CITY OF EARLVILLE

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

June 30, 2005

TABLE OF CONTENTS

		Page
Officials		3
Independent Auditor's Report		4-5
	Exhibit	
Management's Discussion and Analysis		6-13
Basic Financial Statements:		
Government-wide Financial Statement:		
Statement of Activities and Net Assets-Cash Basis	A	15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	17
Notes to Financial Statements		18-24
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-Budget and Actual (Cash Basis)-All Governmental Funds and Proprietary Funds		26
Notes to Required Supplementary Information-Budgetary Reporting		27
	Schedule	
Other Supplementary Information:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances-Nonmajor Governmental Funds	1	29
Schedule of Indebtedness	2	30
Bond and Note Maturities	3	31
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters		32-33
Schedule of Findings		34-37

CITY OF EARLVILLE

OFFICIALS

Name	Title	Term Expires
Dan Wheeler	Mayor	Jan. 2006
Mark Salow	Mayor Pro tem	Jan. 2006
Barry Retchloff	Council Member	Jan. 2006
Shawn Britt	Council Member	Jan. 2006
Dan Roling	Council Member	Jan. 2008
Bob Peters	Council Member	Jan. 2008
Linda Gaul	Clerk/Treasurer	Indefinite
William G. Blum	Attorney	Indefinite

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA
124A Main • P.O. Box 359
Elkader, Iowa 52043
(563) 245-2154 • (800) 310-2154

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 Earlville, Iowa, as of and for the year ended June 30, 2005, 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 Earlville's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, 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 Earlville as of June 30, 2005, 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 October 31, 2005 on our consideration of the City of Earlville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts 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 our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 28 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied 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 Earlville's basic financial statements. Other supplementary information included in Schedules 1 through 3 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.

Elkader, Iowa

October 31, 2005

Duty, Donald & Company

CITY OF EARLVILLE

INCORPORATED IN 1882

Box 188
Earlville, Iowa 52041
Ph. (563) 923-3365

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Earlville 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements which follow. Bear in mind that Chapter 11 of the Code of Iowa requires that the City have its financial statements audited once every four years. Therefore any financial information presented for 2004 has not been audited.

2005 FINANCIAL HIGHLIGHTS

Receipts from the City's governmental activities increased 14.8% or approximately $ 67,000 from fiscal 2004 to fiscal 2005. Much of this increase was due to a $ 140,000 increase in intergovernmental receipts.

Disbursements increased 20.7% or approximately $ 87,000, in fiscal 2005 from fiscal 2004. Public works increased by $ 111,000, while culture and recreation and general government decreased by $ 18,000 and $ 7,000 respectively.

The City's total cash basis net assets increased 3.6%, or approximately $ 33,000. Of this amount, the assets of the governmental activities decreased approximately $ 12,000 and the assets of the business type activities increased by approximately $ 45,000.

USING THIS ANNUAL REPORT

The annual report consists 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 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 nonmajor governmental funds and the City's indebtedness.

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 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 activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system and the electric distribution system. These activities are financed primarily by user charges.

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 Local Option Sales Tax and 3) the Debt Service 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. Enterprise Funds are used to account for business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and electric funds, considered to be major funds of the City.

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

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 slightly from a year ago, decreasing from $ 434,000 to $ 422,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

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

	Year Ended June 30, 2005	2004
Receipts:		
Program receipts:		
Charges for service	$ 127	107
Operating grants, contributions and restricted interest	85	96
Capital grants, contributions and restricted interest	54	0
General receipts:		
Property tax	177	185
Local option sales tax	55	52
Grants and contributions not restricted to specific purpose	1	2
Unrestricted investment earnings	7	7
Other general receipts	2	3
Total receipts	508	452
Disbursements:		
Public safety	59	57
Public works	229	118
Health and social services	0	0
Culture and recreation	61	79
Community and economic development	57	52
General government	49	56
Debt service	65	67
Total disbursements	520	429
Increase (decrease) in cash basis net assets	(12)	23
Cash basis net assets beginning of year	434	411
Cash basis net assets end of year	$ 422	434

The City's total receipts for governmental activities increased by 12.4%, or $ 56,000. The total cost of all programs and services increased by approximately $ 91,000, or 21.2%, with no new programs added this year. The increase in receipts was primarily the result of receiving a REAP Grant from the Iowa Department of Natural Resources.

