



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE _____

October 10, 2003

Contact: Andy Nielsen
515/281-5515

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

The City's receipts totaled \$1,488,773 for the year ended June 30, 2003. The receipts included \$160,828 in property tax, \$389,246 in tax increment financing collections, \$111,034 from the state and \$10,263 in interest on investments. The City also received \$445,995 in general obligation bond proceeds that are reported as other financing sources.

Disbursements for the year totaled \$1,133,849, and included \$333,314 for culture and recreation, \$174,033 for capital projects and \$167,020 for debt service.

The report contains recommendations to the City Council and other City officials. For example, operating procedures should be reviewed to obtain the maximum internal control possible and utility billings, collections and delinquencies should be reconciled. The City has responded favorably to the comments. The City will also begin reconciling utility billings, collections and delinquencies monthly.

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

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CITY OF ELY
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2003

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City of Ely

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Thomas Tjelmeland	Mayor	Jan 2004
Allen Tjelmeland	Mayor Pro tem	Jan 2004
Duane Kunkel	Council Member	Jan 2004
Karl Schmidt	Council Member	Jan 2004
Mark Banowetz	Council Member	Jan 2006
Don Sturgeon	Council Member	Jan 2006
Dennis Kurtz	Clerk/Administrator	Indefinite
Cindy Rush	Deputy Clerk	Indefinite
Robert S. Hatala	Attorney	Indefinite

City of Ely



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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, listed as exhibits in the table of contents of this report, of the City of Ely, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Ely's management. Our responsibility is to express an opinion 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2002.

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, 2002, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Ely as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 17, 2003 on our consideration of the City of Ely's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned 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, 2002, as discussed in the fourth paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 17, 2003

Financial Statements

City of Ely
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2003

	<u>Governmental Fund</u>	
	General	Special Revenue
Receipts:		
Property tax	\$ 122,066	2,588
Tax increment financing collections	-	389,246
Other city tax	98,723	117
Licenses and permits	2,365	-
Use of money and property	3,668	8,023
Intergovernmental	31,915	93,544
Charges for service	-	-
Special assessments	-	-
Miscellaneous	7,174	392,703
Total receipts	<u>265,911</u>	<u>886,221</u>
Disbursements:		
Public safety	33,751	-
Public works	21,148	87,294
Culture and recreation	64,256	269,058
Community and economic development	2,765	-
General government	72,609	3,338
Debt service	-	-
Capital projects	-	-
Business type activities	-	-
Total disbursements	<u>194,529</u>	<u>359,690</u>
Excess (deficiency) of receipts over (under) disbursements	<u>71,382</u>	<u>526,531</u>
Other financing sources (uses):		
General obligation bond proceeds (net of \$4,005 discount)	-	-
Construction loan proceeds	-	76,000
Construction loan repayment	-	(76,000)
Operating transfers in	108	-
Operating transfers out	(91,827)	(153,466)
Total other financing sources (uses)	<u>(91,719)</u>	<u>(153,466)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(20,337)	373,065
Balance beginning of year	<u>95,437</u>	<u>37,983</u>
Balance end of year	<u>\$ 75,100</u>	<u>411,048</u>

See notes to financial statements.

Types		Proprietary Fund Type	Total (Memorandum Only)
Debt Service	Capital Projects	Enterprise	
36,174	-	-	160,828
-	-	-	389,246
778	-	-	99,618
-	-	-	2,365
-	1,896	5,749	19,336
-	-	-	125,459
-	-	262,655	262,655
-	3,300	-	3,300
-	17,612	8,477	425,966
36,952	22,808	276,881	1,488,773
-	-	-	33,751
-	-	-	108,442
-	-	-	333,314
-	-	-	2,765
-	-	-	75,947
167,020	-	-	167,020
-	174,033	-	174,033
-	-	238,577	238,577
167,020	174,033	238,577	1,133,849
(130,068)	(151,225)	38,304	354,924
-	445,995	-	445,995
-	-	-	76,000
-	-	-	(76,000)
123,534	121,651	-	245,293
-	-	-	(245,293)
123,534	567,646	-	445,995
(6,534)	416,421	38,304	800,919
6,534	(189,470)	103,415	53,899
-	226,951	141,719	854,818

