

CITY OF EARLY

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2006

NEWS RELEASE

FOR RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on the City of Early, Iowa.

The City's receipts totaled \$503,304 for the year ended June 30, 2006, and included \$119,738 in property tax; \$199,898 from charges for services; \$76,840 from operating grants, contributions and restricted interest; \$48,615 from capital grants, contributions and restricted interest; \$28,983 from franchise taxes; \$8,487 from local option sales tax; \$9,045 from unrestricted investment earnings; and \$11,698 from other general receipts.

Disbursements for the year totaled \$424,768 and included \$117,138 for public safety, \$76,813 for public works, and \$39,542 for general government. Also, disbursements for business type activities totaled \$147,409.

This report contains recommendations to the City Council and their indicated responses to the recommendations.

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

CITY OF EARLY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-11
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 12-13
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B 14
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	C 15
Notes to Financial Statements	16-21
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	23
Notes to Required Supplementary Information - Budgetary Reporting	24
Other Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances - Non-major Governmental Funds	1 26
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances - Non-major Proprietary Funds	2 27
Schedule of Indebtedness	3 28
Note Maturities	4 29
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	30-31
Schedule of Findings	32-34

CITY OF EARLY

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<u>(Before January, 2006)</u>		
Frank L. Scott	Mayor	January, 2008
Pennie Irwin	Mayor Pro-Tem	January, 2006
Ronald Drey	Council Member	January, 2006
Richard Snyder	Council Member	January, 2006
Vince Davis	Council Member	January, 2008
Randy Franken	Council Member	January, 2008
Dale Nellis	Council Member	January, 2008
<u>(After January, 2006)</u>		
Frank L. Scott	Mayor	January, 2008
Vince Davis	Mayor Pro-Tem	January, 2008
Randy Franken	Council Member	January, 2008
Bill Cougill	Council Member	January, 2010
Pennie Irwin	Council Member	January, 2010
Richard Snyder	Council Member	January, 2010
Sharon Ann Irwin	Clerk/Treasurer	Indefinite
Charles Schulte	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

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

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 City of Early, 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'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 that 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, 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 City of Early, 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.

In accordance with Government Auditing Standards, we have also issued our report dated July 25, 2006, on our consideration of City of Early'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, 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 11 and 23 through 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Early's basic financial statements. Other supplementary information included in Schedules 1 through 4, 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.

Hwangelman, Putzyer & Co.

July 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Early 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.

2006 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities were \$308,887 for the year ended June 30, 2006, and included \$119,738 in property taxes, \$120,432 in intergovernmental receipts, and \$44,614 in other city taxes.

Disbursements of the City's governmental activities were \$277,359 for the year ended June 30, 2006, and included \$117,138 for public safety, \$76,813 for public works, \$39,542 for general government, and \$30,925 for culture and recreation.

The City's total cash basis net assets increased 21%, or approximately \$79,000, from June 30, 2005, to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$32,000 and the assets of the business type activities increased by approximately \$47,000.

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 and proprietary funds.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Business Type Activities include the water, sewer, and solid waste services. 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 Employee Benefits, (3) the Debt Service Fund, (4) the Capital Projects Fund, and (5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the water, sewer, solid waste, recycle, and utility deposit funds. The water, sewer, and solid waste funds are considered to be major funds of the City.

The required financial statement for proprietary funds is 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 analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u>	
<u>(Expressed in Thousands)</u>	
	<u>Year Ended June 30,</u>
	<u>2006</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 9
Operating grants, contributions and restricted interest	77
Capital grants, contributions and restricted interest	49
General receipts:	
Property tax	120
Local option sales tax	9
Unrestricted interest on investments	2
Franchise taxes	29
Utility excise taxes	7
Sale of assets	2
Other general receipts	2
Transfers, net	<u>3</u>
Total receipts and transfers	<u>309</u>
Disbursements:	
Public safety	117
Public works	77
Culture and recreation	31
General government	40
Debt service	<u>13</u>
Total disbursements	<u>278</u>
Increase in cash basis net assets	31
Cash basis net assets beginning of year	<u>178</u>
Cash basis net assets end of year	<u>\$209</u>

The City's total receipts and transfers for governmental activities were approximately \$309,000 for June 30, 2006, compared to \$251,000 from June 30, 2005.

