



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE October 21, 2011

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Mount Ayr, Iowa.

The City's receipts totaled \$3,633,169 for the year ended June 30, 2011. The receipts included \$552,901 in property tax, \$1,215,509 from charges for service, \$336,322 from operating grants, contributions and restricted interest, \$426,113 from capital grants, contributions and restricted interest, \$718,550 from general obligation refunding bond proceeds, \$147,988 from general obligation sewer bond proceeds, \$128,577 from local option sales tax, \$43,114 from tax increment financing, \$4,431 from unrestricted interest on investments and \$59,664 from other general receipts.

Disbursements for the year totaled \$3,146,899, and included \$509,966 for public works, \$461,316 for public safety and \$274,942 for culture and recreation. Also, disbursements for business type activities totaled \$1,340,565.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1121-0758-B00F.pdf>.

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

JUNE 30, 2011

Table of Contents

| | | <u>Page</u> |
|--|-----------------|-------------|
| Officials | | 3 |
| Independent Auditor’s Report | | 5-6 |
| Management’s Discussion and Analysis | | 7-12 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-wide Financial Statement: | | |
| Statement of Activities and Net Assets – Cash Basis | A | 14-15 |
| Governmental Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | B | 16 |
| Proprietary Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | C | 17 |
| Notes to Financial Statements | | 18-24 |
| Required Supplementary Information: | | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds | | 26-27 |
| Notes to Required Supplementary Information – Budgetary Reporting | | 28 |
| Other Supplementary Information: | <u>Schedule</u> | |
| Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds | 1 | 30-31 |
| Schedule of Indebtedness | 2 | 32-33 |
| Bond Maturities | 3 | 34 |
| 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> | | 35-36 |
| Schedule of Findings | | 37-45 |
| Staff | | 46 |

City of Mount Ayr

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|----------------|---------------------|
| Donald V. Solliday | Mayor | Jan 2012 |
| Gerald Cannon | Council Member | Jan 2012 |
| Jim Feeback | Council Member | Jan 2012 |
| Wes Mathany | Council Member | Jan 2012 |
| Mack Greene | Council Member | Jan 2014 |
| Brent Ricker | Council Member | Jan 2014 |
| Pamella Poore | Clerk | Indefinite |
| Richard Wilson | Attorney | Indefinite |

City of Mount Ayr



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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 Mount Ayr, Iowa, as of and for the year ended June 30, 2011, 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 Mount Ayr's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

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, 2010, 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 Mount Ayr as of June 30, 2011, 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.

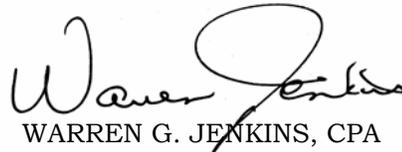
In accordance with Government Auditing Standards, we have also issued our report dated September 23, 2011 on our consideration of the City of Mount Ayr's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 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 the City of Mount Ayr's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, 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, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 23, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Mount Ayr 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased approximately \$174,000 during the fiscal year, primarily due to LOST disbursements used for construction of a new jail.
- The cash basis net assets of the City's business type activities decreased approximately \$43,000 during the fiscal year.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial 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 to the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial 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, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water and sewer systems. These activities are financed primarily by user fees.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

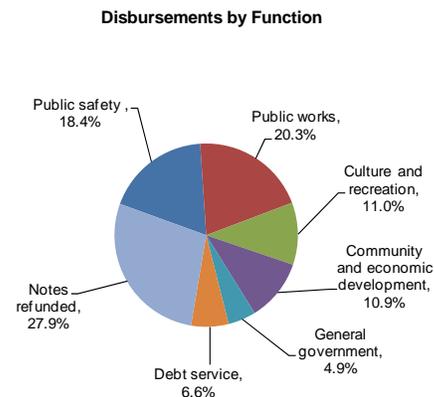
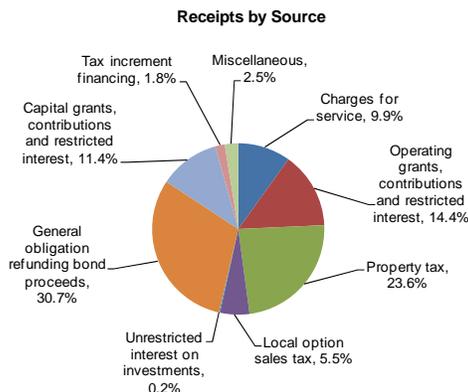
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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 \$1,009,196 to \$835,543, primarily due to local option sales tax spent during the year for construction of a new jail. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities | |
|---|--------------------------------|
| | Year ended June 30, 2011 |
| Receipts: | |
| Program receipts: | |
| Charges for service | \$ 232,931 |
| Operating grants, contributions and restricted interest | 336,322 |
| Capital grants, contributions and restricted interest | 266,909 |
| General receipts: | |
| Property tax | 552,901 |
| Tax increment financing | 43,114 |
| Local option sales tax | 128,577 |
| Unrestricted interest on investments | 4,431 |
| General obligation refunding bond proceeds | 718,550 |
| Miscellaneous | 59,664 |
| Total receipts | <u>2,343,399</u> |
| Disbursements: | |
| Public safety | 461,316 |
| Public works | 509,966 |
| Culture and recreation | 274,942 |
| Community and economic development | 273,086 |
| General government | 122,246 |
| Debt service | 164,778 |
| Notes refunded | 702,602 |
| Total disbursements | <u>2,508,936</u> |
| Change in cash basis net assets before transfers | (165,537) |
| Transfers, net | (8,116) |
| Change in cash basis net assets | <u>(173,653)</u> |
| Cash basis net assets beginning of year | <u>1,009,196</u> |
| Cash basis net assets end of year | <u>\$ 835,543</u> |



Total business type activities cash basis net assets decreased approximately \$43,000 from a year ago, from \$441,322 to \$398,643.