Property tax receipts actually decreased $ 8,000 from 2004 to 2005 and are budgeted to remain constant next year.

The cost of all governmental activities was $ 520,000 compared to $ 429,000 last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for

these activities was only $ 254,000 because some of the cost was paid by those directly benefited from the programs ($127,000) or by other governments and organizations that subsidized certain programs grants, contributions and restricted interest ($ 139,000). Overall, the City's governmental activities receipts, including governmental aid and fees for services increased in 2005 approximately $ 63,000 to approximately $ 266,000, principally due to receiving grant proceeds for the city park project. The City paid for the remaining "public benefit" portion of governmental activities with approximately $ 232,000 in tax (some of which could only be used for certain programs) and with other receipts such as interest and general entitlements.

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

	Year Ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	$ 73	72
Sewer	76	76
Electric	454	450
General receipts:		
Unrestricted interest on investments	8	8
Miscellaneous	6	5
Total receipts	617	611
Disbursements:		
Water	76	73
Sewer	122	76
Electric	375	476
Total disbursements	573	625
Increase (decrease) in cash balance	44	(14)
Cash basis net assets beginning of year	465	479
Cash basis net assets end of year	$ 509	465

Total business type activities receipts for the fiscal year were $ 617,000 compared to $ 611,000 last year. The cash balance increased by approximately $ 44,000. Total disbursements for the fiscal year decreased by 8.3% to a total of $ 573,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Earlville completed the year, its governmental funds

reported a combined fund balance of $ 421,596, a decrease of nearly $ 12,000 from last year's total of $ 433,494. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased by $ 52,770 from the prior year to $ 262,731. Approximately $ 75,000 of increase was the result of disbursements for a REAP project being incurred in 2004, but the grant being received in 2005. The General Fund then loaned $ 50,000 to the Urban Renewal Tax Increment Financing Fund.

The Road Use Tax Fund cash balance increased by $ 20,020 from the prior year to $ 63,377. This increase was the result of more street maintenance being financed through the Local Option Sales Tax Fund.

The Local Option Sales Tax Fund cash balance decreased by $ 93,348 to $ 36,639. This decrease was due to spending on streets mentioned previously.

The Debt Service Fund cash balance increased by $ 8,955 to $ 44,254. This increase was due to special assessment collections of $ 7,696.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by $ 651 to $ 90,573. Receipts and disbursements were nearly identical to the prior year.

The Sewer Fund cash balance decreased by $ 43,170 to $ 142,988, due primarily to a $ 48,785 increase in debt service requirements from 2004 to 2005.

The Electric Fund cash balance increased by $ 88,463 to $ 276,119, primarily due to a $ 101,360 decrease in disbursements from 2004 to 2005.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on March 7, 2005 and resulted in an increase in budgeted disbursements and transfers of $ 163,608. The additional disbursements related to the purchase of fire equipment, sidewalks and street project, the park project and prepayment of outstanding sewer debt. The City received a DRA Grant and a REAP Grant and had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had $ 516,400 in long-term debt, compared

to $ 646,800 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2005	2004
General obligation notes	$ 288	338
Revenue notes	228	309
Total	$ 516	647

Debt decreased as a result of regular debt amortization. Additionally, the City prepaid a portion of its sewer revenue notes.

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 debt of $ 287,900 is significantly below its constitutional debt limit of $ 1.194 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Earlville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of those factors is economy. As is typical with most rural areas in the Upper Midwest, the economy has been stagnant. Inflation, which has been modest recently, is beginning to creep back into the picture due to sharp increases in fuel prices this fall. The national CPI increase was 4.2% for fiscal year 2005, with the State CPI increase being slightly less.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are $ 1.035 million, a decrease of 3.3% over the final 2005 budget. Property taxes and utility fees are expected to lead this decrease. Because revenues are expected to be stagnant, no new major programs or initiatives are anticipated for fiscal year 2006. In fact budgeted disbursements are expected to decrease by $ 242,000 from the fiscal 2005 budget.