The cost of all governmental activities this year was \$278,000. However, as shown in the Statement of Activities and Net Assets on pages 12-13, the amount taxpayers ultimately financed for these activities was only \$143,000 because some of the cost was paid by those directly benefited from the programs (\$10,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$125,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$120,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

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

	<u>Year Ended June 30,</u> <u>2006</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 88
Sewer	42
Solid waste	42
Consumer deposit	3
Recycle	15
General receipts:	
Unrestricted interest on investments	<u>7</u>
Total receipts	<u>197</u>
Disbursements and transfers:	
Water	53
Sewer	34
Solid waste	43
Consumer deposit	2
Recycle	15
Transfers	<u>3</u>
Total disbursements and transfers	<u>150</u>
Increase in cash basis net assets	47
Cash basis net assets beginning of year	<u>199</u>
Cash basis net assets end of year	<u>\$246</u>

Total business type activities receipts for the fiscal year were \$197,000 compared to \$192,000 last year. Total disbursements and transfers for the fiscal year decreased by \$12,000 to a total of \$150,000; primarily due to a decrease in disbursements in the water utility fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Early completed the year, its governmental funds reported a combined fund balance of \$209,483, an increase of \$31,528 from last year's total of \$177,955. 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 \$16,709 from the prior year to \$46,644. This increase was primarily due to franchise fees charged on natural gas and electricity. Because of a law suit in Polk County that is on-going, these funds are in question. Until the law suit is settled, none of these funds will be spent.

The Road Use Tax Fund, which accounts for road construction and maintenance, cash balance decreased by \$9,026 to \$41,643. This decrease was primarily due to additional road maintenance being done the past fiscal year and the purchase of a new mower.

The Employee Benefits Fund, which accounts for taxes received to be used solely for employee payroll taxes and health insurance, cash balance increased \$4,218 to \$12,478. It had been anticipated that workmen's compensation premiums would go up substantially this year. That did not happen. However, they have now gone up in the new fiscal year, so this cash balance will be reduced.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS - (Continued)

The Capital Projects Fund, which accounts for resources used in the acquisition and construction of capital facilities, cash balance increased by \$10,663 to \$63,619 primarily because of the FEMA grant received through Homeland Security for new turn-out gear for the fire department.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund, which accounts for the operation and maintenance of the City's water system, cash balance increased by \$37,642 to \$144,315, due primarily to the receipt of charges for water usage. The rates were increased in 2004 in anticipation of building a new water tower. The City has applied for a Community Development Block Grant the past three years but has been unsuccessful in being awarded any funds.

The Sewer Fund, which accounts for the operation and maintenance of the City's sewer system, cash balance increased by \$8,982 to \$87,150. Sewer rates were increased at the same time that the water rates were increased. Sewer rates had not been increased since 1970.

The Solid Waste Fund, which accounts for the operation of the City's solid waste collection and disposal system, cash balance decreased by \$852 to \$6,731. A new contract was negotiated with the hauler this year with higher rates paid to him. To date the City has not passed that increase on to the residents.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on May 2, 2006, and resulted in an increase of \$54,829 in receipts and \$46,978 in disbursements. The increased receipts were from the Local Option Sales Tax going into effect in January and the FEMA grant received for the fire department turn-out gear. The increased disbursements were for the fire department turn-out gear and a new computer. However, the new computer wasn't purchased until the new fiscal year.

The second amendment was approved on May 25, 2006, to provide for \$14,750 of additional disbursements in certain City departments. This amendment was to cover the increased fuel and heating costs, vehicle repairs, garage door openers for the shop, additional street maintenance, and snow plow and street sweeper repairs.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$76,500 in notes, compared to approximately \$84,200 last year, as shown below.

	<u>Outstanding Debt at Year-End</u>	<u>June 30, 2006</u>
General obligation notes		<u>\$76,500</u>

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 \$76,500 is significantly below its constitutional debt limit of \$580,000.

ECONOMIC FACTORS

The City has struggled for many years with decreasing income due largely to the roll back of taxable valuation on residential property and increasing costs of operation. The City has been doing its best to maintain the highest level of service possible for the community.