| <u>Changes in Cash Basis Net Assets of Business Type Activities</u> | |
|---|---|
| | <u>Year ended June 30, 2011</u> |
| Receipts: | |
| Program receipts: | |
| Charges for service: | |
| Water | \$ 400,925 |
| Sewer | 581,653 |
| Capital grants, contributions and restricted interest | 159,204 |
| General receipts: | |
| General obligation sewer bond proceeds | 147,988 |
| Total receipts | <u>1,289,770</u> |
| Disbursements : | |
| Water | 430,202 |
| Sewer | 910,363 |
| Total disbursements | <u>1,340,565</u> |
| Change in cash basis net assets before transfers | (50,795) |
| Transfers, net | 8,116 |
| Change in cash basis net assets | <u>(42,679)</u> |
| Cash basis net assets beginning of year | <u>441,322</u> |
| Cash basis net assets end of year | <u><u>\$ 398,643</u></u> |

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Mount Ayr completed the year, its governmental funds reported a combined fund balance of \$835,543, a decrease of \$173,653 from last year's total of \$1,009,196. 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 \$41,873 from the prior year to a year-end balance of \$423,460. This decrease is due to disbursements exceeding receipts for the fiscal year.
- The Special Revenue, Local Option Tax Fund cash balance decreased \$142,728 from the prior year to a year-end balance of \$93,587, primarily due to disbursements for construction of a new jail.
- The Special Revenue, CDBG Housing Fund remained relatively consistent from the prior year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$19,504 to a year-end balance of \$211,419.
- The Enterprise, Sewer Fund cash balance decreased \$23,175 to a year-end balance of \$187,224.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 18, 2011 and resulted in an increase in operating disbursements of approximately \$169,000, relating primarily to the public works, culture and recreation and general government functions. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$1,325,926 less than budgeted, primarily due to decreases in intergovernmental grants and receipts.

Total disbursements were \$1,242,421 less than the amended budget. Disbursements in the public safety and business type activities functions were \$614,157 and \$502,592, respectively, less than the amended budget. This is primarily due to lower than anticipated construction costs following the re-design of the Walnut Creek Sewer Improvement Project.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$3,638,600 in general obligation bonds, sewer revenue bonds and other long-term debt outstanding, compared to \$3,760,672 last year. The chart below segregates the City's debt into its component parts.

| | Outstanding Debt at Year-End | |
|---|------------------------------|-----------|
| | June 30, | |
| | 2011 | 2010 |
| General obligation bonds | \$ 1,350,206 | 617,218 |
| General obligation notes | - | 320,000 |
| Special assessment notes | - | 10,000 |
| USDA Rural Development water revenue note | - | 382,508 |
| Sewer revenue bonds | 2,265,000 | 2,385,000 |
| Loan agreement | 23,394 | 45,946 |
| Total | \$ 3,638,600 | 3,760,672 |

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 is \$1,373,600, below its constitutional debt limit of approximately \$3,133,600.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Mount Ayr's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's fiscal year 2012 taxable valuation has increased approximately \$668,000 from fiscal year 2011.

The fiscal year 2012 budget contains total receipts of \$3,309,749 and disbursements of \$3,338,365. This budget is less than the amended fiscal year 2011 budget which contained total receipts of \$4,092,557 and disbursements of \$4,389,320.

The fiscal year 2012 property tax levy is \$15.92908 per \$1,000 of taxable valuation, an increase from \$15.04153 per \$1,000 of taxable valuation for fiscal year 2011. The debt service levy increased from \$3.70727 per \$1,000 of taxable valuation for fiscal year 2011 to \$5.03557 per \$1,000 of taxable valuation for fiscal year 2012 due to debt payments.

These parameters were taken into account when adopting the budget for fiscal year 2012.

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 Pamela Poore, City Clerk, 200 S. Taylor, Mount Ayr, Iowa 50854.

Basic Financial Statements

City of Mount Ayr

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

| | Disbursements | Program Receipts | | |
|------------------------------------|---------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 461,316 | 230 | 54,093 | - |
| Public works | 509,966 | 161,261 | 196,696 | 19,683 |
| Culture and recreation | 274,942 | 46,492 | 85,533 | 67,804 |
| Community and economic development | 273,086 | - | - | 179,422 |
| General government | 122,246 | 24,948 | - | - |
| Debt service | 164,778 | - | - | - |
| Total governmental activities | 1,806,334 | 232,931 | 336,322 | 266,909 |
| Business type activities: | | | | |
| Water | 430,202 | 400,925 | - | - |
| Sewer | 910,363 | 581,653 | - | 159,204 |
| Total business type activities | 1,340,565 | 982,578 | - | 159,204 |
| Total | \$ 3,146,899 | 1,215,509 | 336,322 | 426,113 |

General Receipts and Transfers:

Property and other city tax levied for:
 General purposes
 Debt service
Tax increment financing
Local option sales tax
Unrestricted interest on investments
General obligation refunding bond proceeds, net of \$16,450 discount
Notes refunded
General obligation sewer bond proceeds
Miscellaneous
Transfers
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Nonspendable:
 Cemetery perpetual care
 Expendable:
 Local option sales tax
 Hotel motel tax
 Downtown renovation
 Library
 Fire
 Debt service
 Utility deposits
 Other purposes
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 |
|----------------------------|-----------------------------|-------------|
| (406,993) | - | (406,993) |
| (132,326) | - | (132,326) |
| (75,113) | - | (75,113) |
| (93,664) | - | (93,664) |
| (97,298) | - | (97,298) |
| (164,778) | - | (164,778) |
| (970,172) | - | (970,172) |
| - | (29,277) | (29,277) |
| - | (169,506) | (169,506) |
| - | (198,783) | (198,783) |
| (970,172) | (198,783) | (1,168,955) |