City of Ely
 Comparison of Receipts, Disbursements and Changes in Balances -
 Actual to Budget
 Year ended June 30, 2003

	Actual	Less Funds Not Required to be Budgeted	Net
Receipts:			
Property tax	\$ 160,828	-	160,828
Tax increment financing collections	389,246	-	389,246
Other City tax	99,618	-	99,618
Licenses and permits	2,365	-	2,365
Use of money and property	19,336	8,023	11,313
Intergovernmental	125,459	-	125,459
Charges for service	262,655	-	262,655
Special assessments	3,300	-	3,300
Miscellaneous	425,966	392,703	33,263
Total receipts	<u>1,488,773</u>	<u>400,726</u>	<u>1,088,047</u>
Disbursements:			
Public safety	33,751	-	33,751
Public works	108,442	-	108,442
Culture and recreation	333,314	267,887	65,427
Community and economic development	2,765	-	2,765
General government	75,947	-	75,947
Debt service	167,020	-	167,020
Capital projects	174,033	-	174,033
Business type activities	-	-	238,577
Total disbursements	<u>895,272</u>	<u>267,887</u>	<u>865,962</u>
Excess (deficiency) of receipts over (under) disbursements	593,501	132,839	222,085
Other financing sources, net	445,995	-	445,995
Excess of receipts and other financing sources over disbursements and other financing uses	800,919	132,839	668,080
Balance beginning of year	53,899	24,452	29,447
Balance end of year	<u>\$ 854,818</u>	<u>157,291</u>	<u>697,527</u>

See notes to financial statements.

Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
161,318	(490)	100%
306,723	82,523	127%
100,219	(601)	99%
1,775	590	133%
7,000	4,313	162%
116,645	8,814	108%
248,325	14,330	106%
-	3,300	
17,099	16,164	195%
959,104	128,943	113%
87,750	53,999	38%
104,840	(3,602)	103%
69,174	3,747	95%
7,500	4,735	37%
84,675	8,728	90%
272,754	105,734	61%
256,412	82,379	68%
211,091	(27,486)	113%
1,094,196	228,234	79%
(135,092)		
138,000		
2,908		
602		
3,510		

City of Ely
Statement of Indebtedness
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Storm and sanitary sewer system improvements	Sep 1, 1994	6.00 - 6.20%	\$ 200,000
Street, sewer, and water construction	Mar 1, 1999	3.80 - 5.80	250,000
Fire station	Jun 1, 2001	4.25 - 4.65	400,000
Total			
General obligation bonds:			
Sewer and street improvements	Aug 1, 2000	5.00 - 5.75%	\$ 525,000
Urban renewal	Sep 1, 2002	1.80 - 3.90	450,000
Total			
Lease-purchase agreements:			
Community center improvements	Aug 12, 1992	6.48%	\$ 57,652
Tractor/mower	Mar 15, 2003	5.50	7,325
Tractor/loader	Apr 25, 2003	5.10	24,888
Total			
Loan agreement:			
Dump truck	Apr 10, 2000	6.00%	\$ 60,000
Real estate contract:			
Park land	Oct 17, 2002	6.00%	\$ 63,165

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
120,000	-	15,000	105,000	7,275
175,000	-	25,000	150,000	7,087
375,000	-	35,000	340,000	16,525
<u>\$ 670,000</u>	<u>-</u>	<u>75,000</u>	<u>595,000</u>	<u>30,887</u>
450,000	-	25,000	425,000	24,580
-	450,000	-	450,000	10,703
<u>\$ 450,000</u>	<u>450,000</u>	<u>25,000</u>	<u>875,000</u>	<u>35,283</u>
15,887	-	6,053	9,834	933
-	7,325	2,573	4,752	-
-	24,888	4,148	20,740	265
<u>\$ 15,887</u>	<u>32,213</u>	<u>12,774</u>	<u>35,326</u>	<u>1,198</u>
45,000	-	15,000	30,000	2,700
-	63,165	14,439	48,726	3,790

City of Ely

City of Ely

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

The City of Ely is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1872 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, general government and business type activities.