Because of increased education requirements for police officers, it is almost impossible to hire part time police officers. Therefore, this past spring the City has contracted with the Sac County Sheriff's Department to provide coverage for Early when the police chief is off duty. This is paid on a per call basis.

In the spring the City received notice from the Iowa Department of Natural Resources (DNR) that it is in violation of the discharge permit for its sewer lagoons. The City is unable to hold the lagoons for 180 days and is now under an Administrative Consent Order from the DNR. Kuehl and Payer have been interviewed and hired to do a preliminary study of the entire sewer system. Following this study a meeting will be held with an engineer from the DNR to determine the best course of action. From there a plan and time frame will be established for the necessary work to be done. The City hopes to be able to apply for a Community Development Block Grant to help with some of the funding for this work. This project will take a number of years to be completed because of time frames that are required for grant applications, approval of plans by the DNR, the advertising and receiving of bids, the approval of contracts, and the actual construction. The cost of this project will be substantial and will have an impact on all citizens of the community.

Because the City is now under a mandate from the DNR for the sewer system improvements to meet federal standards, the City has shelved the building of a new water tower for the time being. The water tower is kept in good repair, even though it is 96 years old.

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 there are questions about this report or additional financial information is needed, contact Sharon Irwin, City Clerk, P.O. Box 411, Early, Iowa, 50535.

CITY OF EARLY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit A

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 117,138	\$ 2,589	\$ 11,171	\$ 47,838	\$ (55,540)	\$ -	\$ (55,540)
Public works	76,813	3,226	50,654	777	(22,156)	-	(22,156)
Culture and recreation	30,925	3,740	15,015	-	(12,170)	-	(12,170)
Community and economic development	189	-	-	-	(189)	-	(189)
General government	39,542	-	-	-	(39,542)	-	(39,542)
Debt service	12,752	-	-	-	(12,752)	-	(12,752)
Total governmental activities	<u>277,359</u>	<u>9,555</u>	<u>76,840</u>	<u>48,615</u>	<u>(142,349)</u>	<u>-</u>	<u>(142,349)</u>
Business type activities:							
Water	53,040	88,037	-	-	-	34,997	34,997
Sewer	34,520	42,394	-	-	-	7,874	7,874
Solid waste	42,757	41,656	-	-	-	(1,101)	(1,101)
Consumer deposit	2,087	2,950	-	-	-	863	863
Recycle	15,005	15,306	-	-	-	301	301
Total business type activities	<u>147,409</u>	<u>190,343</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,934</u>	<u>42,934</u>
Total	<u>\$ 424,768</u>	<u>\$ 199,898</u>	<u>\$ 76,840</u>	<u>\$ 48,615</u>	<u>(142,349)</u>	<u>42,934</u>	<u>(99,415)</u>
General Receipts:							
Property tax levied for:							
General purposes					107,467	-	107,467
Debt service					12,271	-	12,271
Local option sales tax					8,487	-	8,487
Unrestricted interest on investments					1,971	7,074	9,045
Franchise taxes					28,983	-	28,983
Utility excise taxes					7,144	-	7,144
Sale of assets					2,250	-	2,250
Miscellaneous					2,304	-	2,304
Transfers					3,000	(3,000)	-
Total general receipts and transfers					<u>173,877</u>	<u>4,074</u>	<u>177,951</u>
Change in cash basis net assets					31,528	47,008	78,536
Cash basis net assets beginning of year					<u>177,955</u>	<u>198,895</u>	<u>376,850</u>
Cash basis net assets end of year					<u>\$ 209,483</u>	<u>\$ 245,903</u>	<u>\$ 455,386</u>

(Continued)

CITY OF EARLY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit A
(Continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets							
Restricted:							
Streets					\$ 41,643	\$ -	\$ 41,643
Debt service					1,586	-	1,586
Other purposes					55,991	-	55,991
Unrestricted					<u>110,263</u>	<u>245,903</u>	<u>356,166</u>
Total cash basis net assets					<u>\$ 209,483</u>	<u>\$ 245,903</u>	<u>\$ 455,386</u>

See notes to financial statements.