If these estimates are realized the City's budgeted cash balance is expected to increase by approximately $ 19,000 by the close of 2006.

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 any questions about this report or need additional financial information, contact Linda Gaul, City Clerk, 12 Southside Road, Earlville, Iowa.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF EARLVILLE
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2005

Functions/Programs:	Disbursements	Program Receipts: Charges for Service	Program Receipts: Operating Grants, Contributions and Restricted Interest	Program Receipts: Capital Grants, Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets: Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	$ 58,900	39,241	6,000	0	(13,659)	0	(13,659)
Public works	229,180	55,579	74,831	0	(98,770)	0	(98,770)
Health and social services	350	0	0	0	(350)	0	(350)
Culture and recreation	60,909	21,689	4,643	0	(34,577)	0	(34,577)
Community and economic development	56,504	0	0	53,633	(2,871)	0	(2,871)
General government	48,687	10,157	0	0	(38,530)	0	(38,530)
Debt service	64,892	0	0	0	(64,892)	0	(64,892)
Total governmental activities	519,422	126,666	85,474	53,633	(253,649)	0	(253,649)
Business type activities:							
Water	75,897	72,730	0	0	0	(3,167)	(3,167)
Sewer	121,870	76,033	0	0	0	(45,837)	(45,837)
Electric	374,574	453,806	0	0	0	79,232	79,232
Total business-type activities	572,341	602,569	0	0	0	30,228	30,228
Total	$ 1,091,763	729,235	85,474	53,633	(253,649)	30,228	(223,421)
General Receipts:							
Property taxes levied for:							
General purposes					136,075	0	136,075
Tax increment financing					24,555	0	24,555
Debt service					16,460	0	16,460
Local option sales tax					54,749	0	54,749
Grants and contributions not specified to specific purpose					499	0	499
Unrestricted interest on investments					7,255	7,991	15,246
Miscellaneous					2,158	6,423	8,581
Total general receipts					241,751	14,414	256,165
Change in cash basis net assets					(11,898)	44,642	32,744
Cash basis net assets beginning of year					433,494	465,038	898,532
Cash basis net assets end of year					$ 421,596	509,680	931,276
Cash Basis Net Assets							
Restricted:							
Streets					$ 100,016	0	100,016
Urban renewal purposes					3,291	0	3,291
Debt service					44,254	0	44,254
Other purposes					11,404	0	11,404
Unrestricted					262,731	509,680	772,411
Total cash basis net assets					$ 421,596	509,680	931,276

See notes to financial statements.

Exhibit B

CITY OF EARLVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2005

		Special Revenue				
	General	Road Use Tax	Local Option Sales Tax	Debt Service	Other Nonmajor Governmental Funds	Total
Receipts:						
Property tax	$ 118,988	0	0	16,460	17,087	152,535
Tax increment financing collections	0	0	0	0	24,555	24,555
Other city tax	973	0	54,749	124	140	55,986
Licenses and permits	2,815	0	0	0	0	2,815
Use of money and property	11,307	0	1,090	1,175	88	13,660
Intergovernmental	90,484	74,831	0	0	0	165,315
Charges for service	61,121	0	0	0	0	61,121
Special assessments	0	0	0	7,696	0	7,696
Miscellaneous	23,841	0	0	0	0	23,841
Total receipts	309,529	74,831	55,839	25,455	41,870	507,524
Disbursements:						
Operating:						
Public safety	58,900	0	0	0	0	58,900
Public works	43,851	54,811	127,214	0	3,304	229,180
Health and social services	350	0	0	0	0	350
Culture and recreation	58,114	0	0	0	2,795	60,909
Community and economic development	9,280	0	0	0	47,224	56,504
General government	43,220	0	0	0	5,467	48,687
Debt service	0	0	0	64,892	0	64,892
Total disbursements	213,715	54,811	127,214	64,892	58,790	519,422
Excess (deficiency) of receipts over (under) disbursements	95,814	20,020	(71,375)	(39,437)	(16,920)	(11,898)
Other financing sources (uses):						
Operating transfers in	6,956	0	0	48,392	50,000	105,348
Operating transfers out	(50,000)	0	(21,973)	0	(33,375)	(105,348)
Total other financing sources (uses)	(43,044)	0	(21,973)	48,392	16,625	0
Net change in cash balances	$ 52,770	20,020	(93,348)	8,955	(295)	(11,898)
Cash balances beginning of year	209,961	43,357	129,987	35,299	14,890	433,494
Cash balances end of year	$ 262,731	63,377	36,639	44,254	14,595	421,596
Cash basis fund balances:						
Reserved for debt service	$ 0	0	0	44,254	0	44,254
Unreserved:						
General fund	262,731	0	0	0	0	262,731
Special revenue funds	0	63,377	36,639	0	14,595	114,611
Total cash basis fund balances	$ 262,731	63,377	36,639	44,254	14,595	421,596

