

CITY OF ESSEX

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2006

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City of Essex

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Charles Kinney	Mayor	January 2006
Rick Dailey	Council Member	January 2006
Marian Durfey	Council Member	January 2006
Fred Alexander	Council Member	January 2007
James Long	Council Member	January 2007
Bill Royer	Council Member	January 2007
Lisa Royer	City Clerk	Indefinite

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(After January 2006)		
Charles Kinney	Mayor	January 2009
Fred Alexander	Council Member	January 2007
James Long	Council Member	January 2007
Bill Royer	Council Member	January 2007
Rick Dailey	Council Member	January 2009
Marian Durfey	Council Member	January 2009
Lisa Royer	City Clerk	Indefinite

City of Essex

November 8, 2006

Independent Auditors' 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 Essex, Iowa, as of and for the year ended June 30, 2006, 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 Essex's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. 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, 2005.

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, 2005, 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 Essex as of June 30, 2006, 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.

Continued...

November 8, 2006
City of Essex
Independent Auditors' Report

As described in Note 14, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2006 on our consideration of the City of Essex's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 29 through 31 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 supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Essex's basic financial statements. The 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, 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, 2005, as discussed in the fifth preceding paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Essex 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities were approximately \$466,000. Property taxes were approximately \$158,000 and charges for service receipts were \$118,000.
- Disbursements were approximately \$519,000. Public safety, public works, and general government were \$212,000, \$119,000 and 109,000, respectively.
- The City's total cash basis net assets decreased 1.1%, or approximately \$5,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately 28,000, and the assets of the business type activities increased by approximately \$23,000.

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 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.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development and general government. Property tax and state grants finance most of these activities.
- Business Type Activities include the waterworks, electric system and the sanitary sewer 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, 3) the Debt Service Fund, and 4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, landfill and deposit funds.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$267,151 to \$239,621. 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, 2006
Receipts and transfers:		
Program receipts:		
Charges for service	\$	123
Operating grants, contributions and restricted interest		113
General receipts:		
Property tax		165
Local option sales tax		58
Grants and contributions not restricted to specific purpose		1
Unrestricted investment earnings		4
Other		5
Transfers		22
Total receipts and transfers		<u>491</u>
Disbursements:		
Public safety		212
Public works		119
Culture and recreation		56
Community and economic development		1
General government		109
Debt service		22
Total disbursements		<u>519</u>
Decrease in cash basis net assets		(28)
Cash basis net assets beginning of year		<u>267</u>
Cash basis net assets end of year	\$	<u>239</u>

Total receipts for the City of Essex governmental activities was \$466,347.

The cost of all governmental activities this year was \$519,260. However, as shown in the Statement of Activities and Net Assets the amount taxpayers ultimately financed for these activities was only \$283,960 because some of the cost was paid by those directly benefited from the programs \$122,732 or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest \$112,568. The City paid the remaining "public benefit" portion of governmental activities with approximately \$165,000 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, 2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$	87
Sewer		36
Garbage		65
General receipts:		
Other general receipts		7
Total receipts		<u>195</u>
Disbursements and transfers:		
Water		68
Sewer		25
Landfill		57
Transfers		22
Total disbursements and transfers		<u>172</u>
Decrease in cash basis net assets		23
Cash basis net assets beginning of year		<u>177</u>
Cash basis net assets end of year	\$	<u>200</u>