CITY OF EARLY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit B

	General	Special Revenue			Nonmajor	Total
		Road Use	Employee Benefits	Capital Projects		
Receipts:						
Property taxes	\$ 67,507	\$ -	\$ 38,257	\$ -	\$ 13,974	\$ 119,738
Other city tax	33,009	-	2,291	-	9,314	44,614
Licenses and permits	3,550	-	-	-	-	3,550
Use of money and property	2,333	-	118	2,087	284	4,822
Intergovernmental	22,662	50,654	-	47,116	-	120,432
Charges for service	4,025	-	-	-	-	4,025
Miscellaneous	6,206	-	-	-	250	6,456
Total receipts	<u>139,292</u>	<u>50,654</u>	<u>40,666</u>	<u>49,203</u>	<u>23,822</u>	<u>303,637</u>
Disbursements:						
Public safety	74,200	-	-	42,938	-	117,138
Public works	17,133	59,680	-	-	-	76,813
Culture and recreation	30,625	-	-	-	300	30,925
Community and economic development	189	-	-	-	-	189
General government	34,146	-	-	-	5,396	39,542
Debt service	-	-	-	-	12,752	12,752
Total disbursements	<u>156,293</u>	<u>59,680</u>	<u>-</u>	<u>42,938</u>	<u>18,448</u>	<u>277,359</u>
Excess (deficiency) of receipts over disbursements	<u>(17,001)</u>	<u>(9,026)</u>	<u>40,666</u>	<u>6,265</u>	<u>5,374</u>	<u>26,278</u>
Other financing sources (uses):						
Sale of capital assets	-	-	-	2,250	-	2,250
Operating transfers in	35,858	-	-	2,148	5,400	43,406
Operating transfers out	(2,148)	-	(36,448)	-	(1,810)	(40,406)
Total other financing sources (uses)	<u>33,710</u>	<u>-</u>	<u>(36,448)</u>	<u>4,398</u>	<u>3,590</u>	<u>5,250</u>
Net change in cash balances	16,709	(9,026)	4,218	10,663	8,964	31,528
Cash balances beginning of year	29,935	50,669	8,260	52,956	36,135	177,955
Cash balances end of year	<u>\$ 46,644</u>	<u>\$ 41,643</u>	<u>\$ 12,478</u>	<u>\$63,619</u>	<u>\$ 45,099</u>	<u>\$ 209,483</u>
Cash Basis Fund Balances						
Unreserved:						
General	\$ 46,644	\$ -	\$ -	\$ -	\$ -	\$ 46,644
Special revenue	-	41,643	12,478	-	21,217	75,338
Capital projects	-	-	-	63,619	-	63,619
Debt service	-	-	-	-	1,586	1,586
Permanent	-	-	-	-	22,296	22,296
Total cash basis fund balances	<u>\$ 46,644</u>	<u>\$ 41,643</u>	<u>\$ 12,478</u>	<u>\$63,619</u>	<u>\$ 45,099</u>	<u>\$ 209,483</u>

See notes to financial statements.

CITY OF EARLY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit C

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Nonmajor</u>	<u>Total</u>
Operating Receipts:					
Charges for service	\$ 88,037	\$ 42,394	\$ 41,656	\$ 18,256	\$ 190,343
Operating Disbursements:					
Business type activities	<u>53,040</u>	<u>34,520</u>	<u>42,757</u>	<u>17,092</u>	<u>147,409</u>
Excess (deficiency) of operating receipts over operating disbursements	34,997	7,874	(1,101)	1,164	42,934
Non-operating receipts:					
Interest on investments	<u>4,145</u>	<u>2,608</u>	<u>249</u>	<u>72</u>	<u>7,074</u>
Excess (deficiency) of receipts over disbursements	39,142	10,482	(852)	1,236	50,008
Operating transfers out	<u>(1,500)</u>	<u>(1,500)</u>	<u>-</u>	<u>-</u>	<u>(3,000)</u>
Net change in cash balances	37,642	8,982	(852)	1,236	47,008
Cash balances beginning of year	<u>106,673</u>	<u>78,168</u>	<u>7,583</u>	<u>6,471</u>	<u>198,895</u>
Cash balances end of year	<u>\$144,315</u>	<u>\$ 87,150</u>	<u>\$ 6,731</u>	<u>\$ 7,707</u>	<u>\$ 245,903</u>
Cash Basis Fund Balances					
Unreserved	<u>\$144,315</u>	<u>\$ 87,150</u>	<u>\$ 6,731</u>	<u>\$ 7,707</u>	<u>\$ 245,903</u>

See notes to financial statements.

