

CITY OF MYSTIC, IOWA

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

JUNE 30, 2006

CITY OF MYSTIC, IOWA

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CITY OF MYSTIC, IOWA

OFFICIALS  
JUNE 30, 2006

(Before January 2006)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Eugene Ruby	Mayor	2008
Rick Zaputil	Mayor ProTem	2006
Frank Belzer	Council Member	2006
John Hatfield	Council Member	Resigned - December 2006
Phil Hudson	Council Member	2008
John Warnick	Council Member	2008

(After January 2006)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Eugene Ruby	Mayor	2008
John Hatfield	Council Member	Resigned - December 2006
John Warnick	Council Member	2008
Phil Hudson	Council Member	2008
Patsy Seals	Council Member	2008
James Robinson	Council Member	2008
Rosann Barbaglia	Clerk/Treasurer	Retired - January 2006
Gretchen Squier	Clerk/Treasurer	2006
Deb George	Attorney	Indefinite



ANDERSON, LARKIN & CO. P.C.  
Certified Public Accountants  
*"Achieving your goals with our knowledge."*

Kenneth E. Crosser, CPA  
April D. Hammack, CPA  
Michael J. Podliska, CPA

David W. Goodman, CPA (Former Principal)  
Robert E. Wells, CPA (Retired)

C. Kenneth Anderson, CPA (1952-1977)  
Joseph C. Larkin, CPA (1960-1990)

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members  
of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Mystic, 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 Mystic, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all the 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 the City of Mystic, Iowa 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 February 2, 2007 on our consideration of the City of Mystic, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 4 through 7 and 16 through 17 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mystic, Iowa'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.

ANDERSON, LARKIN & CO. P.C.

*Anderson, Larkin & Co P.C.*

Ottumwa, Iowa  
February 2, 2007

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Mystic, Iowa 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.

In future years a comparative analysis of government-wide data will be presented.

## 2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities were \$184,724 for fiscal 2006. Property tax and intergovernmental revenues were \$54,424 and \$80,254, respectively.
- Disbursements of the City's governmental activities were \$219,026 in fiscal 2006. Public works disbursements were \$113,944 while general government expenditures were \$50,360.
- The City's total cash basis net assets decreased 23.6%, or \$64,031, from June 30, 2005 to June 30, 2006. Of this amount, the net assets of the governmental activities decreased \$34,302 and the net assets of the business type activities decreased \$29,729. This decrease is due primarily to equipment purchases and water and sewer repairs.

## 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 – Cash Basis. 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 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 that 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 and sewer funds. 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 Local Option Sales Tax and the Fire Station, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial 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 two Enterprise Funds to provide separate information for the water and sewer funds, 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 City's cash balance for governmental activities decreased from a year ago, decreasing from \$173,600 to \$139,298. The analysis that follows focuses on the changes in cash balances for governmental and business type activities.

**Changes in Cash Basis Net Assets of Governmental Activities**

	Year Ended June 30, <u>2006</u>
<b>Receipts:</b>	
Program receipts:	
Charges for service	\$ 32,471
Operating grants, contributions and restricted interest	49,501
Capital grants, contributions and restricted interest	30,753
General receipts:	
Property tax	31,269
Local option sales tax	36,939
Other general receipts	<u>3,791</u>
<b>Total receipts</b>	<b><u>184,724</u></b>
<b>Disbursements:</b>	
Public safety	38,127
Public works	113,944
Community and economic development	13,095
General government	50,360
Debt service	<u>3,500</u>
<b>Total disbursements</b>	<b><u>219,026</u></b>
Change in cash basis net assets	(34,302)
Cash basis net assets beginning of year	<u>173,600</u>
Cash basis net assets end of year	\$ <u>139,298</u>

**Changes in Cash Basis Net Assets of Business Type Activities**

	Year Ended June 30, <u>2006</u>
<b>Receipts:</b>	
Program receipts:	
Water	\$ 48,379
Sewer	37,683
General receipts and debt service:	
Unrestricted interest on investments	<u>1,610</u>
<b>Total receipts</b>	<b><u>87,672</u></b>
<b>Disbursements:</b>	
Water	65,044
Sewer	<u>52,357</u>
<b>Total disbursements</b>	<b><u>117,401</u></b>
Change in cash basis net assets	(29,729)
Cash basis net assets beginning of year	<u>97,745</u>
Cash basis net assets end of year	\$ <u>68,016</u>