Total business type activities receipts for the fiscal year were \$195,000. The cash balance increased by approximately \$23,000 from the prior year. Total disbursements for the fiscal year were \$150,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Essex completed the year, its governmental funds reported a combined fund balance of \$239,621, a decrease of \$27,530 under last year's total of \$267,151. 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 decreased \$33,452 from the prior year to \$(10,141). This decrease was due to purchasing a newer police car and paying off the ambulance loan earlier than budgeted.
- The Road Use Tax Fund cash balance decreased by \$6,425 to \$44,009 during the fiscal year. This was due to starting an asphalt paving program and repairing bad spots in the older concrete streets.
- The Employee Benefits Fund decreased by \$16 to \$26,800.
- The Local Option Sales Tax Fund increased \$13,867 to \$66,269 because of collections not spent.
- The Cemetery Memorial Fund decreased \$718 to \$109,377.
- The library Memorial Fund increased \$801 to \$28,664.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$2,714 to \$137,842 due to less expenses incurred to maintain and operate the system.
- The Sewer Fund cash balance increased by 10,460 to \$25,145, due to less expenses incurred to maintain and operate the system.
- The Garbage Fund increased \$9,452 to \$37,333 due to no garbage truck loan payment. The loan was paid off the prior fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment resulted in an increase in operating disbursements of \$37,000 related to the purchase of fire equipment through a FEMA grant (local match was 10% or \$3,500) and paying off the ambulance loan early due to delayed Medicare payments being received.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$242,000 in general obligation notes compared to \$322,000 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Essex's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. Major items addressed in the budget included installing storm sewer tubes, continuing the asphalt paving program, purchasing new fire gear and a lawn mower.

The City tries to hold down any increases in taxes as much as possible. Our community is not growing, and the percentage of tax roll back has caused us to take a look at what we need to do to maintain the level of service we now have.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lisa Royer, City Clerk, P.O. Box 428, Essex, Iowa.

Basic Financial Statements

City of Essex
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2006

	Disbursements	Program Charges for Service
Functions/Programs:		
Governmental activities:		
Public safety	\$ 211,874	111,943
Public works	118,865	1,541
Culture and recreation	56,044	3,312
Community and economic development	718	-
General government	109,426	5,936
Debt service	22,333	-
Total governmental activities	519,260	122,732
Business type activities:		
Water	68,405	86,938
Sewer	25,394	35,749
Garbage	56,520	65,625
Total business type activities	150,319	188,312
 Total	\$ 669,579	311,044

General Receipts:

Property tax levied for:
 General purposes
 Employee benefits
Local option sales tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Miscellaneous
Sale of assets
Transfers
 Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets, beginning of year

Cash basis net assets, end of year

Cash Basis Net Assets

Restricted:
 Streets
 Employee benefits
 Community betterment
 Cemetery
 Library
 Other purposes
Unrestricted

 Total cash basis net assets

See notes to financial statements

<u>Receipts</u>	<u>Net (Disbursement) Receipts and Changes in Cash Basis Net Assets</u>		
Operating Grants Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
18,176	(81,755)	-	(81,755)
74,013	(43,311)	-	(43,311)
-	(52,732)	-	(52,732)
10,408	9,690	-	9,690
9,971	(93,519)	-	(93,519)
-	(22,333)	-	(22,333)
<u>112,568</u>	<u>(283,960)</u>	<u>-</u>	<u>(283,960)</u>
-	-	18,533	18,533
-	-	10,355	10,355
-	-	9,105	9,105
-	-	<u>37,993</u>	<u>37,993</u>
<u>112,568</u>	<u>(283,960)</u>	<u>37,993</u>	<u>(245,967)</u>
\$	119,006	-	119,006
	46,001	-	46,001
	57,605	-	57,605
	1,030	-	1,030
	3,907	-	3,907
	3,498	6,966	10,464
	3,050	-	3,050
	<u>22,333</u>	<u>(22,333)</u>	<u>-</u>
	<u>256,430</u>	<u>(15,367)</u>	<u>241,063</u>
	(27,530)	22,626	(4,904)
	<u>267,151</u>	<u>177,694</u>	<u>444,845</u>
\$	<u>239,621</u>	<u>200,320</u>	<u>439,941</u>
\$	44,009	-	44,009
	26,800	-	26,800
	66,269	-	66,269
	109,377	-	109,377
	28,664	-	28,664
	3,307	-	3,307
	<u>(38,805)</u>	<u>200,320</u>	<u>161,515</u>
\$	<u>239,621</u>	<u>200,320</u>	<u>439,941</u>