See notes to financial statements.

Exhibit C

CITY OF EARLVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2005

	Enterprise Funds			
	Water	Sewer	Electric	Total
Operating receipts:				
Charges for service	$ 72,730	76,033	453,806	602,569
Operating disbursements:				
Business type activities	47,692	56,085	374,574	478,351
Excess of operating expenses over operating disbursements	25,038	19,948	79,232	124,218
Non-operating receipts (disbursements):				
Interest on investments	1,380	2,667	3,944	7,991
Miscellaneous	1,136	0	5,287	6,423
Debt service	(28,205)	(65,785)	0	(93,990)
Total non-operating receipts (disbursements)	(25,689)	(63,118)	9,231	(79,576)
Excess (deficiency) of receipts over (under) disbursements	(651)	(43,170)	88,463	44,642
Cash balances beginning of year	91,224	186,158	187,656	465,038
Cash balances end of year	$ 90,573	142,988	276,119	509,680
Cash Basis Fund Balances Unreserved	$ 90,573	142,988	276,119	509,680

See notes to financial statements.

CITY OF EARLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Earlville is a political subdivision of the State of Iowa located in Delaware County. It was first incorporated in 1882 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 water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, The City of Earlville 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 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 two 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: Delaware County Joint E911 Service Board and Delaware County Solid Waste Commission.

B. Basis of Presentation

Government-wide Financial Statements - 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 the 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.

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance paid for with road use tax receipts.

The Local Option Sales Tax Fund is used to account for road construction and maintenance paid for with local option sales tax receipts.

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

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

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

C. Measurement Focus and Basis of Accounting

The City of Earlville 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 operation of the funds in accordance with U.S. generally accepted accounting principles.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 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 assignments 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, 2005 the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of $ 38,135 pursuant to Rule 20-7 under the Investment Company Act of 1940.

Interest rate risk - The City had reserve funds totaling $ 173,634 invested in certificates of deposit at June 30, 2005. These certificates have maturity dates from February 17, 2006 to October 2, 2006.

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Notes Payable

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

Year Ending	General Obligation Notes		Revenue Notes		Total	
June 20,	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 49,700	12,918	35,700	11,050	85,400	23,968
2007	49,700	10,644	35,700	9,390	85,400	20,034
2008	49,700	8,370	35,700	7,730	85,400	16,100
2009	49,700	6,096	23,200	6,070	72,900	12,166
2010	29,700	3,822	23,200	4,910	52,900	8,732
2011-2015	59,400	3,813	60,000	13,500	119,400	17,313
2016-2020	-	-	15,000	750	15,000	750
Total	$ 287,900	45,663	228,500	53,400	516,400	99,063

The resolutions providing for the issuance of the revenue notes include the following provision:

(a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

(4) Lease-purchase Agreement

Annual debt service requirements to maturity for the City's lease-purchase agreement to lease two electric generation units are as follows:

Year Ending June 30,	Lease-purchase Agreement Electric Generaion Units Principal	Interest
2006	$ 40,000	29,391
2007	41,000	27,891
2008	43,000	26,251
2009	45,000	24,445
2010	47,000	22,465
2011-2015	271,000	76,254
2016-2020	128,000	10,198
Total	$ 615,000	216,895

The resolution authorizing the implementation of this lease-purchase agreement includes the following:

(a.) The lease is a limited obligation of the City payable solely from revenues generated from its municipal electric system and other monies made available by the City. The lease shall never constitute a debt of the City within the meaning of any constitutional provision or statutory limitation and shall never constitute or give rise to a pecuniary liability of the City or a charge against its general credit or general fund. The lease does not constitute a charge, lien, or encumbrance, legal or equitable, upon any property of the City.