| | | |
|------------|----------|-----------|
| 415,645 | - | 415,645 |
| 137,256 | - | 137,256 |
| 43,114 | - | 43,114 |
| 128,577 | - | 128,577 |
| 4,431 | - | 4,431 |
| 718,550 | - | 718,550 |
| (702,602) | - | (702,602) |
| - | 147,988 | 147,988 |
| 59,664 | - | 59,664 |
| (8,116) | 8,116 | - |
| 796,519 | 156,104 | 952,623 |
| (173,653) | (42,679) | (216,332) |
| 1,009,196 | 441,322 | 1,450,518 |
| \$ 835,543 | 398,643 | 1,234,186 |

| | | |
|------------|---------|-----------|
| \$ 80,750 | - | 80,750 |
| 93,587 | - | 93,587 |
| 6,666 | - | 6,666 |
| 36,872 | - | 36,872 |
| 48,410 | - | 48,410 |
| 37,742 | - | 37,742 |
| - | 804 | 804 |
| - | 35,800 | 35,800 |
| 237,746 | - | 237,746 |
| 293,770 | 362,039 | 655,809 |
| \$ 835,543 | 398,643 | 1,234,186 |

City of Mount Ayr

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

| | Special Revenue | | | | Total |
|---|-------------------|------------------------------|-----------------|----------------|------------------|
| | General | Local Option Sales Tax | CDBG Housing | Nonmajor | |
| Receipts: | | | | | |
| Property tax | \$ 332,358 | - | - | 200,696 | 533,054 |
| Tax increment financing | - | - | - | 43,114 | 43,114 |
| Local option sales tax | - | 128,577 | - | - | 128,577 |
| Other city tax | 19,847 | - | - | - | 19,847 |
| Licenses and permits | 4,775 | - | - | - | 4,775 |
| Use of money and property | 25,753 | - | - | 25,220 | 50,973 |
| Intergovernmental | 55,154 | - | 179,422 | 272,095 | 506,671 |
| Charges for service | 182,853 | - | - | - | 182,853 |
| Miscellaneous | 128,467 | - | - | 26,518 | 154,985 |
| Total receipts | <u>749,207</u> | <u>128,577</u> | <u>179,422</u> | <u>567,643</u> | <u>1,624,849</u> |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public safety | 182,901 | 187,305 | - | 91,110 | 461,316 |
| Public works | 325,533 | - | - | 184,433 | 509,966 |
| Culture and recreation | 207,525 | - | - | 67,417 | 274,942 |
| Community and economic development | 41,796 | - | 194,422 | 36,868 | 273,086 |
| General government | 108,500 | - | - | 13,746 | 122,246 |
| Debt service | - | - | - | 164,778 | 164,778 |
| Total disbursements | <u>866,255</u> | <u>187,305</u> | <u>194,422</u> | <u>558,352</u> | <u>1,806,334</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>(117,048)</u> | <u>(58,728)</u> | <u>(15,000)</u> | <u>9,291</u> | <u>(181,485)</u> |
| Other financing sources (uses): | | | | | |
| General obligation refunding bond proceeds, net of \$16,450 discount | 15,948 | - | - | 702,602 | 718,550 |
| Notes refunded | - | - | - | (702,602) | (702,602) |
| Operating transfers in | 84,000 | - | 15,000 | 1,657 | 100,657 |
| Operating transfers out | (24,773) | (84,000) | - | - | (108,773) |
| Total other financing sources (uses) | <u>75,175</u> | <u>(84,000)</u> | <u>15,000</u> | <u>1,657</u> | <u>7,832</u> |
| Net change in cash balances | (41,873) | (142,728) | - | 10,948 | (173,653) |
| Cash balances beginning of year | 465,333 | 236,315 | - | 307,548 | 1,009,196 |
| Cash balances end of year | <u>\$ 423,460</u> | <u>93,587</u> | <u>-</u> | <u>318,496</u> | <u>835,543</u> |
| Cash Basis Fund Balances | | | | | |
| Nonspendable: Cemetery perpetual care | \$ - | - | - | 80,750 | 80,750 |
| Restricted for: | | | | | |
| Local option sales tax | - | 93,587 | - | - | 93,587 |
| Hotel motel tax | 6,666 | - | - | - | 6,666 |
| Downtown renovation | 36,872 | - | - | - | 36,872 |
| Library | 48,410 | - | - | - | 48,410 |
| Fire | 37,742 | - | - | - | 37,742 |
| Other purposes | - | - | - | 237,746 | 237,746 |
| Unassigned | 293,770 | - | - | - | 293,770 |
| Total cash basis fund balances | <u>\$ 423,460</u> | <u>93,587</u> | <u>-</u> | <u>318,496</u> | <u>835,543</u> |

See notes to financial statements.

City of Mount Ayr

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2011

| | Enterprise | | |
|---|------------|-----------|-----------|
| | Water | Sewer | Total |
| Operating receipts: | | | |
| Charges for service | \$ 400,925 | 581,653 | 982,578 |
| Operating disbursements: | | | |
| Business type activities | 381,898 | 329,524 | 711,422 |
| Excess of operating receipts over operating disbursements | 19,027 | 252,129 | 271,156 |
| Non-operating receipts (disbursements): | | | |
| General obligation sewer bond proceeds | - | 147,988 | 147,988 |
| Capital projects | - | (307,192) | (307,192) |
| Equipment | - | (69,081) | (69,081) |
| Debt service | (39,294) | (197,512) | (236,806) |
| Miscellaneous | (9,010) | (7,054) | (16,064) |
| Total non-operating receipts (disbursements) | (48,304) | (432,851) | (481,155) |
| Deficiency of receipts under disbursements | (29,277) | (180,722) | (209,999) |
| Capital contribution | - | 159,204 | 159,204 |
| Operating transfers in | 9,773 | - | 9,773 |
| Operating transfers out | - | (1,657) | (1,657) |
| Net change in cash balances | (19,504) | (23,175) | (42,679) |
| Cash balances beginning of year | 230,923 | 210,399 | 441,322 |
| Cash balances end of year | \$ 211,419 | 187,224 | 398,643 |
| Cash Basis Fund Balances | | | |
| Restricted for: | | | |
| Debt service | \$ - | 804 | 804 |
| Utility deposits | 35,800 | - | 35,800 |
| Unrestricted | 175,619 | 186,420 | 362,039 |
| Total cash basis fund balances | \$ 211,419 | 187,224 | 398,643 |

See notes to financial statements.