CITY OF EARLY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Early is a political subdivision of the State of Iowa located in Sac 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, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste services for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Early 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 or appoint members to: Sac County Assessor's Conference Board, Sac County Joint E911 Board, Sac County Landfill Commission, and Sac County Emergency Management Commission.

B. Basis of Presentation

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

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.

CITY OF EARLY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

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 non-major 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 from other funds.

Special Revenue:

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

The Employee Benefits Fund is used to account for taxes received to be used solely for employee payroll taxes and health insurance.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through Enterprise Funds.

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 Solid Waste Fund accounts for the operation and maintenance of the City's waste management system.

C. Measurement Focus and Basis of Accounting

City of Early 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.

CITY OF EARLY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting - (Continued)

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the culture and recreation function.

2. CASH AND 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 had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$367,767 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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.

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

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 40.

3. NOTES PAYABLE

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

Year Ending <u>June 30,</u>	<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 7,700	\$ 4,603
2008	7,700	4,139
2009	7,700	3,676
2010	7,700	3,213
2011	7,700	2,750
2012-2016	<u>38,000</u>	<u>6,799</u>
Total	<u>\$76,500</u>	<u>\$25,180</u>

CITY OF EARLY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of 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 \$6,010, equal to the required contribution for the year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$3,700</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

6. INTERFUND TRANSFERS

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$31,048
	Emergency	1,810
	Enterprise:	
	Water	1,500
	Sewer	1,500
Special Revenue:	Special Revenue:	
Employee Hospital Deductible	Employee Benefits	5,400
Capital Projects:		
Fire Equipment	General	<u>2,148</u>
		<u>\$43,406</u>

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

CITY OF EARLY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

7. SERVICE AGREEMENTS

The City has an agreement with Rudd Sanitation and Recycling for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$35,751 for the year ended June 30, 2006.

8. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006, were \$17,621.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

CITY OF EARLY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

8. RISK MANAGEMENT - (Continued)

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. INTERGOVERNMENTAL AGREEMENT

The City entered into an agreement with Sac County Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, to provide for the disposal of solid waste. For the year ended June 30, 2006, \$8,517 was paid for landfill fees pursuant to the agreement.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs to the Agency for compliance with these requirements have been estimated at \$732,414 according to the Agency's latest audit report available which was for the year ended June 30, 2005.

The Agency has begun to accumulate resources to fund these costs and, at June 30, 2005, assets of \$132,977 are restricted for these purposes.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EARLY
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	Proprietary	Total	Budgeted Amounts		Final
	Funds	Funds		Original	Final	Total
	Actual	Actual				Variance
Receipts:						
Property tax	\$ 119,738	\$ -	\$ 119,738	\$118,919	\$118,919	\$ 819
Other city tax	44,614	-	44,614	27,314	41,314	3,300
License and permits	3,550	-	3,550	2,040	2,040	1,510
Use of money and property	4,822	7,074	11,896	1,995	1,995	9,901
Intergovernmental	120,432	-	120,432	71,832	112,661	7,771
Charges for service	4,025	190,343	194,368	164,200	164,200	30,168
Miscellaneous	6,456	-	6,456	2,550	2,550	3,906
Total receipts	<u>303,637</u>	<u>197,417</u>	<u>501,054</u>	<u>388,850</u>	<u>443,679</u>	<u>57,375</u>
Disbursements:						
Public safety	117,138	-	117,138	72,803	119,981	2,843
Public works	76,813	-	76,813	72,396	81,246	4,433
Culture and recreation	30,925	-	30,925	30,523	30,523	(402)
Community and economic development	189	-	189	250	250	61
General government	39,542	-	39,542	47,710	50,910	11,368
Debt service	12,752	-	12,752	12,828	12,828	76
Business type activities	-	147,409	147,409	181,739	184,239	36,830
Total disbursements	<u>277,359</u>	<u>147,409</u>	<u>424,768</u>	<u>418,249</u>	<u>479,977</u>	<u>55,209</u>
Excess (deficiency) of receipts over disbursements	26,278	50,008	76,286	(29,399)	(36,298)	112,584
Other financing sources (uses), net	<u>5,250</u>	<u>(3,000)</u>	<u>2,250</u>	<u>-</u>	<u>-</u>	<u>2,250</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	31,528	47,008	78,536	(29,399)	(36,298)	114,834
Balances, beginning of year	<u>177,955</u>	<u>198,895</u>	<u>376,850</u>	<u>278,048</u>	<u>354,804</u>	<u>22,046</u>
Balances, end of year	<u>\$ 209,483</u>	<u>\$ 245,903</u>	<u>\$ 455,386</u>	<u>\$248,649</u>	<u>\$318,506</u>	<u>\$ 136,880</u>