City of Essex
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

		Special	
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 110,853	-	44,421
Other city tax	4,985	-	1,580
Licenses and permits	550	-	-
Use of money and property	5,184	-	-
Intergovernmental	22,227	74,013	-
Charges for service	117,650	-	-
Special assessment	1,541	-	-
Miscellaneous	20,542	-	-
Total receipts	283,532	74,013	46,001
Disbursements:			
Operating:			
Public safety	188,224	-	13,142
Public works	6,919	80,438	4,003
Culture and recreation	41,604	-	2,984
Community and economic development	-	-	-
General government	83,538	-	25,888
Debt service	-	-	-
Total disbursements	320,285	80,438	46,017
Excess (deficiency) of receipts over (under) disbursements	(36,753)	(6,425)	(16)
Other financing sources:			
Sale of capital assets	2,500	-	-
Operating transfers in	-	-	-
Total other financing sources (uses)	2,500	-	-
Net change in cash balances	(34,253)	(6,425)	(16)
Cash balances, beginning of year	(4,552)	50,434	26,816
Cash balances, end of year	\$ (38,805)	44,009	26,800
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ (38,805)	-	-
Special revenue funds	-	44,009	26,800
Permanent fund	-	-	-
Total cash basis fund balances	\$ (38,805)	44,009	26,800

See notes to financial statements

Revenue			Other	
Local	Cemetery	Library	Nonmajor	
Option	Memorial	Memorial	Governmental	Total
Sales Tax			Funds	
-	-	-	3,059	158,333
57,605	-	-	109	64,279
-	-	-	-	550
-	-	801	7	5,992
-	-	-	-	96,240
-	-	-	-	117,650
-	-	-	-	1,541
-	-	-	1,220	21,762
<u>57,605</u>	<u>-</u>	<u>801</u>	<u>4,395</u>	<u>466,347</u>
4,777	-	-	5,731	211,874
27,505	-	-	-	118,865
11,456	-	-	-	56,044
-	718	-	-	718
-	-	-	-	109,426
-	-	-	22,333	22,333
<u>43,738</u>	<u>718</u>	<u>-</u>	<u>28,064</u>	<u>519,260</u>
13,867	(718)	801	(23,669)	(52,913)
-	-	-	550	3,050
-	-	-	22,333	22,333
-	-	-	22,883	25,383
13,867	(718)	801	(786)	(27,530)
<u>52,402</u>	<u>110,095</u>	<u>27,863</u>	<u>4,093</u>	<u>267,151</u>
<u>66,269</u>	<u>109,377</u>	<u>28,664</u>	<u>3,307</u>	<u>239,621</u>
-	-	-	-	(38,805)
66,269	109,377	28,664	(260)	274,859
-	-	-	3,567	3,567
<u>66,269</u>	<u>109,377</u>	<u>28,664</u>	<u>3,307</u>	<u>239,621</u>

City of Essex
 Reconciliation of the Statement of Cash Receipts,
 Disbursements and Changes in Cash Balances to the
 Statement of Activities and Net Assets -
 Governmental Funds
 As of and for the year ended June 30, 2006

Total governmental funds cash balances	\$	239,621
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

None		-
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Cash basis net assets of governmental activities	\$	239,621
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Net change in cash balances	\$	(27,530)
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

None		-
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Change in cash balance of governmental activities	\$	(27,530)
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City of Essex
 Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Proprietary Funds
 As of and for the year ended June 30, 2006

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 86,938	35,749	65,625	188,312
Miscellaneous	6,514	105	347	6,966
Total operating receipts	<u>93,452</u>	<u>35,854</u>	<u>65,972</u>	<u>195,278</u>
Operating disbursements:				
Business type activities	<u>68,405</u>	<u>25,394</u>	<u>56,520</u>	<u>150,319</u>
Excess of operating receipts over operating disbursements	25,047	10,460	9,452	44,959
Operating transfers out	<u>(22,333)</u>	-	-	<u>(22,333)</u>
Net change in cash balances	2,714	10,460	9,452	22,626
Cash balances beginning of year	<u>135,128</u>	<u>14,685</u>	<u>27,881</u>	<u>177,694</u>
Cash balances end of year	<u>\$ 137,842</u>	<u>25,145</u>	<u>37,333</u>	<u>200,320</u>
 Cash Basis Fund Balances				
Unreserved	<u>\$ 137,842</u>	<u>25,145</u>	<u>37,333</u>	<u>200,320</u>