City of Mount Ayr

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Mount Ayr is a political subdivision of the State of Iowa located in Ringgold County. It was first incorporated in 1874 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and recycle/garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Mount Ayr 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 had 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: Ringgold County Assessor's Conference Board, Ringgold County Emergency Management Commission, Wayne, Ringgold and Decatur County Solid Waste Management Commission and Ringgold County Joint E911 Service Board.

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 service.

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets results 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 not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

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

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 not paid from other funds.

Special Revenue:

The Local Option Sales Tax Fund is used to account for local option sales tax received and its uses.

The CDBG Housing Fund is used to account for grant proceeds used for housing rehabilitation.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and 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.

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.

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

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

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes which constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 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 no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Long-Term Debt

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

| Year Ending June 30, | General Obligation Refunding Bonds | | Sewer Revenue Bonds | | Total | |
|----------------------------|---------------------------------------|----------|------------------------|----------|-----------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$ 90,000 | 14,428 | 120,000 | 73,613 | 210,000 | 88,041 |
| 2013 | 95,000 | 13,347 | 125,000 | 69,712 | 220,000 | 83,059 |
| 2014 | 90,000 | 12,018 | 130,000 | 65,650 | 220,000 | 77,668 |
| 2015 | 95,000 | 12,017 | 130,000 | 61,425 | 225,000 | 73,442 |
| 2016 | 95,000 | 8,133 | 135,000 | 57,200 | 230,000 | 65,333 |
| 2017-2021 | 170,000 | 21,392 | 750,000 | 216,938 | 920,000 | 238,330 |
| 2022-2026 | - | - | 875,000 | 86,937 | 875,000 | 86,937 |
| Total | \$ 635,000 | 81,335 | 2,265,000 | 631,475 | 2,900,000 | 712,810 |

Sewer Improvement General Obligation Bonds – On August 10, 2006, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$1,165,000 of sewer improvement general obligation bonds with interest at 3.25% per annum. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's sewer system. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2011, the City had drawn \$973,597, including an \$11,650 initiation fee, of the \$1,165,000 authorized. Wells Fargo Bank Iowa, N.A., has the remaining balance of \$191,403 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted.

General Obligation Refunding Bonds – On September 8, 2010, the City issued \$735,000 of general obligation refunding bonds. The bonds were issued to refund the outstanding balance of \$20,000 of the \$160,000 of general obligation fire truck notes issued April 1, 2000, to refund the outstanding balance of \$300,000 of the \$595,000 of general obligation corporate purpose notes issued August 1, 2001 and to refund the outstanding balance of \$382,508 of the \$500,000 USDA rural development water revenue note issued February 5, 1991.

The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$115,652.

Sewer Revenue Bonds – On October 1, 2005, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$2,825,000 of sewer revenue bonds with interest at 3.25% per annum. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the City’s sewer system. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. At June 30, 2011, the City had drawn down all of the \$2,825,000 amount authorized. Annual principal and interest payments on the notes are expected to require less than 76% of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,896,475. For the current year, principal and interest paid and total customer net receipts were \$191,150 and \$252,129, respectively.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account for the purpose of making principal and interest payments when due.
- (c) After all other accounts have sufficient balances, the net revenues available after making the required principal and interest payments should be credited to a sewer surplus fund for operation of the utility.

Truck Loan Agreement – On February 17, 2009, the City entered into an installment loan for \$67,610 to be used to purchase a truck. The loan bears 4.10% per annum interest and is to be repaid in three annual installments of \$24,436, including interest. During the year ended June 30, 2011, a total of \$24,436, including interest of \$1,884, was paid on the loan. The principal balance at June 30, 2011 was \$23,394.

(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 4.50% of their annual covered salary and the City is required to contribute 6.95% 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 contributions to IPERS for the year ended June 30, 2011 was \$17,301.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug and vision benefits for employees and retirees and their spouses. There is 1 active and no retired members in the medical/prescription plan as of June 30, 2011. There are 4 active and no retired members in the vision plan as of June 30, 2011. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees. Vision benefits are provided through VSP.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plans on a pay-as-you-go basis. The most recent active member monthly premiums for the City and medical/prescription drug benefits plan members are \$614 for single coverage and \$1,535 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2011, the City contributed \$74,900 and plan members eligible for medical/prescription drug benefits contributed \$957 to the plan. During the year, the City contributed \$423 and plan members eligible for vision benefits contributed \$675 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2011, primarily relating to the General Fund, was \$9,500. This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

| Transfer to | Transfer from | Amount |
|----------------------------------|--|-------------------|
| General | Special Revenue: Local Option Sales Tax | \$ 84,000 |
| Special Revenue: CDBG Housing | General | 15,000 |
| Debt service | Enterprise: Sewer | 1,657 |
| Enterprise: Water | General | 9,773 |
| Total | | <u>\$ 110,430</u> |

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

(8) 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.

(9) Downtown Renovation Loans

On February 27, 2006, May 2, 2009, August 28, 2009 and October 27, 2010, respectively, the City loaned \$13,400, \$30,000, \$1,850 and \$30,000, respectively, to local businesses to improve and renovate downtown storefronts. The loans are to be repaid, interest free, to the City in monthly installments of varying amounts over one to five year periods. The loan repayments from the businesses will remain in the Downtown Renovation Account, a revolving loan account within the General Fund, for future loans to other businesses. At June 30, 2011, the amount due from the businesses was \$48,000.

