11,641)
Operating Transfers From Other Funds	1,630,512	89,482	1,719,994	2,574,689	3,480,689	(1,760,695)
Operating Transfers to Other Funds	(187,195)	(1,532,799)	(1,719,994)	(2,574,689)	(3,480,689)	1,760,695
Total Other Financing Sources (Uses)	<u>1,472,176</u>	<u>(1,443,317)</u>	<u>28,859</u>	<u>40,500</u>	<u>40,500</u>	<u>(11,641)</u>
<b>Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses</b>	64,634	105,756	170,390	(1,248,250)	(2,343,128)	2,513,518
<b>Balances at Beginning of Year</b>	<u>6,369,048</u>	<u>6,450,787</u>	<u>12,819,835</u>	<u>11,671,485</u>	<u>11,671,485</u>	<u>-</u>
<b>Balances at End of Year</b>	<u>\$ 6,433,682</u>	<u>\$ 6,556,543</u>	<u>\$ 12,990,225</u>	<u>\$ 10,423,235</u>	<u>\$ 9,328,357</u>	<u>\$ 2,513,518</u>

See Accompanying Independent Auditors' Report

**CITY OF ESTHERVILLE**  
**NOTES TO OTHER INFORMATION – BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2014**

This budgetary comparison is presented 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. 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 functional level, not by fund. During the year, two budget amendments increased budgeted revenues by \$2,289,387 and budgeted disbursements by \$3,384,265. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

**SUPPLEMENTARY INFORMATION**

**CITY OF ESTHERVILLE, IOWA**  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Debt Service		Special Revenue				
	Debt Service	Group Insurance	Police Retirement	Employee Benefits	Emergency Levy	Industrial Park TIF	Oakridge TIF
<b>Receipts</b>							
Property Tax	\$ 204,257	\$ 488,438	\$ 171,031	\$ 193,546	\$ 38,630	\$ -	\$ -
Tax Increment Financing	-	-	-	-	-	4,833	74,336
Other City Tax	1,570	3,765	1,318	1,030	298	-	-
Use of Money and Property	119	-	-	-	-	-	-
<b>Total Receipts</b>	<b>205,946</b>	<b>492,203</b>	<b>172,349</b>	<b>194,576</b>	<b>38,928</b>	<b>4,833</b>	<b>74,336</b>
<b>Disbursements</b>							
Operating:							
Public Safety	-	161,665	192,537	10,656	-	-	-
Public Works	-	125,151	-	65,983	-	-	-
Culture and Recreation	-	95,202	-	40,322	-	-	-
Community and Economic Development	-	-	-	-	-	-	-
General Government	-	85,289	-	70,383	-	-	-
Debt Service	480,765	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-	-
<b>Total Disbursements</b>	<b>480,765</b>	<b>467,307</b>	<b>192,537</b>	<b>187,344</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficiency) of Receipts Over (Under) Disbursements</b>	<b>(274,819)</b>	<b>24,896</b>	<b>(20,188)</b>	<b>7,232</b>	<b>38,928</b>	<b>4,833</b>	<b>74,336</b>
<b>Other Financing Sources (Uses)</b>							
Operating Transfers In	275,519	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	(38,928)	(4,833)	(74,336)
<b>Total Other Financing Sources (Uses)</b>	<b>275,519</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(38,928)</b>	<b>(4,833)</b>	<b>(74,336)</b>
<b>Net Change in Cash Balances</b>	<b>700</b>	<b>24,896</b>	<b>(20,188)</b>	<b>7,232</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash Balances at Beginning of Year</b>	<b>113,161</b>	<b>562,929</b>	<b>125,469</b>	<b>148,004</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash Balances (Deficits) at End of Year</b>	<b>\$ 113,861</b>	<b>\$ 587,825</b>	<b>\$ 105,281</b>	<b>\$ 155,236</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Nonspendable - Library Trust</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Restricted for:							
Debt Service	113,861	-	-	-	-	-	-
Other Purposes	-	587,825	105,281	155,236	-	-	-
<b>Total Cash Basis Fund Balance</b>	<b>\$ 113,861</b>	<b>\$ 587,825</b>	<b>\$ 105,281</b>	<b>\$ 155,236</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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Special Revenue		Capital Projects	Permanent	
Morrell TIF	Hy-Vee TIF	Parks & Recreation Construction	Library Trust	Total
\$ -	\$ -	\$ -	\$ -	\$ 1,095,902
13,067	1,790	-	-	94,026
-	-	-	-	7,981
-	-	-	832	951
<u>13,067</u>	<u>1,790</u>	<u>-</u>	<u>832</u>	<u>1,198,860</u>
-	-	-	-	364,858
-	-	-	-	191,134
-	-	-	-	135,524
13,593	-	-	-	13,593
-	-	-	-	155,672
-	-	-	-	480,765
-	-	31,702	-	31,702
<u>13,593</u>	<u>-</u>	<u>31,702</u>	<u>-</u>	<u>1,373,248</u>
(526)	1,790	(31,702)	832	(174,388)
526	-	15,242	-	291,287
-	(605)	-	-	(118,702)
<u>526</u>	<u>(605)</u>	<u>15,242</u>	<u>-</u>	<u>172,585</u>
-	1,185	(16,460)	832	(1,803)
-	-	-	109,734	1,059,297
<u>\$ -</u>	<u>\$ 1,185</u>	<u>\$ (16,460)</u>	<u>\$ 110,566</u>	<u>\$ 1,057,494</u>
\$ -	\$ -	\$ -	\$ 57,574	\$ 57,574
-	-	-	-	113,861
-	1,185	(16,460)	52,992	886,059
<u>\$ -</u>	<u>\$ 1,185</u>	<u>\$ (16,460)</u>	<u>\$ 110,566</u>	<u>\$ 1,057,494</u>