(5) 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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirement are established by state statute. The City's contributions to IPERS for the year ended June 30, 2005, were $ 6,441 equal to the required contribution for the year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused

vacation, personal leave and sick leave hours for subsequent payment. These accumulations are not recognized as disbursements by the City until paid. The City's approximate liability for earned vacation, personal leave and sick leave payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation and personal leave	$ 2,600
Sick leave	17,000
	$ 19,600

This liability has been computed based on rates of pay in effect at June 30, 2005.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue Emergency	$ 6,956
Special Revenue: Urban Renewal Tax Increment	General	50,000
Debt Service	Special Revenue:	
	Local Option Sales Tax	21,973
	Urban Renewal Tax Increment	25,000
	Employee Benefits	1,419
		48,392
Total		$ 105,348

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling $ 4,913.

(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 coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EARLVILLE
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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
Receipts:						
Property tax	$ 152,535	0	152,535	154,160	154,160	(1,625)
Tax increment financing collections	24,555	0	24,555	24,130	24,130	425
Other city tax	55,986	0	55,986	53,274	53,274	2,712
Licenses and permits	2,815	0	2,815	1,200	1,900	915
Use of money and property	13,660	7,991	21,651	8,000	8,000	13,651
Intergovernmental	165,315	0	165,315	103,300	159,300	6,015
Charges for service	61,121	602,569	663,690	650,460	654,960	8,730
Special assessments	7,696	0	7,696	0	4,500	3,196
Miscellaneous	23,041	6,423	30,264	4,500	9,900	20,364
Total receipts	507,524	616,983	1,124,507	999,024	1,070,124	54,383
Disbursements						
Public safety	58,900	0	58,900	70,727	76,727	17,827
Public works	229,180	0	229,180	217,400	229,400	220
Health and social services	350	0	350	750	750	400
Culture and recreation	60,909	0	60,909	86,110	86,110	25,201
Community and economic development	56,504	0	56,504	40,500	80,500	23,996
General government	48,687	0	48,687	62,075	64,075	15,388
Debt service	64,892	0	64,892	64,892	64,892	0
Business type activities	0	572,341	572,341	605,557	653,557	83,216
Total disbursements	519,422	572,341	1,091,763	1,148,011	1,258,011	166,248
Excess (deficiency) of receipts over (under) disbursements	(11,898)	44,642	32,744	(148,987)	(187,887)	220,631
Balances beginning of year	433,494	465,038	898,532	898,528	898,528	4
Balances end of year	$ 421,596	509,680	931,276	749,541	710,641	220,635

See accompanying independent auditor's report.

CITY OF EARLVILLE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-BUDGETARY REPORTING
June 30, 2005

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by $ 110,000. The budget amendment is reflected in the final budgeted amount.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

CITY OF EARLVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2005

	Special Revenue			
	Urban Renewal Tax Increment	Employee Benefits	Emergency	Total
Receipts:				
Property taxes	$ 0	13,806	3,281	17,087
Tax increment financing collections	24,555	0	0	24,555
Other city tax	0	113	27	140
Use of money and property	88	0	0	88
Total receipts	24,643	13,919	3,308	41,870
Disbursements:				
Operating:				
Public works	0	3,304	0	3,304
Culture and recreation	0	2,795	0	2,795
Community and economic development	47,224	0	0	47,224
General government	0	5,467	0	5,467
Total disbursements	47,224	11,566	0	58,790
Excess (deficiency) of receipts over (under) disbursements	(22,581)	2,353	3,308	(16,920)
Other financing sources (uses):				
Operating transfers in	50,000	0	0	50,000
Operating transfers out	(25,000)	(1,419)	(6,956)	(33,375)
Total other financing sources (uses):	25,000	(1,419)	(6,956)	16,625
Net change in cash balances	2,419	934	(3,648)	(295)
Cash balances beginning of year	872	7,393	6,625	14,890
Cash balances end of year	$ 3,291	8,327	2,977	14,595

See accompanying independent auditor's report.