A. Reporting Entity

For financial reporting purposes, the City of Ely 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.

Blended Component Unit

The Friends of the Ely Library is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Fund. Although the Friends of the Ely Library is legally separate from the City, its purpose is to benefit the City of Ely (the primary government) by soliciting contributions and managing those funds.

Jointly Governed Organizations

The City also 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: Linn County Assessor's Conference Board, Linn County Emergency Management Commission and Linn County Joint E911 Service Board.

Joint Venture – The City participates in the College-Ely-Putnam Fire Department. The College-Ely-Putnam Fire Department was developed as the result of an agreement between College and Putnam Townships and the City of Ely.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 through other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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

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

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

C. Basis of Accounting

The City of Ely 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.

D. Budgets and Budgetary Accounting

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 the blended component unit. 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 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.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2003 were covered by federal depository insurance or 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 Number 3.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes										
	Issued Sep 1, 1994			Issued Mar 1, 1999			Issued Jun 1, 2001			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2004	6.00%	\$ 15,000	6,375	3.90%	\$ 25,000	6,137	4.25%	\$ 35,000	15,037	\$ 75,000	27,549
2005	6.00	15,000	5,475	4.00	25,000	5,162	4.25	35,000	13,550	75,000	24,187
2006	6.00	15,000	4,575	4.05	25,000	4,162	4.30	40,000	12,062	80,000	20,799
2007	6.05	15,000	3,675	4.10	25,000	3,150	4.40	40,000	10,342	80,000	17,167
2008	6.10	15,000	2,767	4.20	25,000	2,125	4.40	45,000	8,582	85,000	13,474
2009	6.15	15,000	1,852	4.30	25,000	1,075	4.45	45,000	6,602	85,000	9,529
2010	6.20	15,000	930	-	-	-	4.55	50,000	4,600	65,000	5,530
2011	-	-	-	-	-	-	4.65	50,000	2,325	50,000	2,325
Total		<u>\$ 105,000</u>	<u>25,649</u>		<u>\$ 150,000</u>	<u>21,811</u>		<u>\$ 340,000</u>	<u>73,100</u>	<u>\$ 595,000</u>	<u>120,560</u>

Year Ending June 30,	General Obligation Bonds							
	Issued Aug 1, 2000			Issued Sep 1, 2002			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2004	5.15%	\$ 25,000	23,303	1.80%	\$ 30,000	14,270	\$ 55,000	37,573
2005	5.20	30,000	22,017	2.20	40,000	13,730	70,000	35,747
2006	5.25	30,000	20,457	2.55	40,000	12,850	70,000	33,307
2007	5.30	30,000	18,882	2.85	45,000	11,830	75,000	30,712
2008	5.35	30,000	17,292	3.10	45,000	10,547	75,000	27,839
2009	5.40	35,000	15,687	3.35	45,000	9,152	80,000	24,839
2010	5.50	35,000	13,797	3.50	50,000	7,645	85,000	21,442
2011	5.55	40,000	11,872	3.70	50,000	5,895	90,000	17,767
2012	5.60	40,000	9,652	3.80	50,000	4,045	90,000	13,697
2013	5.65	40,000	7,412	3.90	55,000	2,145	95,000	9,557
2014	5.70	45,000	5,152		-	-	45,000	5,152
2015	5.75	45,000	2,588		-	-	45,000	2,588
		<u>\$ 425,000</u>	<u>168,111</u>		<u>\$ 450,000</u>	<u>92,109</u>	<u>\$ 875,000</u>	<u>260,220</u>

During the year ended June 30, 2003, the City issued \$450,000 in general obligation bonds and retired \$100,000 of notes and bonds.