(10) Development Agreement

On December 19, 2005, the City entered into a development agreement for an urban renewal project. The agreement requires the City to rebate a portion of the incremental property tax paid by the developer in exchange for the development of a commercial project by the developer. The total to be paid by the City under the agreement is not to exceed \$185,000.

During the year ended June 30, 2011, the City rebated \$22,329 of incremental property tax to the developer. The cumulative amount paid as of June 30, 2011 is \$72,508.

(11) Litigation

The City is involved in two lawsuits as of June 30, 2011. The probability of loss, if any, is undeterminable.

Required Supplementary Information

City of Mount Ayr
 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, 2011

| | Governmental Funds Actual | Proprietary Funds Actual |
|---|---------------------------------|--------------------------------|
| Receipts: | | |
| Property tax | \$ 576,168 | - |
| Local option sales tax | 128,577 | - |
| Other city tax | 19,847 | - |
| Licenses and permits | 4,775 | - |
| Use of money and property | 50,973 | - |
| Intergovernmental | 506,671 | 159,204 |
| Charges for service | 182,853 | 982,578 |
| Special assessments | - | - |
| Miscellaneous | 154,985 | - |
| Total receipts | <u>1,624,849</u> | <u>1,141,782</u> |
| Disbursements: | | |
| Public safety | 461,316 | - |
| Public works | 509,966 | - |
| Culture and recreation | 274,942 | - |
| Community and economic development | 273,086 | - |
| General government | 122,246 | - |
| Debt service | 164,778 | - |
| Capital projects | - | - |
| Business type activities | - | 1,340,565 |
| Total disbursements | <u>1,806,334</u> | <u>1,340,565</u> |
| Deficiency of receipts under disbursements | (181,485) | (198,783) |
| Other financing sources, net | <u>7,832</u> | <u>156,104</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (173,653) | (42,679) |
| Balances beginning of year | <u>1,009,196</u> | <u>441,322</u> |
| Balances end of year | <u>\$ 835,543</u> | <u>398,643</u> |

See accompanying independent auditor's report.

| Total | Budgeted Amounts | | Final to |
|-----------|------------------|-----------|-------------------|
| | Original | Final | Total Variance |
| 576,168 | 511,037 | 511,037 | 65,131 |
| 128,577 | 39,234 | 39,234 | 89,343 |
| 19,847 | 162,954 | 162,954 | (143,107) |
| 4,775 | 3,920 | 3,920 | 855 |
| 50,973 | 53,904 | 53,904 | (2,931) |
| 665,875 | 1,904,138 | 1,938,505 | (1,272,630) |
| 1,165,431 | 1,263,000 | 1,263,000 | (97,569) |
| - | 10,540 | 10,540 | (10,540) |
| 154,985 | 66,643 | 109,463 | 45,522 |
| 2,766,631 | 4,015,370 | 4,092,557 | (1,325,926) |
| 461,316 | 1,075,473 | 1,075,473 | 614,157 |
| 509,966 | 440,175 | 558,175 | 48,209 |
| 274,942 | 220,486 | 241,486 | (33,456) |
| 273,086 | 341,571 | 341,571 | 68,485 |
| 122,246 | 110,275 | 140,275 | 18,029 |
| 164,778 | 174,183 | 174,183 | 9,405 |
| - | 15,000 | 15,000 | 15,000 |
| 1,340,565 | 1,843,157 | 1,843,157 | 502,592 |
| 3,146,899 | 4,220,320 | 4,389,320 | 1,242,421 |
| (380,268) | (204,950) | (296,763) | (83,505) |
| 163,936 | - | - | 163,936 |
| (216,332) | (204,950) | (296,763) | 80,431 |
| 1,450,518 | 1,096,917 | 1,096,917 | 353,601 |
| 1,234,186 | 891,967 | 800,154 | 434,032 |

City of Mount Ayr

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$169,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the culture and recreation function.

Other Supplementary Information

City of Mount Ayr

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

| | Road Use Tax | I-Jobs | Employee Benefits | Loch Ayr Lake | Special Judge Lewis Park Aquatic Center |
|---|-----------------|---------|----------------------|------------------|--|
| Receipts: | | | | | |
| Property tax | \$ - | - | 63,440 | - | - |
| Tax increment financing | - | - | - | - | - |
| Use of money and property | - | - | - | 24,900 | - |
| Intergovernmental | 162,329 | 9,683 | - | - | 12,500 |
| Miscellaneous | - | - | - | - | 26,518 |
| Total receipts | 162,329 | 9,683 | 63,440 | 24,900 | 39,018 |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public safety | - | - | 34,774 | - | - |
| Public works | 166,792 | 17,641 | - | - | - |
| Culture and recreation | - | - | 5,808 | 25,362 | 36,247 |
| Community and economic development | - | - | - | - | - |
| General government | - | - | 13,746 | - | - |
| Debt service | - | - | - | - | - |
| Total disbursements | 166,792 | 17,641 | 54,328 | 25,362 | 36,247 |
| Excess (deficiency) of receipts over (under) disbursements | (4,463) | (7,958) | 9,112 | (462) | 2,771 |
| Other financing sources (uses): | | | | | |
| General obligation refunding bond proceeds, net of \$16,450 discount | - | - | - | - | - |
| Notes refunded | - | - | - | - | - |
| Operating transfers in | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | - |
| Net change in cash balances | (4,463) | (7,958) | 9,112 | (462) | 2,771 |
| Cash balances beginning of year | 57,681 | 7,958 | 15,136 | 14,891 | 32,724 |
| Cash balances end of year | \$ 53,218 | - | 24,248 | 14,429 | 35,495 |
| Cash Basis Fund Balances | | | | | |
| Nonspendable: Cemetery perpetual care | - | - | - | - | - |
| Restricted for other purposes | 53,218 | - | 24,248 | 14,429 | 35,495 |
| Total cash basis fund balances | \$ 53,218 | - | 24,248 | 14,429 | 35,495 |