CITY OF ESTHERVILLE, IOWA  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 INTERNAL SERVICE FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Garage Fund	Self-funded Insurance Fund	Total
<b>Operating Receipts:</b>			
Charges for Services	\$ 344,733	\$ 764,326	\$ 1,109,059
<b>Total Receipts</b>	<u>344,733</u>	<u>764,326</u>	<u>1,109,059</u>
<b>Operating Disbursements:</b>			
Salaries and Wages	50,026	-	50,026
Employee Benefits	26,837	-	26,837
Repairs, Maintenance, and Utilities	86,318	-	86,318
Contractual Services	175,459	43,210	218,669
Supplies	-	992	992
Claims Expense and Insurance Premiums	-	682,138	682,138
Capital Outlay	6,093	-	6,093
<b>Total Disbursements</b>	<u>344,733</u>	<u>726,340</u>	<u>1,071,073</u>
<b>Excess of Operating Receipts over Operating Disbursements</b>	-	37,986	37,986
<b>Non-Operating Receipts:</b>			
Interest Income	-	938	938
<b>Total Non-Operating Receipts</b>	<u>-</u>	<u>938</u>	<u>938</u>
<b>Net Change in Cash Balances</b>	-	38,924	38,924
<b>Cash Balances at Beginning of Year</b>	<u>51,317</u>	<u>392,389</u>	<u>443,706</u>
<b>Cash Balances at End of Year</b>	<u>\$ 51,317</u>	<u>\$ 431,313</u>	<u>\$ 482,630</u>

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**CITY OF ESTHERVILLE, IOWA**  
**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION**  
**ALL GOVERNMENTAL FUNDS**  
**FOR THE LAST TEN YEARS**

	2014	2013	2012	2011	2010
<b>Receipts</b>					
Property Tax	\$ 2,363,132	\$ 2,277,243	\$ 2,232,308	\$ 2,202,283	\$ 2,012,054
Tax Increment Financing	94,026	130,252	121,024	142,914	164,369
Other City Tax	643,031	648,423	615,569	645,934	511,508
Licenses and Permits	75,068	77,561	78,322	79,104	82,977
Use of Money and Property	30,163	32,232	29,797	43,260	94,722
Intergovernmental	733,327	688,394	801,511	879,999	1,371,750
Charges for Service	739,594	708,096	714,680	697,076	679,051
Special Assessments	54,457	69,213	54,245	79,612	20,049
Miscellaneous	52,237	71,837	187,426	109,537	48,384
Total	<u>\$ 4,785,035</u>	<u>\$ 4,703,251</u>	<u>\$ 4,834,882</u>	<u>\$ 4,879,719</u>	<u>\$ 4,984,864</u>
<b>Disbursements</b>					
<b>Operating</b>					
Public Safety	\$ 1,421,774	\$ 1,420,507	\$ 1,323,160	\$ 1,268,132	\$ 1,315,489
Public Works	2,400,459	2,174,852	1,829,655	2,082,442	1,643,183
Health and Social Services	3,915	3,915	3,915	4,223	5,237
Culture and Recreation	757,351	721,276	739,509	678,704	660,497
Community and Economic Development	254,928	232,018	330,388	376,493	334,115
General Government	841,683	865,987	891,957	838,737	883,670
Debt Service	480,765	355,421	1,197,785	478,909	272,851
Capital Projects	31,702	29,640	109,173	1,171,869	1,994,359
Total	<u>\$ 6,192,577</u>	<u>\$ 5,803,616</u>	<u>\$ 6,425,542</u>	<u>\$ 6,899,509</u>	<u>\$ 7,109,401</u>

See Accompanying Independent Auditors' Report.