(4) Lease Purchase Agreements

On August 12, 1992, the City entered into an agreement to lease community center improvements under a non-cancelable capital lease. The following is a schedule of the future minimum lease payments, including interest at 6.48% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2003:

Year Ending June 30	Amount
2004	\$ 6,986
2005	<u>3,493</u>
Total minimum lease payments	10,479
Less amount representing interest	<u>(645)</u>
Present value of net minimum lease payments	<u>\$ 9,834</u>

During the year ended June 30, 2003, \$6,986 was paid under this lease.

On March 15, 2003, the City entered into an agreement to lease a tractor/mower under a non-cancelable capital lease. The following is a schedule of the future minimum lease payments, including interest at 5.50% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2003:

Year Ending June 30,	Amount
2004	\$ 2,573
2005	<u>2,573</u>
Total minimum lease payments	5,146
Less amount representing interest	<u>(394)</u>
Present value of net minimum lease payments	<u>\$ 4,752</u>

During the year ended June 30, 2003, \$2,573 was paid under this lease.

On April 25, 2003, the City entered into an agreement to lease a tractor/loader under a non-cancelable capital lease. The following is a schedule of the future minimum lease payments, including interest at 5.10% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2003:

Year Ending June 30,	Amount
2004	\$ 8,827
2005	8,827
2006	<u>4,413</u>
Total minimum lease payments	22,067
Less amount representing interest	<u>(1,327)</u>
Present value of net minimum lease payments	<u>\$20,740</u>

During the year ended June 30, 2003, \$4,413 was paid under this lease.

(5) Loan Agreement

On April 10, 2000, the City entered into a loan agreement for \$60,000 to purchase a dump truck. The loan requires four annual payments of \$15,000, beginning June 1, 2002, plus semiannual interest at 6.00% per annum beginning December 1, 2000, with the final principal payment due June 1, 2005. During the year ended June 30, 2003, the City paid \$15,000 on principal and \$2,700 in interest. The unpaid principal balance at June 30, 2003 was \$30,000.

(6) Real Estate Contract

On October 17, 2002, the City entered into a real estate contract for \$63,165 to purchase land for park purposes. The contract requires four annual payments of \$18,229, including interest of 6.00% per annum, beginning June 1, 2003. During the year ended June 30, 2003, the City paid \$14,439 of principal and \$3,790 of interest. The unpaid principal balance at June 30, 2003 was \$48,726.

(7) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2003 was \$5,189, equal to the required contribution for the year.

(8) Risk Management

The City of Ely 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 did not exceed commercial insurance coverage in the fiscal year ended June 30, 2003.

(9) Industrial Development Revenue Bonds

The City has issued a total of \$9,000,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2003, disbursements in the public works and business type activities functions exceeded the amounts budgeted.

Supplemental Information

City of Ely

City of Ely
Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

Receipts:	
Property tax	\$ 122,066
Other city tax:	
Utility tax replacement excise tax	5,403
Local option sales tax	91,067
Cable franchise fee	2,253
	<u>98,723</u>
Licenses and permits:	
Liquor	955
Cigarette	150
Building	1,260
	<u>2,365</u>
Use of money and property:	
Interest on investments	2,618
Rent	1,050
	<u>3,668</u>
Intergovernmental:	
State allocation	11,901
Bank franchise tax	3,492
Open access	482
Enrich Iowa	1,615
County/township library	14,425
	<u>31,915</u>
Miscellaneous:	
Donations	700
Refunds and reimbursements	1,423
Fines and fees	3,555
Miscellaneous	1,496
	<u>7,174</u>
Total receipts	<u>265,911</u>

Schedule 1

City of Ely
Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

Disbursements:		
Public safety:		
Police:		
Services and commodities		19,760
Fire protection:		
Services and commodities		13,741
Animal control		250
		<u>33,751</u>
Public works:		
Street lighting		<u>11,375</u>
Roadway maintenance:		
Capital outlay		2,787
Lease-purchase agreements:		
Principal redeemed		6,721
Interest paid		265
		<u>9,773</u>
		<u>21,148</u>
Culture and recreation:		
Library:		
Personal services		16,375
Services and commodities		11,075
Capital outlay		12,467
		<u>39,917</u>
Parks:		
Personal services		6,044
Services and commodities		4,169
Capital outlay		14,126
		<u>24,339</u>
		<u>64,256</u>
Community and economic development:		
Planning and zoning		<u>2,765</u>
General government:		
Mayor and council members:		
Personal services		1,630
Services and commodities		664
		<u>2,294</u>