See accompanying independent auditor's report.

| Revenue | | | | | Debt Service | Capital Projects City Scape | Permanent Rose Hill Cemetery Perpetual Care | Total |
|---------------------------|----------------------|-----------------------|-----------------------|-----------|--------------|--------------------------------|--|-------|
| Urban Extension TIF | Mount Ayr Inn TIF | FEMA Storm Shelter | 2010 FEMA Disaster | | | | | |
| - | - | - | - | 137,256 | - | - | 200,696 | |
| 20,785 | 22,329 | - | - | - | - | - | 43,114 | |
| - | - | - | - | - | - | 320 | 25,220 | |
| - | - | 54,304 | 23,279 | - | 10,000 | - | 272,095 | |
| - | - | - | - | - | - | - | 26,518 | |
| 20,785 | 22,329 | 54,304 | 23,279 | 137,256 | 10,000 | 320 | 567,643 | |
| - | - | 54,303 | 2,033 | - | - | - | 91,110 | |
| - | - | - | - | - | - | - | 184,433 | |
| - | - | - | - | - | - | - | 67,417 | |
| 8,300 | 22,329 | - | - | - | 6,239 | - | 36,868 | |
| - | - | - | - | - | - | - | 13,746 | |
| - | - | - | - | 164,778 | - | - | 164,778 | |
| 8,300 | 22,329 | 54,303 | 2,033 | 164,778 | 6,239 | - | 558,352 | |
| 12,485 | - | 1 | 21,246 | (27,522) | 3,761 | 320 | 9,291 | |
| - | - | - | - | 702,602 | - | - | 702,602 | |
| - | - | - | - | (702,602) | - | - | (702,602) | |
| - | - | - | - | 1,657 | - | - | 1,657 | |
| - | - | - | - | 1,657 | - | - | 1,657 | |
| 12,485 | - | 1 | 21,246 | (25,865) | 3,761 | 320 | 10,948 | |
| 26,334 | - | - | - | 64,129 | 8,265 | 80,430 | 307,548 | |
| 38,819 | - | 1 | 21,246 | 38,264 | 12,026 | 80,750 | 318,496 | |
| - | - | - | - | - | - | 80,750 | 80,750 | |
| 38,819 | - | 1 | 21,246 | 38,264 | 12,026 | - | 237,746 | |
| 38,819 | - | 1 | 21,246 | 38,264 | 12,026 | 80,750 | 318,496 | |

City of Mount Ayr
Schedule of Indebtedness
Year ended June 30, 2011

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|-----------------------------|---------------|----------------|--------------------------|
| General obligation bonds: | | | |
| Sewer | Jul 1, 1969 | 6.00% | \$ 50,000 |
| Funding | Jul 1, 1973 | 6.00 | 28,000 |
| Street Improvement | Mar 1, 1975 | 6.50 | 170,000 |
| Judgemental funding | Nov 1, 1975 | 6.75 | 95,000 |
| Essential corporate purpose | Mar 1, 1979 | 5.50-5.90 | 70,000 |
| Street improvement | Jun 1, 1980 | 6.20-6.75 | 495,000 |
| Sewer improvement | Aug 10, 2006 | 3.25 | 1,165,000 |
| Refunding bond Series 2010 | Sep 8, 2010 | 3.37-3.45 | 735,000 |
| Total | | | |
| General obligation notes: | | | |
| Fire truck | Apr 1, 2000 | 5.10-5.70% | \$ 160,000 |
| Corporate purpose | Aug 1, 2001 | 4.10-5.40 | 595,000 |
| Total | | | |
| Special assessment notes: | | | |
| Sanitary sewer improvement | Aug 1, 2001 | 4.50-5.40% | \$ 95,000 |
| USDA Rural Development | | | |
| water revenue note | Feb 5, 1991 | 6.00% | \$ 500,000 |
| Revenue bonds: | | | |
| Water | Aug 1, 1967 | 5.00% | \$ 15,000 |
| Sewer | Jun 1, 1969 | 5.75 | 145,000 |
| Water | Mar 1, 1979 | 6.75-7.00 | 100,000 |
| Sewer | Oct 1, 2005 | 3.25 | 2,825,000 |
| Total | | | |
| Loan agreement: | | | |
| Truck | Feb 17, 2009 | 4.10% | \$ 67,610 |

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|-------------------------------|
| - | - | - | - | - | 150 |
| - | - | - | - | - | 210 |
| - | - | - | - | - | 487 |
| - | - | - | - | - | 1,350 |
| - | - | - | - | - | 280 |
| - | - | - | - | - | 2,700 |
| 617,218 | 147,988 | 50,000 | 715,206 | 20,492 | - |
| - | 735,000 | 100,000 | 635,000 | 7,714 | - |
| \$ 617,218 | 882,988 | 150,000 | 1,350,206 | 28,206 | 5,177 |
| 20,000 | - | 20,000 | - | 1,140 | - |
| 300,000 | - | 300,000 | - | 4,174 | - |
| \$ 320,000 | - | 320,000 | - | 5,314 | - |
| 10,000 | - | 10,000 | - | 540 | - |
| 382,508 | - | 382,508 | - | 5,708 | - |
| - | - | - | - | - | 1,500 |
| - | - | - | - | - | 86 |
| - | - | - | - | - | 1,050 |
| 2,385,000 | - | 120,000 | 2,265,000 | 71,550 | - |
| \$ 2,385,000 | - | 120,000 | 2,265,000 | 71,550 | 2,636 |
| \$ 45,946 | - | 22,552 | 23,394 | 1884 | - |