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Mystic completed the year, its governmental funds reported a combined fund balance of \$139,298, a decrease of \$34,302 from last year's total of \$173,600. 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 \$25,833 from the prior year to \$50,496. This decrease is due primarily to equipment purchases and repairs.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased by \$16,025 to \$25,923, while the Sewer Fund cash balance decreased by \$13,704 to \$42,093. These decreases are due primarily to additional repair costs during 2006.

**DEBT ADMINISTRATION**

At June 30, 2006, the City had \$238,811 in capital loan notes and other long-term debt, compared to \$246,400 last year, as shown below.

**Outstanding Debt at Year End**

	Year Ended June 30,	
	<u>2006</u>	<u>2005</u>
General obligation capital loan notes	\$ 18,000	\$ 20,000
Revenue notes	<u>220,811</u>	<u>226,400</u>
	<b>\$ <u>238,811</u></b>	<b>\$ <u>246,400</u></b>

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 \$18,000 is significantly below its constitutional debt limit of \$177,986.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Mystic's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees charged for various City activities.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2005 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in 2006.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$295,927, an increase of 6.6 percent over the final 2006 budget. Property tax (benefiting from the 2006 rate increases and increases in assessed valuations) are expected to lead this increase. The City will use these increases in receipts to finance the programs we currently offer. Budgeted disbursements are expected to decrease by \$3,587. The City has added no major new programs or initiatives to the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by \$21,897 by the close of 2007.

**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 the Mystic City Clerk, P. O. Box 69, Mystic, Iowa, 52574.

**BASIC FINANCIAL STATEMENTS**

CITY OF MYSTIC, IOWA

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

Functions/Programs	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts</u>	
			<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
<b>Governmental activities:</b>				
Public safety	\$ 38,127	\$ 8,926	\$ -	\$ 30,753
Public works	113,944	390	49,501	-
Community and economic development	13,095	-	-	-
General government	50,360	23,155	-	-
Debt service	3,500	-	-	-
Total governmental activities	<u>219,026</u>	<u>32,471</u>	<u>49,501</u>	<u>30,753</u>
<b>Business type activities:</b>				
Water	65,044	48,379	-	-
Sewer	52,357	37,683	-	-
Total business type activities	<u>117,401</u>	<u>86,062</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b>\$ <u>336,427</u></b>	<b>\$ <u>118,533</u></b>	<b>\$ <u>49,501</u></b>	<b>\$ <u>30,753</u></b>
<b>General receipts:</b>				
Property tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<u>Cash Basis Net Assets</u>				
Restricted:				
Debt service				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements

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

Governmental Activities	Business Type Activities	Total
\$ 1,552	\$ -	\$ 1,552
(64,053)	-	(64,053)
(13,095)	-	(13,095)
(27,205)	-	(27,205)
(3,500)	-	(3,500)
<u>(106,301)</u>	<u>-</u>	<u>(106,301)</u>
-	(16,665)	(16,665)
-	(14,674)	(14,674)
-	(31,339)	(31,339)
<u>(106,301)</u>	<u>(31,339)</u>	<u>(137,640)</u>
27,874	-	27,874
3,395	-	3,395
36,939	-	36,939
1,618	1,610	3,228
2,173	-	2,173
<u>71,999</u>	<u>1,610</u>	<u>73,609</u>
(34,302)	(29,729)	(64,031)
<u>173,600</u>	<u>97,745</u>	<u>271,345</u>
\$ <u>139,298</u>	\$ <u>68,016</u>	\$ <u>207,314</u>
\$ (33)	\$ -	\$ (33)
<u>139,331</u>	<u>68,016</u>	<u>207,347</u>
\$ <u>139,298</u>	\$ <u>68,016</u>	\$ <u>207,314</u>