City of Ely
Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

Disbursements (continued):	
General government:	
Executive and administration:	
Personal services	18,845
Financial administration:	
Personal services	21,931
Services and commodities	2,969
	<u>24,900</u>
Elections	419
Legal services	<u>8,495</u>
City hall and general buildings:	
Personal services	2,554
Services and commodities	8,116
Lease-purchase agreement:	
Principal redeemed	6,053
Interest paid	933
	<u>17,656</u>
	<u>72,609</u>
Total disbursements	<u>194,529</u>
Excess of receipts over disbursements	<u>71,382</u>
Other financing sources (uses):	
Operating transfers in (out):	
Special Revenue:	
Employee Benefits	108
Debt Service	(761)
Capital Projects:	
Library Project	(45,533)
Other Projects	(45,533)
Total other financing sources (uses)	<u>(91,719)</u>
Deficiency of receipts and other finances sources under disbursements and other financing uses	(20,337)
Balance beginning of year	<u>95,437</u>
Balance end of year	<u>\$ 75,100</u>

See accompanying independent auditor's report.

City of Ely
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Employee Benefits	Tax Increment Financing
Receipts:			
Property tax	\$ -	2,588	-
Tax increment financing collections	-	-	389,246
Other city tax:			
Utility tax replacement excise tax	-	117	-
Use of money and property:			
Interest and other investment earnings	-	-	-
Intergovernmental:			
Road use tax allocation	93,544	-	-
Miscellaneous:			
Donations and contributions	-	-	-
Gladys Holets estate bequest	-	-	-
Carver library grant	-	-	-
Hall Perrinee library grant	-	-	-
Miscellaneous	-	-	-
Total receipts	93,544	2,705	389,246
Disbursements:			
Public works:			
Roadway maintenance:			
Personal services	16,612	-	-
Services and commodities	39,401	-	-
Capital outlay	4,069	-	-
Bank loan:			
Principal redeemed	15,000	-	-
Interest paid	2,700	-	-
	77,782	-	-
Snow and ice removal:			
Personal services	5,490	-	-
Services and commodities	3,372	-	-
Capital outlay	650	-	-
	9,512	-	-
	87,294	-	-

Friends of the Ely Public Library	Friends of the Ely Library Building	Total
-	-	2,588
-	-	389,246
-	-	117
8,023	-	8,023
-	-	93,544
107,990	43,853	151,843
-	165,000	165,000
-	60,000	60,000
-	15,100	15,100
760	-	760
108,750	283,953	392,703
116,773	283,953	886,221
-	-	16,612
-	-	39,401
-	-	4,069
-	-	15,000
-	-	2,700
-	-	77,782
-	-	5,490
-	-	3,372
-	-	650
-	-	9,512
-	-	87,294

City of Ely
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Employee Benefits	Tax Increment Financing
Disbursements (continued):			
Culture and recreation:			
Library:			
Personal services	-	848	-
Services and commodities	-	-	-
Capital outlay	-	-	-
	-	848	-
Parks:			
Personal services	-	323	-
	-	1,171	-
General government:			
Mayor and council members:			
Personal services	-	82	-
Executive and administration:			
Services and commodities	-	-	14
Financial administration:			
Personal services	-	1,171	-
Legal services	-	-	1,898
City hall and general buildings:			
Personal services	-	173	-
	-	1,426	1,912
Total disbursements	87,294	2,597	1,912
Excess of receipts over disbursements	6,250	108	387,334
Other financing sources (uses):			
Construction loan proceeds	-	-	-
Construction loan repayment	-	-	-
Operating transfers out:			
General	-	(108)	-
Debt Service	-	-	(122,773)
Capital Projects:			
Other Projects	-	-	(30,585)
Total other financing sources (uses)	-	(108)	(153,358)
Excess of receipts and other financing sources over disbursements and other financing uses	6,250	-	233,976
Balance beginning of year	13,531	-	-
Balance end of year	\$ 19,781	-	233,976

See accompanying independent auditor's report.