See accompanying independent auditor's report.

CITY OF EARLY
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 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. 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, 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, two budget amendments increased budgeted disbursements by \$61,728. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the culture and recreation function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF EARLY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Schedule 1

	Special Revenue					Debt Service	Permanent			Total
	EMT Training	Employee Hospital Deductible	Local Option Sales Tax	Emergency Fund	Library Expendable Trust		Cemetery Perpetual Care	Summer Recreation Trust	Public Library Trust	
Receipts:										
Property tax	\$ -	\$ -	\$ -	\$ 1,703	\$ -	\$ 12,271	\$ -	\$ -	\$ -	\$ 13,974
Other city tax	-	-	8,487	101	-	726	-	-	-	9,314
Use of money and property	22	33	28	6	144	51	-	-	-	284
Miscellaneous	-	-	-	-	-	-	250	-	-	250
Total receipts	<u>22</u>	<u>33</u>	<u>8,515</u>	<u>1,810</u>	<u>144</u>	<u>13,048</u>	<u>250</u>	<u>-</u>	<u>-</u>	<u>23,822</u>
Disbursements:										
Public works	-	-	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	300	-	-	-	-	300
General government	-	5,396	-	-	-	-	-	-	-	5,396
Debt service	-	-	-	-	-	12,752	-	-	-	12,752
Total disbursements	<u>-</u>	<u>5,396</u>	<u>-</u>	<u>-</u>	<u>300</u>	<u>12,752</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,448</u>
Excess (deficiency) of revenues over expenditures	<u>22</u>	<u>(5,363)</u>	<u>8,515</u>	<u>1,810</u>	<u>(156)</u>	<u>296</u>	<u>250</u>	<u>-</u>	<u>-</u>	<u>5,374</u>
Other financing sources (uses):										
Operating transfers in	-	5,400	-	-	-	-	-	-	-	5,400
Operating transfers out	-	-	-	(1,810)	-	-	-	-	-	(1,810)
Total other financing sources (uses)	<u>-</u>	<u>5,400</u>	<u>-</u>	<u>(1,810)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,590</u>
Net change in cash balances	22	37	8,515	-	(156)	296	250	-	-	8,964
Cash balances beginning of year	<u>2,429</u>	<u>6,294</u>	<u>-</u>	<u>-</u>	<u>4,076</u>	<u>1,290</u>	<u>13,446</u>	<u>2,500</u>	<u>6,100</u>	<u>36,135</u>
Cash balances end of year	<u>\$ 2,451</u>	<u>\$ 6,331</u>	<u>\$ 8,515</u>	<u>\$ -</u>	<u>\$ 3,920</u>	<u>\$ 1,586</u>	<u>\$ 13,696</u>	<u>\$ 2,500</u>	<u>\$ 6,100</u>	<u>\$ 45,099</u>
Cash Basis Fund Balances										
Unreserved:										
Special Revenue	\$ 2,451	\$ 6,331	\$ 8,515	\$ -	\$ 3,920	\$ -	\$ -	\$ -	\$ -	\$ 21,217
Debt service	-	-	-	-	-	1,586	-	-	-	1,586
Permanent	-	-	-	-	-	-	13,696	2,500	6,100	22,296
Total cash basis fund balances	<u>\$ 2,451</u>	<u>\$ 6,331</u>	<u>\$ 8,515</u>	<u>\$ -</u>	<u>\$ 3,920</u>	<u>\$ 1,586</u>	<u>\$ 13,696</u>	<u>\$ 2,500</u>	<u>\$ 6,100</u>	<u>\$ 45,099</u>

See accompanying independent auditor's report.