## CITY OF MYSTIC, IOWA

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

	General	Special Revenue			Other Non-Major Governmental Funds	Total
		Road Use Tax	Local Option Sales Tax	Fire Station		
<b>RECEIPTS:</b>						
Property tax	\$ 51,029	\$ -	\$ -	\$ -	\$ 3,395	\$ 54,424
Other city tax	-	-	36,939	-	-	36,939
Licenses and permits	390	-	-	-	-	390
Use of money and property	645	-	973	-	-	1,618
Intergovernmental	29,658	49,501	-	1,095	-	80,254
Charges for service	-	-	-	8,926	-	8,926
Miscellaneous	2,173	-	-	-	-	2,173
Total receipts	<u>83,895</u>	<u>49,501</u>	<u>37,912</u>	<u>10,021</u>	<u>3,395</u>	<u>184,724</u>
<b>DISBURSEMENTS:</b>						
Operating:						
Public safety	25,811	-	2,000	10,316	-	38,127
Public works	20,467	50,363	43,114	-	-	113,944
Community and economic development	13,095	-	-	-	-	13,095
General government	50,355	-	5	-	-	50,360
Debt service	-	-	-	-	3,500	3,500
Total disbursements	<u>109,728</u>	<u>50,363</u>	<u>45,119</u>	<u>10,316</u>	<u>3,500</u>	<u>219,026</u>
Net change in cash balances	(25,833)	(862)	(7,207)	(295)	(105)	(34,302)
Cash balances beginning of year	<u>76,329</u>	<u>2,258</u>	<u>67,494</u>	<u>27,447</u>	<u>72</u>	<u>173,600</u>
Cash balances end of year	\$ <u>50,496</u>	\$ <u>1,396</u>	\$ <u>60,287</u>	\$ <u>27,152</u>	\$ <u>(33)</u>	\$ <u>139,298</u>
<b>Cash Basis Fund Balances</b>						
Reserved:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ (33)	\$ (33)
Unreserved:						
General fund	50,496	-	-	-	-	50,496
Special revenue funds	-	1,396	60,287	27,152	-	88,835
Total cash basis fund balances	\$ <u>50,496</u>	\$ <u>1,396</u>	\$ <u>60,287</u>	\$ <u>27,152</u>	\$ <u>(33)</u>	\$ <u>139,298</u>

## CITY OF MYSTIC, IOWA

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

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Operating receipts:</u>			
Use of money and property	\$ 640	\$ 970	\$ 1,610
Charges for service	<u>48,379</u>	<u>37,683</u>	<u>86,062</u>
Total operating receipts	49,019	38,653	87,672
<u>Operating disbursements:</u>			
Business type activities	<u>64,964</u>	<u>34,973</u>	<u>99,937</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(15,945)</u>	<u>3,680</u>	<u>(12,265)</u>
<u>Non-operating disbursements:</u>			
Miscellaneous	(80)	(41)	(121)
Debt service	<u>-</u>	<u>(17,343)</u>	<u>(17,343)</u>
Total non-operating disbursements	<u>(80)</u>	<u>(17,384)</u>	<u>(17,464)</u>
Net change in cash balances	(16,025)	(13,704)	(29,729)
Cash balances beginning of year	<u>41,948</u>	<u>55,797</u>	<u>97,745</u>
Cash balances end of year	\$ <u>25,923</u>	\$ <u>42,093</u>	\$ <u>68,016</u>
<u>Cash Basis Fund Balances</u>			
Unreserved	\$ <u>25,923</u>	\$ <u>42,093</u>	\$ <u>68,016</u>

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mystic, Iowa is a political subdivision of the State of Iowa located in Appanoose County. It was first incorporated in 1889 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Mystic, Iowa 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: Rathbun Solid Waste Commission, Area 15 Housing Board, Hazmat Team, and EMS Council.

B. Basis of Presentation

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

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.

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund accounts for Local Option Sales Tax revenues and associated project expenditures.

The Fire Station Fund accounts for revenues and expenditures associated with the City's fire station operations.

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.