Schedule 3

City of Mount Ayr

Bonds Maturities

June 30, 2011

| Year Ending June 30, | General Obligation Refunding Bonds | | Sewer Revenue Bonds | |
|----------------------------|---------------------------------------|-------------------|------------------------|---------------------|
| | Issued September 8, 2010 | | Issued October 1, 2005 | |
| | Interest Rates | Amount | Interest Rates | Amount |
| 2012 | 3.37% | \$ 90,000 | 3.25% | \$ 120,000 |
| 2013 | 3.38 | 95,000 | 3.25 | 125,000 |
| 2014 | 3.39 | 90,000 | 3.25 | 130,000 |
| 2015 | 3.40 | 95,000 | 3.25 | 130,000 |
| 2016 | 3.41 | 95,000 | 3.25 | 135,000 |
| 2017 | 3.42 | 40,000 | 3.25 | 140,000 |
| 2018 | 3.43 | 40,000 | 3.25 | 145,000 |
| 2019 | 3.44 | 45,000 | 3.25 | 150,000 |
| 2020 | 3.45 | 45,000 | 3.25 | 155,000 |
| 2021 | | - | 3.25 | 160,000 |
| 2022 | | - | 3.25 | 165,000 |
| 2023 | | - | 3.25 | 170,000 |
| 2024 | | - | 3.25 | 175,000 |
| 2025 | | - | 3.25 | 180,000 |
| 2026 | | - | 3.25 | 185,000 |
| Total | | <u>\$ 635,000</u> | | <u>\$ 2,265,000</u> |

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
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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:

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 Mount Ayr, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 23, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. 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 Mount Ayr's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Mount Ayr's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Ayr's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Mount Ayr's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) through (H) to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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.

The City of Mount Ayr's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Mount Ayr's responses and, accordingly, we express no opinion on them.

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 Mount Ayr and other parties to whom the City of Mount Ayr may report and 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 Mount Ayr 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 23, 2011

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, journalizing and posting.
- (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (6) Disbursements – purchasing, check signing, recording and reconciling.
- (7) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

For the Library, the Fire Department, the Judge Lewis Aquatic Center Committee and the Rose Hill Cemetery Committee, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – posting, reconciling and check writing.
- (3) Cash – handling and recording cash.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, including related organizations, should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – The City will work towards achieving the utmost control with the staff we have as well as reviews from elected officials, which will be documented by date and initials.

Conclusion – Response accepted.

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2011

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled each month during the year. Month-end and year-end delinquent accounts listings were not prepared and maintained for fiscal year 2011. Also, utility collections were not reconciled to deposits.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The Council or other independent person should review the reconciliations and monitor delinquencies.

Response – It is the City’s practice to print out a listing of all delinquent accounts monthly as well as reconcile the utility billing collections. A staff resignation in the Utility Department caused a few short-staffed months and a learning curve, which may have caused a transition in the lists prepared. The City’s software does produce a “Utility Billing Trial Balance Report” to be reconciled to an “Accounts Receivable Audit Report” at month end. This was thought to have been the appropriate means of reconciling the utility billing collections and delinquencies. The City pledges to review these steps to ensure correct reconciliation of the utility accounts each month and at year-end.

Conclusion – Response accepted.

- (C) Financial Reporting – During the audit, we identified a material amount of refunding bond proceeds and payments which were not reported in the City’s financial statements. Adjustments were subsequently made by the City to properly report these amounts in the City’s financial statements.

Recommendation – The City should implement procedures to ensure note refunding proceeds and payments are properly recorded in the City’s financial statements.

Response – All proceeds and payments were managed by the “Banker’s Trust Company” (Paying Agent/Bond Registrar/Transfer Agent) and didn’t flow through the City’s bank account. In the future, entries will be made to report all bond refunding activity in the City’s financial statements as recommended.

Conclusion – Response accepted.

- (D) Store Credit – The City has store credit available for use by employees while on City business. The City has not adopted a formal policy to regulate the use of the store credit and to establish procedures for the proper accounting of store credit charges.

Recommendation – The City should adopt a formal written policy regulating the use of store credit. The policy, at a minimum, should address who is allowed to use store credit and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – Currently all employees are issued a “purchase order number” prior to charging items at the local stores or ordering items online or over the telephone. A formal written policy will be drafted for adoption as recommended.

Conclusion – Response accepted.

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2011

- (E) Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer based systems were noted.

The City does not have written policies for:

- Requiring password changes every 60 to 90 days to maintain password privacy and confidentiality.
- Computer passwords are not confidential.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based systems.

Response – The City will update its “Computer Use Policy” to incorporate password policies which will improve the City’s control over computer-based systems.

Conclusion – Response accepted.

- (F) Library Annual Report – The Library prepares monthly and annual financial reports. However, the beginning balance and ending balance on the annual report were incorrect. In addition, bank reconciliations were not prepared to reconcile book and bank balances.

Recommendation – The Library annual financial report should include all bank account balances for the checking and investment accounts at the beginning of the year and at the end of the year. Also, the bank balance should be reconciled to the book balance monthly.

Response – We will make sure the beginning of year balance on the annual report along with the end of year balance agree with the reconciled bank balance and include all updated investment amounts. We will balance monthly and reconcile our receipts and disbursements and provide a balanced report to the Board.

Conclusion – Response accepted.

- (G) Employee Policies – The City does not have an employee policy handbook.

Recommendation – An employee policy handbook should be developed to provide the following benefits:

- Document City policies regarding benefits.
- Document City grievance procedures for non-union employees.
- Document established policies regarding such matters as acceptable business practices, conflicts of interest and codes of conduct.

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2011

Response – An Employee Policy Handbook is currently being developed and care will be taken to include all pertinent policies and procedures.

Conclusion – Response accepted.

(H) Disaster Recovery Plan – The following items are missing from the City’s Disaster Recovery Plan:

- (1) Identification of staff responsibilities.
- (2) Inventory of hardware and components.
- (3) Requirement extra stock be located off site.
- (4) Documentation the disaster recovery plan has been adequately tested.