Friends of the Ely Public Library	Friends of the Ely Library Building	Total
-	-	848
2,741	-	2,741
358	264,788	265,146
3,099	264,788	268,735
-	-	323
3,099	264,788	269,058
-	-	82
-	-	14
-	-	1,171
-	-	1,898
-	-	173
-	-	3,338
3,099	264,788	359,690
113,674	19,165	526,531
-	76,000	76,000
-	(76,000)	(76,000)
-	-	(108)
-	-	(122,773)
-	-	(30,585)
-	-	(153,466)
113,674	19,165	373,065
24,452	-	37,983
138,126	19,165	411,048

Schedule 3

City of Ely
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2003

Receipts:	
Property tax	\$ 36,174
Other city tax:	
Utility tax replacement excise tax	<u>778</u>
Total receipts	<u>36,952</u>
Disbursements:	
Debt service:	
Principal redeemed	100,000
Interest paid	66,170
Administration fees	<u>850</u>
Total disbursements	<u>167,020</u>
Deficiency of receipts under disbursements	<u>(130,068)</u>
Other financing sources:	
Operating transfers in:	
General	761
Special Revenue:	
Tax Increment Financing	<u>122,773</u>
Total other financing sources	<u>123,534</u>
Deficiency of receipts and other financing sources under disbursements	(6,534)
Balance beginning of year	<u>6,534</u>
Balance end of year	<u>\$ -</u>

See accompanying independent auditor's report.

City of Ely
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2003

	Library Project	Fire Station Project	Other Projects	Total
Receipts:				
Use of money and property:				
Interest on investments	\$ 105	91	1,700	1,896
Special assessments	-	-	3,300	3,300
Miscellaneous:				
Sales tax refund	-	-	16,740	16,740
Accrued interest on general obligation bonds sold	-	-	872	872
Total receipts	105	91	22,612	22,808
Disbursements:				
Capital projects:				
Services and commodities	-	-	8,815	8,815
Capital outlay	21,836	52,201	72,952	146,989
Real estate contract:				
Principal redeemed	-	-	14,439	14,439
Interest paid	-	-	3,790	3,790
Total disbursements	21,836	52,201	99,996	174,033
Deficiency of receipts under disbursements	(21,731)	(52,110)	(77,384)	(151,225)
Other financing sources:				
General obligation bond proceeds (net of \$4,005 discount)	-	-	445,995	445,995
Operating transfers in:				
General	45,533	-	45,533	91,066
Special Revenue:				
Tax Increment Financing	-	-	30,585	30,585
Total other financing sources	45,533	-	522,113	567,646
Excess (deficiency) of receipts and other financing sources over (under) disbursements	23,802	(52,110)	444,729	416,421
Balance beginning of year	(3,357)	52,110	(238,223)	(189,470)
Balance end of year	\$ 20,445	-	206,506	226,951

See accompanying independent auditor's report.

Schedule 5City of Ely
Combining Schedule of Cash Transactions

Enterprise Funds

Year ended June 30, 2003

	Water	Sewer Rental	Sanitation	Total
Receipts:				
Use of money and property:				
Interest on investments	\$ 5,135	371	243	5,749
Charges for service:				
Sale of water	84,106	-	-	84,106
Sewer rental fees	-	108,967	-	108,967
Garbage collection	-	-	54,016	54,016
Connection fees	2,630	9,700	-	12,330
Miscellaneous	3,176	-	60	3,236
	<u>89,912</u>	<u>118,667</u>	<u>54,076</u>	<u>262,655</u>
Miscellaneous:				
Sales tax collected	6,000	-	-	6,000
Refunds and reimbursements	1,527	-	-	1,527
Customer deposits	950	-	-	950
	<u>8,477</u>	<u>-</u>	<u>-</u>	<u>8,477</u>
Total receipts	<u>103,524</u>	<u>119,038</u>	<u>54,319</u>	<u>276,881</u>
Disbursements:				
Business type activities:				
Personal services	13,850	14,639	4,458	32,947
Services and commodities	54,325	67,345	44,946	166,616
Capital outlay	16,250	22,764	-	39,014
Total disbursements	<u>84,425</u>	<u>104,748</u>	<u>49,404</u>	<u>238,577</u>
Excess of receipts over disbursements	19,099	14,290	4,915	38,304
Balance beginning of year	<u>22,248</u>	<u>45,535</u>	<u>35,632</u>	<u>103,415</u>
Balance end of year	<u>\$ 41,347</u>	<u>59,825</u>	<u>40,547</u>	<u>141,719</u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Ely, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated July 17, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City of Ely's operations for the year ended June 30, 2003 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ely's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Ely'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 the accompanying Schedule of Findings.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses.