CITY OF EARLY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Schedule 2

	Consumer Deposit	Recycle	Total
Operating receipts:			
Charges for service	\$ 2,950	\$ 15,306	\$ 18,256
Operating disbursements:			
Business type activities	<u>2,087</u>	<u>15,005</u>	<u>17,092</u>
Excess of operating receipts over operating disbursements	863	301	1,164
Non-operating receipts:			
Interest on investments	<u>-</u>	<u>72</u>	<u>72</u>
Net change in cash balances	863	373	1,236
Cash balances beginning of year	<u>3,780</u>	<u>2,691</u>	<u>6,471</u>
Cash balances end of year	<u>\$ 4,643</u>	<u>\$ 3,064</u>	<u>\$ 7,707</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 4,643</u>	<u>\$ 3,064</u>	<u>\$ 7,707</u>

See accompanying independent auditor's report.

CITY OF EARLY
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

Schedule 3

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<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>
<u>General Obligation Notes:</u>									
Culvert and sewer improvement	December 20, 2000	6.00%	<u>\$ 115,000</u>	<u>\$ 84,200</u>	<u>\$ -</u>	<u>\$ 7,700</u>	<u>\$ 76,500</u>	<u>\$ 5,052</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF EARLY
NOTE MATURITIES
JUNE 30, 2006

Schedule 4

General Obligation
Culvert and Sewer
Improvement
Issued December 20, 2000

Year Ending <u>June 30,</u>	Interest <u>Rates</u>	<u>Amount</u>
2007	6.00%	\$ 7,700
2008	6.00	7,700
2009	6.00	7,700
2010	6.00	7,700
2011	6.00	7,700
2012	6.00	7,700
2013	6.00	7,700
2014	6.00	7,700
2015	6.00	7,700
2016	6.00	7,200
		<u>\$ 76,500</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards

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

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 City of Early, 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 July 25, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since 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 Auditor's 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 City of Early'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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 City of Early's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I of 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 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 condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Early's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters 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 City of Early, and other parties to whom City of Early 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 City of Early 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.

Hunnegelman, Putzier & Co.

July 25, 2006

CITY OF EARLY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by one individual.

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

Response - We are reviewing our control procedures but with only one person on staff this is difficult. Although there are more people who pay cash in the Clerk's office now, the Clerk is instructed to not keep a lot of cash on hand. Deposits are to be made in a timely manner.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amount budgeted in the culture and recreation function. 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 sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The Council had amended the budget twice in the fiscal year but there were more funerals and burial costs at the cemetery, plus increased maintenance costs and higher fuel costs.

Conclusion - Response accepted.

II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose 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.

CITY OF EARLY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

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

II-D-06 Business Transactions - No business transactions between the City and City officials or employees were noted.

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 - No transactions were found that we believe should have been approved in the Council minutes but were not. However, the published minutes did not contain a list of claims and the purpose as required by an Attorney General's opinion dated April 12, 1978.

Recommendation - Published minutes should contain a list of all approved claims and the purpose of the claim.

Response - We have already corrected the publication of minutes to include claim amounts and the purpose of the claims.

Conclusion - Response accepted.

II-G-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-06 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The bank is now sending us an image of both the front and back of all cancelled checks.

Conclusion - Response accepted.

II-I-06 Excess Balances - The following funds have balances at June 30, 2006, in excess of one year's expenditures:

Special Revenue - EMT Training
- Employee Hospital Deductible
- Local Option Sales Tax
- Library Expendable Trust

Capital Projects - Equipment Replacement
- Fire Truck Reserve
- Storm Sewer Reserve

CITY OF EARLY

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2006

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

II-I-06 Excess Balances - (Continued)

Recommendation - While it appears that these funds may have an excessive balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - Special Revenue - The EMT, Employee Hospital Deductible and Library Expendable Trust are maintained so there are funds as needed in those areas. The Local Option Sales Tax only started in January of 2006 and therefore, had not been utilized yet.

Capital Projects - The Equipment Replacement Fund is maintained so that there are some funds available when a vehicle needs to be replaced. City finances are very restricted with the residential rollback. The Fire Truck Reserve is funds from the townships to replace the pumper. The Storm Sewer Reserve is for storm sewer main repairs.

Conclusion - Response accepted.