See notes to financial statements

City of Essex
 Reconciliation of the Statement of Cash Receipts,
 Disbursements and Changes in Cash Balances to the
 Statement of Activities and Net Assets -
 Proprietary Funds
 As of and for the year ended June 30, 2006

Total enterprise funds cash balances	\$	200,320
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Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

None		-
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Cash basis net assets of business type activities	\$	200,320
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Net change in cash balances	\$	22,626
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Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

None		-
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Change in cash balance of business type activities	\$	22,626
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City of Essex

City of Essex
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies

The City of Essex is a political subdivision of the State of Iowa located in Fremont County. It was first incorporated in 1875 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, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and landfill utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

City of Essex
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

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 this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

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 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.

City of Essex
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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 from other funds.

Special Revenue:

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

The Employee Benefit Fund is used to account for property taxes levied to pay employee benefits.

The Local Option Sales Tax Fund is used to account for receipts from tax authorized by referendum and used for recreation development, infrastructure, and community betterment.

The Cemetery Memorial Fund is used to report resources that are legally restricted to be used for care of the cemetery.

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 waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the operation of the City's solid waste disposal.

City of Essex
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting

The City of Essex 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.

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 are both restricted and unrestricted cash basis net assets 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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, and debt service functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2004, to compute the amounts which became liens on property on July 1, 2005. These taxes were due and payable in two installments on September 30, 2005 and March 31, 2006, at the Page County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

City of Essex
Notes to Financial Statements
June 30, 2006

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$439,941.

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) in 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 Notes Payable

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

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2007	\$ 28,474	6,883
2008	28,474	6,380
2009	28,474	5,840
2010	28,474	5,262
2011	28,474	4,648
2012-2016	99,594	12,903
Total	\$ 241,964	41,916

Interest paid on long term debt during the year totaled \$8,927.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a legal debt limit of approximately \$1,100,000, which was not exceeded during the year ended June 30, 2006.

City of Essex
Notes to Financial Statements
June 30, 2006

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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$9,040, equal to the required contribution for the year.

NOTE (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2006, primarily relating to the General Fund was \$3,453. This liability has been computed based on rates of pay in effect at June 30, 2006.

NOTE (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Enterprise Water	\$ <u>22,333</u>

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

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.

City of Essex
Notes to Financial Statements
June 30, 2006

NOTE (8) Deficit Balance

The General Fund had a deficit balance of \$38,805 at June 30, 2006. The deficit will be eliminated with property tax collections and transfers from other funds.

The Special Revenue Fund, Emergency Account had a deficit balance of \$1,272 at June 30, 2006. The deficit will be eliminated with property tax collections.

NOTE (9) Construction Commitments

The City has the following contract commitments for a street improvement project as of June 30, 2006:

		Contracted Amount	Paid to Date	Remaining Commitment	Retainage Payable
Engineer	\$	12,000	6,000	6,000	-
Construction		203,938	-	203,938	-
				\$ 209,938	-

NOTE (10) Subsequent Events

In July 2006, the City issued \$240,000 in general obligation debt and received a pledge of \$75,000 for an urban development project.

In July 2006, the City approved the purchase of rescue equipment for \$22,930.

NOTE (11) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City’s governmental and business type activities. The accounting change had no effect on beginning net assets.