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

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

July 17, 2003

City of Ely

Schedule of Findings

Year ended June 30, 2003

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:
- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions and handling and recording cash.
 - (2) Investments – detailed recording keeping, custody of investments and reconciling earnings.
 - (3) Receipts – collecting, depositing, journalizing and posting.
 - (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (5) Disbursements – purchasing, check signing, recording and reconciling.
 - (6) Payroll – preparing and distributing.
 - (7) Financial reporting – preparing, posting and reconciling.
 - (8) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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

Response – We will constantly evaluate our segregation of duties as personnel and hours of operation change.

Conclusion – Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

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

Response – We are currently in the process of making reconciliations a monthly process.

Conclusion – Response accepted.

City of Ely

Schedule of Findings

Year ended June 30, 2003

- (C) Information Systems – The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- requiring password changes because software does not require the user to change logins/passwords periodically.
- time out and/or logoff functions.
- screen saver password use to protect terminals.
- requiring a written disaster recovery plan to help ensure the continuity of City operations after a disaster.

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

Response – We do have passwords required for accounting and utility software and will explore feasibility of terminal passwords. We will develop the recommended policies.

Conclusion – Response accepted.

City of Ely

Schedule of Findings

Year ended June 30, 2003

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming the official depository has been approved by the City. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2003.
- (2) Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the public works 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 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 – This was due to a change from the budgeted program level to a budgeted function level. Now that the transition to the new functions is complete, the budget is not expected to be exceeded in future years.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Allen Tjelmeland, Mayor Pro tem, Owner of Tjelmeland Construction	Repair	\$ 40
Duane Kunkel, Council member, Owner of D.K. Construction	Park grading	330

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since total transactions for each individual were less than \$2,500 during the fiscal year.

- (6) 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 that the coverage is adequate for current operations.

City of Ely

Schedule of Findings

Year ended June 30, 2003

- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The Ely Library Board minutes were not signed.

Recommendation – The Ely Library Board should sign the minutes to authenticate the record.

Response – Minutes of the Board will be signed.

Conclusion – Response accepted.

- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- (9) Accrued Interest on the Sale of General Obligation Bonds – The bond resolution authorizing and providing for the issuance of the general obligation bonds requires that any accrued interest on the sale of bonds be recorded in the Debt Service Fund. The accrued interest was recorded in the Capital Projects Fund, Other Projects Account.

Recommendation – The City should transfer \$872 from the Capital Projects Fund, Other Projects Account to the Debt Service Fund to comply with the bond resolution.

Response – We will make the correction through a journal entry.

Conclusion – Response accepted.

- (10) College-Ely-Putnam Volunteer Fire Department Agreement – The Constitution and by-laws of the College-Ely-Putnam Volunteer Fire Department, Article IV, Section IV, state that the annual financial statements shall be presented and the books and records shall be audited. The books and records have not been audited by an independent auditing firm.

Recommendation – The City should take steps to ensure that the required audits are performed as stipulated in the agreement, including consulting legal counsel to determine the disposition of this matter.

Response – The City will remind the Fire Department of this requirement.

Conclusion – Response acknowledged. The City should require compliance with the audit requirement or consult legal counsel on amending the agreement to rescind the audit requirements.

City of Ely

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Jeffrey M. Evans, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State