	2009	2008	2007	2006	2005
\$	1,874,028	\$ 1,841,129	\$ 1,847,308	\$ 1,798,834	\$ 1,674,273
	353,698	206,847	279,748	320,731	577,443
	248,999	108,342	97,023	64,722	25,691
	78,378	80,157	72,341	70,507	76,644
	157,040	242,809	300,481	226,331	116,872
	735,551	691,222	651,060	719,839	865,068
	689,896	608,147	566,992	559,609	563,944
	57,244	11,366	16,708	26,083	87,700
	52,081	105,863	40,918	120,661	518,983
\$	4,246,915	\$ 3,895,882	\$ 3,872,579	\$ 3,907,317	\$ 4,506,618

\$	1,088,479	\$ 1,454,875	\$ 1,066,190	\$ 1,136,265	\$ 974,212
	2,570,899	1,473,098	1,606,151	1,177,067	1,745,394
	5,297	4,923	5,727	3,807	2,817
	648,557	600,593	729,999	598,914	511,257
	254,250	195,775	190,272	288,216	187,524
	853,777	803,714	836,076	820,453	723,623
	269,456	237,058	242,925	343,096	226,495
	24,430	78,194	29,749	471,702	200,947
\$	5,715,145	\$ 4,848,230	\$ 4,707,089	\$ 4,839,520	\$ 4,572,269

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

To the Honorable Mayor and  
Members of the City Council  
City of Estherville  
Estherville, IA

We have audited the accompanying cash basis 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, 2014, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 22, 2014. The financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Estherville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Estherville's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* 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 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's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying schedule of findings as item 14-II-A 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 from 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*.

## **City of Estherville's Response to Findings**

The City of Estherville's response to the findings identified in our audit is described in the accompanying schedule of findings. The City's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

Spencer, Iowa  
August 22, 2014

*Williams & Company, P.C.*  
Certified Public Accountants

**CITY OF ESTHERVILLE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2014**

**PART I – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS**

- (A) An unqualified opinion was issued on the financial statements.
- (B) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (C) The audit did not disclose any non-compliance which is material to the financial statements.

**PART II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**INSTANCES OF NON-COMPLIANCE:** No matters were reported.

**MATERIAL WEAKNESS:**

**14-II-A Segregation of Duties**

Criteria– The City is responsible for the establishment of adequate segregation of duties to help prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the City’s financial statements.

Condition– The City has a small staff and accordingly has not been able to achieve full segregation of duties over all accounting transactions. Employees who handle cash receipts are also involved with the preparation of bank reconciliations and the posting of payments.

Effect – As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period. Internal controls that are in place could be averted, overridden, or not consistently implemented.

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

Response – The City feels that additional personnel would not be cost effective. However, management will review procedures and investigate available alternatives.

Conclusion – Response accepted.

**PART III – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING**

- 14-III-A: Certified Budget – Disbursements for the year ended June 30, 2014 did not exceed the certified budget amounts.
- 14-III-B: Questionable Disbursements – No disbursements did not meet the requirement of public purpose as defined in an Attorney General’s opinion dated April 25, 1979, were noted.

**CITY OF ESTHERVILLE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2014**

**PART III – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING  
(CONTINUED)**

14-III-C: Travel Expense – No expenditures of the City of Estherville were for travel expenses of spouses of City officials or employees.

14-III-D: 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	\$ 765
Dale Bradley, Employee at Power Plant, Owner Bradley Performance	Miscellaneous Repairs and Supplies	\$8,479

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member do not appear to represent conflicts of interest since total disbursements were less than \$1,000 during the fiscal year. The transactions with the employee at the power plant do not appear to represent a conflict of interest due to prior experience with other companies and the quality of work received from Bradley Performance.

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

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

14-III-G: Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

14-III-H Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management before December 1 and no exceptions were noted.

**CITY OF ESTHERVILLE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2014**

**PART III – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING  
(CONTINUED)**

14-III-I Deficit Balances – The Parks and Recreation Construction fund had a negative cash balance at June 30, 2014.

Recommendation – The City should continue to investigate alternatives to eliminate this deficit.

Response – The City is aware of the situation and indicated the reason for the deficit was due to a timing difference.

Conclusion – Response accepted.