C. Measurement Focus and Basis of Accounting

The City of Mystic, Iowa 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 works, community and economic development and business type activities functions.

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

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.

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: NOTES PAYABLE

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

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 2,000	\$ 1,350	\$ 5,773	\$ 11,570	\$ 7,773	\$ 12,920
2008	2,000	1,200	6,053	11,290	8,053	12,490
2009	2,000	1,050	6,395	10,948	8,395	11,998
2010	2,000	900	6,708	10,635	8,708	11,535
2011	2,000	750	7,051	10,292	9,051	11,042
2012-2016	8,000	1,275	41,052	45,663	49,052	46,938
2017-2021	-	-	52,737	33,978	52,737	33,978
2022-2026	-	-	64,702	22,013	64,702	22,013
2027-2028	-	-	30,340	4,346	30,340	4,346
<b>Total</b>	<b>\$ 18,000</b>	<b>\$ 6,525</b>	<b>\$ 220,811</b>	<b>\$ 160,735</b>	<b>\$ 238,811</b>	<b>\$ 167,260</b>

The City's Sewer Revenue Notes closing documents require a funded depreciation account to be established and funded at a rate of \$2,500 per year. As of June 30, 2006 the required depreciation account is underfunded by approximately \$9,000.

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 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. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2006 were \$2,232 equal to the required contributions for the year.

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 5: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6: COMMITMENTS

The City has agreed to pay a total of \$25,000 to assist with an Appanoose County project involving work on T14. The City will make annual payments of \$5,000 for five years. The project is expected to begin in 2008.

NOTE 7: DEFICIT BALANCE

The Debt Service Fund had a deficit balance of \$33 at June 30, 2006. The deficit balance was the result of current year debt payments exceeding current year receipts. The deficit will be eliminated upon receipt of future years' property tax payments.

NOTE 8: SPECIAL INVESTIGATION

Subsequent to the year ended June 30, 2006, but before the release of this audit, the City of Mystic, Iowa requested that the State Auditor's office perform a special investigation. The State Auditor's office performed procedures for the thirteen months ended January 31, 2007. Details of the investigation may be reviewed in the Office of the Auditor of State or on the State Auditor's Website.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MYSTIC, IOWA

**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 <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>	Budgeted Amounts <u>Original/Final</u>	Final to Total <u>Variance</u>
<b>RECEIPTS:</b>					
Property tax	\$ 54,424	\$ -	\$ 54,424	\$ 52,039	\$ 2,385
Other city tax	36,939	-	36,939	35,378	1,561
Licenses and permits	390	-	390	200	190
Use of money and property	1,618	1,610	3,228	1,000	2,228
Intergovernmental	80,254	-	80,254	96,000	(15,746)
Charges for service	8,926	86,062	94,988	92,000	2,988
Miscellaneous	<u>2,173</u>	<u>-</u>	<u>2,173</u>	<u>1,000</u>	<u>1,173</u>
Total receipts	<u>184,724</u>	<u>87,672</u>	<u>272,396</u>	<u>277,617</u>	<u>(5,221)</u>
<b>DISBURSEMENTS:</b>					
Public safety	38,127	-	38,127	50,000	11,873
Public works	113,944	-	113,944	63,042	(50,902)
Health and social services	-	-	-	275	275
Culture and recreation	-	-	-	2,000	2,000
Community and economic development	13,095	-	13,095	500	(12,595)
General government	50,360	-	50,360	68,300	17,940
Debt service	3,500	-	3,500	3,500	-
Business type activities	<u>-</u>	<u>117,401</u>	<u>117,401</u>	<u>90,000</u>	<u>(27,401)</u>
Total disbursements	<u>219,026</u>	<u>117,401</u>	<u>336,427</u>	<u>277,617</u>	<u>(58,810)</u>
Deficiency of receipts under disbursements	(34,302)	(29,729)	(64,031)	-	(64,031)
Balances beginning of year	<u>173,600</u>	<u>97,745</u>	<u>271,345</u>	<u>255,550</u>	<u>15,795</u>
Balances end of year	\$ <u>139,298</u>	\$ <u>68,016</u>	\$ <u>207,314</u>	\$ <u>255,550</u>	\$ <u>(48,236)</u>

CITY OF MYSTIC, IOWA

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 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 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, the Capital Projects Funds, 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 ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works, community and economic development and business type activities functions.