Required Supplementary Information

City of Essex
 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, 2006

	Governmental Funds Actual	Proprietary Funds Actual
	<u> </u>	<u> </u>
Receipts:		
Property tax	\$ 158,333	-
Other city tax	64,279	-
Licenses and permits	550	-
Use of money and property	5,992	-
Intergovernmental	96,240	-
Charges for service	117,650	188,312
Special assessments	1,541	-
Miscellaneous	21,762	6,966
Total receipts	<u>466,347</u>	<u>195,278</u>
Disbursements:		
Public safety	211,874	-
Public works	118,865	-
Culture and recreation	56,044	-
Community and economic development	718	-
General government	109,426	-
Debt service	22,333	-
Business type activities	-	150,319
Total disbursements	<u>519,260</u>	<u>150,319</u>
Excess (deficiency) of receipts over (under) disbursements	(52,913)	44,959
Other financing sources, net	<u>25,383</u>	<u>(22,333)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(27,530)	22,626
Balances, beginning of year	<u>267,151</u>	<u>177,694</u>
Balances, end of year	<u>\$ 239,621</u>	<u>200,320</u>

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
158,333	157,408	157,408	925
64,279	56,858	56,858	7,421
550	1,550	1,550	(1,000)
5,992	6,725	6,725	(733)
96,240	94,591	94,591	1,649
305,962	323,010	356,510	(50,548)
1,541	-	-	1,541
28,728	20,895	20,895	7,833
<u>661,625</u>	<u>661,037</u>	<u>694,537</u>	<u>(32,912)</u>
211,874	159,858	196,858	(15,016)
118,865	112,824	112,824	(6,041)
56,044	82,554	82,554	26,510
718	-	-	(718)
109,426	113,880	113,880	4,454
22,333	-	-	(22,333)
150,319	207,440	207,440	57,121
<u>669,579</u>	<u>676,556</u>	<u>713,556</u>	<u>43,977</u>
(7,954)	(15,519)	(19,019)	11,065
<u>3,050</u>	<u>-</u>	<u>-</u>	<u>3,050</u>
(4,904)	(15,519)	(19,019)	14,115
<u>444,845</u>	<u>439,330</u>	<u>439,330</u>	<u>5,515</u>
<u>439,941</u>	<u>423,811</u>	<u>420,311</u>	<u>19,630</u>

See accompanying independent auditors' report

City of Essex
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2006

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

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

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the 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 \$37,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, and debt service functions.

Other Supplementary Information

City of Essex
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
Year ended June 30, 2006

	<u>Special Revenue</u>			<u>Permanent</u>	
	<u>Emergency</u>	<u>Police Special Funds</u>	<u>Debt Service</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>
Receipts:					
Property tax	\$ 3,059	-	-	-	3,059
Other city tax	109	-	-	-	109
Use of money and property	-	7	-	-	7
Miscellaneous	-	1,220	-	-	1,220
	<u>3,168</u>	<u>1,227</u>	<u>-</u>	<u>-</u>	<u>4,395</u>
Disbursements:					
Operating:					
Public safety	4,225	1,506	-	-	5,731
Debt service	-	-	22,333	-	22,333
	<u>4,225</u>	<u>1,506</u>	<u>22,333</u>	<u>-</u>	<u>28,064</u>
Deficiency of receipts under disbursements	(1,057)	(279)	(22,333)	-	(23,669)
Other financing sources:					
Sale of assets	-	550	-	-	550
Operating transfers in	-	-	22,333	-	22,333
	<u>-</u>	<u>550</u>	<u>22,333</u>	<u>-</u>	<u>22,883</u>
Net change in cash balances	(1,057)	271	-	-	(786)
Cash balances, beginning of year	<u>(215)</u>	<u>741</u>	<u>-</u>	<u>3,567</u>	<u>4,093</u>
Cash balances, end of year	<u>\$ (1,272)</u>	<u>1,012</u>	<u>-</u>	<u>3,567</u>	<u>3,307</u>
 Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	(1,272)	1,012	-	-	(260)
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,567</u>	<u>3,567</u>
Total cash basis fund balances	<u>\$ (1,272)</u>	<u>1,012</u>	<u>-</u>	<u>3,567</u>	<u>3,307</u>

See accompanying independent auditors' report

City of Essex
Schedule of Indebtedness
June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Fire Truck	Aug 9, 2002	0.00 %	\$ 128,000
Essential corporate purpose	Jan 1, 2003	3.35-4.90 %	195,000
Rescue Unit	Jan 3, 2005	4.50 %	80,000