Schedule 2

CITY OF EARLVILLE
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2005

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
General obligation notes:								
Street improvement	Jul. 1, 1999	5.0%	$ 160,000	100,000	0	20,000	80,000	5,000
Street improvement	Oct. 1, 2001	4.5	172,000	137,600	0	17,200	120,400	6,192
Fire station	Jan. 15, 2002	4.0	125,000	100,000	0	12,500	87,500	4,000
Total				$ 337,600	0	49,700	287,900	15,192
Revenue notes:								
Water	Jan. 29, 1998	5.0%	$ 155,000	130,000	0	5,000	125,000	6,375
Water	Dec. 13, 1999	5.0	132,000	79,200	0	13,200	66,000	3,630
Sewer	Feb. 4, 2003	4.0	125,000	100,000	0	62,500	37,500	3,285
Total				$ 309,200	0	80,700	228,500	13,290
Lease-purchase agreement:								
Electric generation units	Mar. 1, 2002	3.50-5.30%	$ 726,738	653,000	0	38,000	615,000	30,721

See accompanying independent auditor's report.

Schedule 3

CITY OF EARLVILLE
BOND AND NOTE MATURITIES
June 30, 2005

Year Ending June 30,	General Obligation Notes							Lease-purchase Agreement
	Street Improvement Issued Jul. 1, 1999		Street Improvement Issued Oct. 1, 2001		Fire Station Issued Jan. 15, 2002			Electric Generation Units Issued Mar. 1, 2002
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount
2006	5.0%	$ 20,000	4.5%	$ 17,200	4.0%	$ 12,500	49,700	3.75%	$ 40,000
2007	5.0	20,000	4.5	17,200	4.0	12,500	49,700	4.00	41,000
2008	5.0	20,000	4.5	17,200	4.0	12,500	49,700	4.20	43,000
2009	5.0	20,000	4.5	17,200	4.0	12,500	49,700	4.40	45,000
2010		-	4.5	17,200	4.0	12,500	29,700	4.60	47,000
2011		-	4.5	17,200	4.0	12,500	29,700	4.75	49,000
2012		-	4.5	17,200	4.0	12,500	29,700	4.90	52,000
2013								5.00	54,000
2014								5.10	57,000
2015								5.20	59,000
2016								5.25	63,000
2017								5.30	65,000
Total		$ 80,000		$ 120,400		$ 87,500	287,900		$ 615,000

Year Ending June 30,	Revenue Notes							
	Water Issued Jun. 29, 1998		Water Issued Dec. 13, 1999		Sewer Issued Feb. 4, 2003			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total	
2006	5.0%	$ 10,000	5.0%	$ 13,200	4.0%	$ 12,500	35,700	
2007	5.0	10,000	5.0	13,200	4.0	12,500	35,700	
2008	5.0	10,000	5.0	13,200	4.0	12,500	35,700	
2009	5.0	10,000	5.0	13,200		-	23,200	
2010	5.0	10,000	5.0	13,200		-	23,200	
2011	5.0	10,000		-		-	10,000	
2012	5.0	10,000		-		-	10,000	
2013	5.0	10,000		-		-	10,000	
2014	5.0	15,000		-		-	15,000	
2015	5.0	15,000		-		-	15,000	
2016	5.0	15,000		-		-	15,000	
2017		-					-	
Total		$ 125,000		$ 66,000		$ 37,500	228,500	

See accompanying independent auditor's report.