**OTHER SUPPLEMENTARY INFORMATION**

CITY OF MYSTIC, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUND  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>Debt Service</u>
<u>RECEIPTS:</u>	
Property tax	\$ 3,395
<u>DISBURSEMENTS:</u>	
Debt service	<u>3,500</u>
Net change in cash balances	(105)
Cash balances beginning of year	<u>72</u>
Cash balances end of year	\$ <u>(33)</u>
<u>Cash Basis Fund Balances</u>	
Reserved for Debt Service	\$ <u>(33)</u>

CITY OF MYSTIC, IOWA  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Revenue notes: Sewer utility	June 27, 1988	5.00%	\$ <u>292,500</u>
General obligation capital loan notes: Series 1996	February 1, 1996	7.50%	\$ <u>30,000</u>

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>
\$ <u>226,400</u>	\$ <u>-</u>	\$ <u>5,589</u>	\$ <u>220,811</u>	\$ <u>11,574</u>	\$ <u>-</u>
\$ <u>20,000</u>	\$ <u>-</u>	\$ <u>2,000</u>	\$ <u>18,000</u>	\$ <u>1,500</u>	\$ <u>-</u>

CITY OF MYSTIC, IOWA

NOTE MATURITIES  
JUNE 30, 2006

Year Ending June 30,	Revenue Notes	
	Sewer	
	Issued June 27, 1988	
	Interest Rate	Amount
2007	5.00 %	\$ 5,773
2008	5.00	6,053
2009	5.00	6,395
2010	5.00	6,708
2011	5.00	7,051
2012	5.00	7,398
2013	5.00	7,806
2014	5.00	8,193
2015	5.00	8,613
2016	5.00	9,042
2017	5.00	9,529
2018	5.00	10,006
2019	5.00	10,519
2020	5.00	11,050
2021	5.00	11,633
2022	5.00	12,222
2023	5.00	12,848
2024	5.00	12,501
2025	5.00	13,204
2026	5.00	13,927
2027	5.00	14,693
2028	5.00	15,647
Total		\$ <u>220,811</u>

Year Ending June 30,	General Obligation	
	Capital Loan Notes	
	Issued February 1, 1996	
	Interest Rate	Amount
2007	7.50 %	\$ 2,000
2008	7.50	2,000
2009	7.50	2,000
2010	7.50	2,000
2011	7.50	2,000
2012	7.50	2,000
2013	7.50	3,000
2014	7.50	3,000
Total		\$ <u>18,000</u>

CITY OF MYSTIC, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS

FOR THE PAST YEAR

	<u>2006</u>
<u>RECEIPTS:</u>	
Property tax	\$ 54,424
Other city tax	36,939
Licenses and permits	390
Use of money and property	1,618
Intergovernmental	80,254
Charges for service	8,926
Miscellaneous	<u>2,173</u>
Total receipts	\$ <u>184,724</u>
<u>DISBURSEMENTS:</u>	
Operating:	
Public safety	\$ 38,127
Public works	113,944
Community and economic development	13,095
General government	50,360
Debt service	<u>3,500</u>
Total disbursements	\$ <u>219,026</u>



ANDERSON, LARKIN & CO. P.C.  
Certified Public Accountants  
*"Achieving your goals with our knowledge."*

Kenneth E. Crosser, CPA  
April D. Hammack, CPA  
Michael J. Podliska, CPA

David W. Goodman, CPA (Former Principal)  
Robert E. Wells, CPA (Retired)

C. Kenneth Anderson, CPA (1952-1977)  
Joseph C. Larkin, CPA (1960-1990)

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Mystic, 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 February 2, 2007. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting 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 the City of Mystic, Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Mystic, Iowa'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 II 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, of the reportable conditions described above, we believe items II-B-06, II-D-06, and II-E-06 are material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Mystic, Iowa'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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Mystic, Iowa and other parties to whom the City of Mystic, Iowa may report including federal awarding agencies and pass-through entities. 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 Mystic, Iowa 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.