See accompanying independent auditors' report

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 95,438	-	13,474	81,964	-	-
175,000	-	15,000	160,000	7,333	-
<u>51,669</u>	<u>-</u>	<u>51,669</u>	<u>-</u>	<u>1,594</u>	<u>-</u>
<u>\$ 322,107</u>	<u>-</u>	<u>80,143</u>	<u>241,964</u>	<u>8,927</u>	<u>-</u>

City of Essex
Bond and Note Maturities
June 30, 2006

Year Ending June 30,	General Obligation Notes				
	Fire Truck		Essential Corporate Purpose		
	Issued Aug 9, 2002		Issued Jan 1, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Total
2007	0.00 %	\$ 13,474	3.35 %	\$ 15,000	\$ 28,474
2008	0.00 %	13,474	3.60 %	15,000	28,474
2009	0.00 %	13,474	3.85 %	15,000	28,474
2010	0.00 %	13,474	4.10 %	15,000	28,474
2011	0.00 %	13,474	4.30 %	15,000	28,474
2012	0.00 %	13,474	4.45 %	15,000	28,474
2013	0.00 %	1,120	4.60 %	15,000	16,120
2014	-	-	4.70 %	15,000	15,000
2015	-	-	4.80 %	20,000	20,000
2016	-	-	4.90 %	20,000	20,000
		\$ <u>81,964</u>		\$ <u>160,000</u>	\$ <u>241,964</u>

See accompanying independent auditors' report

City of Essex

November 8, 2006

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit Performed
in Accordance with *Governmental 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 Essex, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 8, 2006. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting as we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. Except as noted in the Independent Auditors' Report, 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 Essex'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 assurance 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 Essex'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 of the accompanying Schedule of Findings.

Continued...

City of Essex
Report on Internal Control

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, we believe the reportable conditions items I-A-06, I-B-06 and I-C-06 are also material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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 Essex and other parties to whom the City of Essex 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 Essex 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.

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties

Comment – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one person has control over each of the following areas for the City:

1. Accounting system – record keeping for the revenue cycle, expenditure/expense cycle and reporting.
2. Receipts – collecting, depositing, journalizing and posting.
3. Utilities – billing, collecting, posting and reconciliations.
4. Payroll – preparation and distribution.

Recommendation – We realize that with one office employee, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City should utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response – We will review our procedures to see where we can increase our oversight reviews.

Conclusion – Response accepted.

I-B-06 Record of Accounts

Comment – The Library Board maintains the accounting records pertaining to the operations of the library. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part 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."

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records. In addition, the City Council should approve all library disbursements.

Response – We will attempt to comply with these recommendations and will bring them to the attention of the Library Board.

Conclusion – Response acknowledged.

City of Essex
Schedule of Findings
Year ended June 30, 2006

Part I: Findings Related to the Financial Statements - Continued:

I-C-06 Reconciliation of Utility Billings, Collections and Delinquencies

Comment – Utility billings, collections and delinquent accounts were not reconciled throughout the year due to software changes.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – Delinquencies are monitored monthly. We will re-implement established procedures for utility reconciliations.

Conclusion – Response accepted.

I-D-06 Sick Leave Policy

Comment – The City Council has established a policy for time allowed for sick leave; however, the policy does not state whether the time is paid upon retirement, death or termination.

Recommendation – The city should address this issue in their Sick Leave Policy.

Response – We will do this.

Conclusion – Response accepted.

City of Essex
Schedule of Findings
Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget

Comment – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, public works, community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states in part that “public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-B-06 Entertainment Expense – We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-06 Business Transactions – We noted no business transactions between the City and City officials or employees.

II-E-06 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.

II-F-06 Council Minutes

Comment – We noted one meeting in which the abstract of claims was not approved for payment by the Council. Although minutes of Council proceedings were published, they did not include a summary of total receipts and disbursements by fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should establish procedures to insure all disbursements are properly approved by the Council. The City should publish the information as required by the Code of Iowa.

Response – We will review our procedures and make the publications as required.

Conclusion – Response accepted.