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS
STEVEN S. CLAUSEN, CPA
124A Main • P.O. Box 359
Elkader, Iowa 52043
(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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 Earlville, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 31, 2005. The financial statements were prepared in conformity with an other comprehensive basis of accounting. Our report on the governmental activities, business type activities, each major fund and the aggregate remaining fund information was qualified because we were not able to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004. Except as discussed in the preceding sentence, 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 Earlville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Earlville's ability to record, process, summarize and report financial data consistent with the assertions of management in the

financial statements. Reportable conditions are described in Part I in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A and I-B are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Earlville's financial statements are free of material misstatement, we performed tests of its compliance with laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance that are required to be reported under Government Auditing Standards.

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 Earlville and other parties to whom the City of Earlville may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Earlville 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.

Elkader, Iowa

October 31, 2005

Dietz, Donald & Company

CITY OF EARLVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

I-A 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. One individual at the City has custody of receipts, has the ability to prepare and sign checks, and performs all recordkeeping and reconciliation functions for all bank and investment accounts.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances. For example dual signatures are required on checks, however, one person controls both signature stamps.

Response - In the future, the City will make an effort to review City procedures to strengthen internal controls whenever feasible.

Conclusion - Response accepted.

I-B Unauthorized Disbursements - An item of equipment was purchased from a travelling vendor without council authorization. The check was made payable to the salesman and not the Company he represented.

Recommendation - No checks should be issued without prior Council authorization other than recurring expenses such as payroll or utility bills. In those cases the Council could pre-approve payment with a continuing resolution.

Response - We will try not to have this happen in the future.

Conclusion - Response accepted.

CITY OF EARLVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

I-C Reporting Entity - The activity in three accounts, which use the City's Federal employer identification number, is not included on the City books. They are a checking account for Earlville Little League and a checking and a savings account for the Earlville Fire Department. Those accounts had a combined balance of $ 20,716 at June 30, 2005.

Recommendation - Buy using the City's FEIN the money these Organizations are collecting could be considered public funds and Chapter 384.20 states that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose, by any city officer, employee or other person and which show the receipt, use and disposition of all city property." If these Organizations want to continue to represent themselves as part of the City, the City Council will need to authorize this arrangement by resolution or policy. In any event, they should still be required to report their financial activities to the City Clerk on a monthly basis so that the information may be included in the monthly and yearly financial reports to the Council.

Also, there may be limits on the use of funds collected by these organizations, depending on who raises the funds. As with all city enterprises, Article III, Section 31 of the Iowa Constitution declares that public funds may only be spent for a public benefit. If the members of these organizations generate funds from fund-raising activities, these would qualify as public funds. Regardless of who is maintaining the organization's financial records, the City Council and City Clerk are responsible for ensuring that the funds are not improperly used. This responsibility cannot be delegated. These organization's financial information must be reported and included in the City's budget process if the organizations insist on using the City's FEIN.

In lieu of the above, these organizations may simply obtain their own FEIN's and be considered independent unless they generate a significant financial contribution to the City.

Response - We will discuss this with the parties involved.

Conclusion - Response accepted.

CITY OF EARLVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

II-A Official Depositories- A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B Certified Budget - Disbursements during the year ended June 30, 2005, did not exceed the amounts budgeted.

II-C Questionable Disbursements - We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

II-E Business Transactions - Business Transactions between the City and City officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Dan Roling, Council Member, owner Dan's Service Station	Fuel and repairs	$ 4,913

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Member appear to represent a conflict of interest since total transactions were in excess of $ 2,500 during the fiscal year and they were not entered into through competitive bidding.

Recommendation - The City should consult legal counsel to determine disposition of this matter.

Response - We will follow up on this matter.

Conclusion - Response accepted.

II-F 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 that the coverage is adequate for current operations.

CITY OF EARLVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

II-G Council Minutes - One transaction was found that we believe should have been approved in the Council minutes but was not. (See item I-B). Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation - The City should publish annual individual salaries as required.

Response - We have contacted our City Attorney regarding this matter and believes that the April 12, 1978 Attorney General's opinion does not require publishing annual salaries.

Conclusion - Response accepted.

II-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I Revenue Notes - The City has complied with the revenue note resolutions.