ANDERSON, LARKIN & CO. P.C.

A handwritten signature in black ink that reads "Anderson, Larkin & CO P.C." in a cursive, slightly slanted script.

Ottumwa, Iowa  
February 2, 2007

CITY OF MYSTIC, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- a) A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Reportable Conditions:

- II-A-06 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – The City should formalize its procedures for reconciling utility billings and collections for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will consider performing a formal reconciliation for Council approval on a monthly basis.

Conclusion – Response accepted.

- II-B-06 Accounting Policies and Procedures Manual – The City does not have a current accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits.

1. Aid in training additional or replacement personnel and act as a quick reference to staff members and officials.
2. Increased effectiveness and efficiency in your organization by streamlining accounting operations and achieving uniformity in accounting.
3. Helps preserve the key elements in the government's internal control structure.

Response – The City Clerk and Council will work on preparing an accounting policies and procedures manual.

Conclusion – Response accepted.

- II-C-06 Job Descriptions and Standard Hiring Practices – The City does not maintain written job descriptions for all positions.

Recommendation – The City should develop written job descriptions to aid in training additional or replacement personnel and act as a quick reference to staff members and officials.

Response – The City Clerk and City Council will work on developing written job descriptions and new employee files will be reviewed for appropriate documentation before the employee's first payroll is processed.

Conclusion – Response accepted.

CITY OF MYSTIC, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Financial Statements (Continued)

II-D-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. All accounting/bookkeeping duties are performed by one employee with limited oversight.

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

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-E-06 Reconciliation of Bank Accounts – All City bank accounts were not properly reconciled throughout the year.

Recommendation – The City should formalize its procedures for reconciling bank accounts each month. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will consider performing a formal reconciliation for Council approval on a monthly basis.

Conclusion – Response accepted.

Instances of Noncompliance:

No matters were reported.

II-F-06 Special Investigation – In their report dated July 18, 2007, the Office of the Auditor of State included several recommendations for improvement of the City of Mystic, Iowa's accounting systems.

Recommendation – We recommend that City officials consider implementation of these recommendations.

Response – We will consider their recommendations and implement those deemed appropriate.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting:

Reportable Conditions

III-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in public works, community and economic development, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under 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 – In the future, we will monitor our budget to actual status on a monthly basis.

Conclusion – Response accepted.

CITY OF MYSTIC, IOWA

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

- III-B-06 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-06 Business Transactions – No business transactions between the City and City officials or employees were noted.
- III-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.
- III-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.

The City is required to adopt an investment policy which complies with Chapter 12B.10B of the Code of Iowa. During the audit the City Clerk was unable to locate a copy of the City's investment policy.

Recommendation – The City should locate and update its investment policy.

Response – We will locate and update the City's investment policy.

Conclusion – Response accepted.

- III-H-06 Revenue Notes – The City's sewer revenue note closing documents require a funded depreciation account to be established and funded at a rate of \$2,500 per year. As of June 30, 2006, the required depreciation account is underfunded by approximately \$9,000.

Recommendation – The City should investigate budgeting alternatives and rate increases to eliminate the underfunding.

Response – We will review our budgeting procedures and consider rate adjustments to eliminate the underfunding.

Conclusion – Response acknowledged.

- III-I-06 Financial Condition – The Debt Service fund had deficit balances at June 30, 2006.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

Response – We will review our budgeting and financial management procedures. The deficit in the Debt Service fund is expected to be eliminated through future property tax collections.

Conclusion – Response acknowledged.

CITY OF MYSTIC, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

III-J-06 Annual Financial Report – Chapter 384.22 of the Code of Iowa requires all cities to submit a published annual report by December 1st. The report for the year ended June 30, 2006 was not submitted by the December 1st deadline.

Recommendation – The City should revise its policies to ensure that all required deadlines are met.

Response – The City submitted the required annual report as soon as possible upon notification of its missed deadline.

Conclusion – Response acknowledged.