Recommendation – The Disaster Recovery Plan should be reviewed to determine if sufficient information is included to provide for an efficient method of recovery.

Response – The City’s “Disaster Recovery Plan” will be updated to include staff responsibilities and a hardware and components inventory. The requirement for extra stock located off site will be implemented to ensure the most efficient recovery in the event of a disaster.

Conclusion – Response accepted.

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states, in part, “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 City will work to ensure better reporting is provided and monitored for the separately maintained accounts as well as all disbursements by function to ensure the budget is amended sufficiently in accordance with Chapter 384.18 of the Code of Iowa.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

| <u>Paid to</u> | <u>Purpose</u> | <u>Amount</u> |
|--------------------|--------------------|---------------|
| Seven Employees | Christmas Bonus | \$50/employee |

According to the Attorney General's opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response – The public purpose for any such disbursements in the future will be documented in the City council minutes.

Conclusion – Response accepted.

- (3) Travel Expenses – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2011

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title, and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|------------------------------------|---------------|
| Ricker Brothers Mowing, Sons of Brent Ricker, Council Member | Mowing | \$ 245 |

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

- (5) 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 ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Bank Loan Agreement – On February 17, 2009, the City entered into a bank loan for \$67,610 for a dump truck. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with Chapters 384.24A and 384.25 of the Code of Iowa when entering into loan agreements.

Response – The City will comply with the Iowa Code procedures in regard to entering into any future loan agreements.

Conclusion – Response accepted.

- (9) Revenue Bonds – The provisions of the sewer revenue bonds require the City pay for its utility usage from its General Fund. The City does not currently pay for its usage of City utilities.

Recommendation – The City should ensure usage of City utilities is paid for from the General Fund as required by the bond provisions.

Response – The City will take your recommendation under serious consideration and review this matter going forward.

Conclusion – Response acknowledged.

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2011

- (10) Employee Health Insurance – During the year, the City implemented a policy to set a cap of \$500 a month for health insurance coverage for non-union employees. The City paid non-union employees up to \$500 per month which was not included in the employee’s IRS Form W-2 for calendar year 2010.

Recommendation – Payments to employees for health insurance are required to be included on the employee’s IRS Form W-2. The City should consult legal counsel to determine the disposition of this matter.

Response – The City’s Attorney will be consulted on this matter as well as pursuing a review of the City’s employee health insurance coverage and policy.

Conclusion – Response accepted.

- (11) Transfers – The City transferred money to and from various funds and accounts periodically. However, these transfers were not approved by the City Council prior to the actual transfer.

Recommendation – The City should implement procedures to approve all fund/account transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record.

Response – Prior to the actual transfers being implemented, formal action of the City Council’s motion to approve will be documented in the minutes.

Conclusion – Response accepted.

- (12) Donation to Private Non-Profit Corporation – The City Library contributed \$3,500 to the South Central Iowa Community Foundation for a Library Endowment Fund during the year. The Library Endowment Fund assets, although set up to provide benefits to the Mount Ayr Library, became the property of the South Central Iowa Community Foundation.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 states, “No public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly.”

Recommendation – We are not aware of any statutory authority for the City to relinquish its fiduciary responsibility over the public funds trust account to a separate non-profit organization. The City should review its policies regarding donations.

Response – Anytime we receive memorial money from now on we will have the checks made payable to the South Central Iowa Community Foundation Library Endowment Fund instead of the Library.

Conclusion – Response accepted.

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2011

- (13) Tax Increment Financing – The City’s tax increment financing (TIF) certification required by Chapter 403 of the Code of Iowa and filed November, 2010 certified \$20,000 of TIF debt outstanding, which is the budgeted disbursements for the fiscal year ended June 30, 2011 rather than actual debt incurred.

The City’s TIF certification filed October, 2009 certified an undetermined debt outstanding. Certifications should certify actual indebtedness.

The City has no TIF debt outstanding at June 30, 2011. The City has cash on hand of \$38,819 at June 30, 2011 in the Special Revenue, Urban Extension TIF Fund to pay for the TIF debt outstanding. Therefore, the City has \$38,819 more cash on hand than is needed to pay the TIF debt outstanding.

In addition, no interest is earned on the TIF balance as required by Chapter 12C.9 of the Code of Iowa.

Recommendation – The City should consult bond counsel to determine the disposition of these issues.

Response – The TIF certification filed was for the Mount Ayr Downtown Urban Renewal Area to provide physical improvements to the downtown square, specifically the “Streetscape Project.” Bond counsel will be consulted on these matters.

Conclusion – Response accepted.

- (14) 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 Fire Department and the Judge Lewis Aquatic Center do not receive an image of the back of each cancelled check.

Recommendation – The Fire Department and the Judge Lewis Aquatic Center should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response – Arrangements with the bank will be made to obtain and retain front and back images of cancelled checks as required.

Conclusion – Response accepted.

- (15) Separately Maintained Records – The Library, the Fire Department, the Judge Lewis Aquatic Center Committee and the Rose Hill Cemetery Committee maintain separate accounting records for their operations. These transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the Council on a monthly basis.

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2011

Response – The City will take your recommendation under serious consideration. The City will facilitate direct communication with each of the Boards and Committees to arrange for monthly transaction reporting to be included in the City’s financial accounting records to ensure better budgetary control.

Conclusion – Response accepted.

- (16) Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states, in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited into the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Water Fund to the Debt Service Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

Response – This payment was budgeted from the Water Fund to service the USDA Water revenue note that was refunded within the budget year. Any future moneys available from sources other than property tax to service general obligation bonds will be transferred into the Debt Service Fund for disbursement.

Conclusion – Response accepted.

City of Mount Ayr

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Dorothy O. Stover, Staff Auditor
Victor L. Kennedy, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State