City of Essex
Schedule of Findings
Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting - Continued:

II-G-06 Deposits and Investments

Comment – We noted 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. However, the interest rates on several certificates of deposits did not meet the statutory rates established by the State Rate Setting Committee.

Recommendation – The City should contact the financial institution to correct the rates and request that they pay the interest as required.

Response – We will do this.

Conclusion – Response accepted.

II-H-06 Revenue Notes - The City has no enterprise debt.

II-I-06 Excess Balances

Comment – The cash balances in the Special Revenue Fund, Local Option Sales Tax and the Enterprise Fund, Water Account, at June 30, 2006 were in excess of the disbursements made from the respective funds during the year.

Recommendation – The City should consider the necessity of maintaining the excess balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – We will review this further.

Conclusion – Response accepted.

II-J-06 Financial Condition

Comment – As previously noted, the General Fund and the Special Revenue Fund, Emergency Account, had deficit balances at June 30, 2006.

Recommendation – The City should monitor the activity in these accounts in order to eliminate the deficits.

Response – We will do this.

Conclusion – Response accepted.

City of Essex
Schedule of Findings
Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting - Continued:

II-K-06 City Code

Comment – In accordance with Chapter 380.8(2) of the Code of Iowa, at least once every five years a City shall compile a City Code containing all of the city ordinances in effect except trade, bond, and zoning ordinances, and ordinances vacating streets and alleys. The City has not re-codified its City Ordinances in more than five years.

Recommendation – The City should re-codify the City Ordinances.

Response – We will do this.

Conclusion – Response accepted.

II-L-06 Form 1099 Requirements

Comment – Form 1099's were not properly prepared and issued for independent contractors providing services to the City.

Recommendation – The City should comply with the IRS regulations and prepare Form 1099's for outside services of \$600 or more.

Response – We will do this.

Conclusion – Response accepted.

NEWS RELEASE

SCHROER & ASSOCIATES, P.C. today released an audit report on the City of Essex, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$664,675 for the year ended June 30, 2006. The receipts included \$165,007 in property tax, \$311,044 from charges for service, \$112,568 from operating grants, contributions and restricted interest, \$57,605 from local option sales tax, \$3,907 from unrestricted investment earnings and \$14,544 from other receipts.

Disbursements for the year totaled \$669,579, and included \$211,874 for public safety, \$118,865 for public works, and \$109,426 for general government. Also, disbursements for business type activities totaled \$150,319.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

January 22, 2007

David Vaudt
Office of State Auditor
State Capitol Building
Des Moines, IA 50319

Dear Sir:

We have enclosed for your records the following information regarding the audit of the City of Essex, Iowa for the year ended June 30, 2006.

- 2 copies of the audit report
- 1 copy of the news release
- 1 copy of the number of hours worked
- 1 copy of the invoice

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

City of Essex

Hours Worked: 39.75

January 22, 2007

Charles Kinney
City of Essex
P.O. Box 428
Essex, IA 51638

Dear Mr. Kinney:

We have filed the required copies of your audit report with the Office of Auditor of State. A filing fee is required to be paid based on your final amended budget, according to the following schedule:

<u>Budgeted Expenditures (in millions of dollars)</u>	<u>Fee Amount</u>
Under 1	\$100.00
At least 1, but less than 3	\$175.00
At least 3, but less than 5	\$250.00
At least 5, but less than 10	\$425.00
At least 10, but less than 25	\$625.00
25 and over	\$850.00

You are required to send the appropriate filing fee. The check should be made payable to "Auditor of State" and mailed to Office of Auditor of State, Capitol Building, Des Moines, IA 50319-0004.

If you have any questions, please do not hesitate to call me at 712-322-8734.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh

December 27, 2006

Lisa Royer
City of Essex
PO Box 428
Essex, IA 51638

Dear Lisa:

Enclosed are 2 Draft copies of the City of Essex's audit for 2006.

Please review for any needed changes and let us know as to how many copies are needed.

We still need the MD & A to insert, before issuing. Please give me a call if you have any questions about the MD & A report.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.