



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE

March 11, 2004

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$2,102,500 for the year ended June 30, 2003. The receipts included \$391,163 in property tax, \$23,826 in tax increment financing collections, \$155,092 in local option sales tax, \$304,282 from other governments and \$74,320 in interest on investments. The City also received general obligation note proceeds of \$279,300 and loan proceeds of \$323,965 that are reported as other financing sources.

Disbursements for the year totaled \$2,655,612, and included \$860,261 for culture and recreation, \$409,494 for debt service, and \$402,101 for public safety.

The report contains recommendations to the City Council and other City officials. For example, duties among employees should be segregated to prevent individual employees from handling duties which are incompatible, procedures should be established to reconcile utility billings, collections and delinquencies each billing period and time cards and compensated absences information should be maintained by the City Clerk. The City's responses are included in the report.

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

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**City of Avoca**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marvin Piittmann	Mayor	Jan 2004
Carol Kyle	Council Member	Jan 2004
Jennie Maassen	Council Member	Jan 2004
Tom Bruck	Council Member	Jan 2006
Larry Petersen	Council Member	Jan 2006
Robert McCarthy	Council Member	Jan 2006
Marjorie Kobs	Clerk	Jan 2004
Marcia Messinger	Treasurer	Jan 2004
David Larson	Attorney	Jan 2004

**City of Avoca**



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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 Avoca, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Avoca'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 Avoca 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 January 21, 2004 on our consideration of the City of Avoca's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. 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 financial statements taken as a whole. The supplemental information included in Schedules 1 through 6 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 third preceding 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

January 21, 2004

## **Financial Statements**

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

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<b>Receipts:</b>			
Property tax	\$ 278,652	112,511	-
Tax increment financing collections	-	23,826	-
Other city tax	21,091	177,945	-
Licenses and permits	6,243	-	-
Use of money and property	57,668	-	-
Intergovernmental	173,207	131,075	-
Charges for service	293,959	-	-
Miscellaneous	454,790	-	486
Total receipts	1,285,610	445,357	486
<b>Disbursements:</b>			
Public safety	402,101	-	-
Public works	147,104	69,326	-
Culture and recreation	859,524	-	-
Community and economic development	13,300	254,204	-
General government	98,779	104,485	-
Debt service	-	-	409,494
Business type activities	-	-	-
Total disbursements	1,520,808	428,015	409,494
Excess (deficiency) of receipts over (under) disbursements	(235,198)	17,342	(409,008)
<b>Other financing sources (uses):</b>			
Loan proceeds	323,965	-	-
General obligation capital loan note proceeds (net of \$5,700 discount)	-	-	279,300
Operating transfers in	107,541	-	143,930
Operating transfers out	(168,357)	(196,930)	-
Total other financing sources (uses)	263,149	(196,930)	423,230
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	27,951	(179,588)	14,222
Balance beginning of year	565,624	925,140	15,073
Balance end of year	\$ 593,575	745,552	29,295

See notes to financial statements.

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
Enterprise	Trust	
-	-	391,163
-	-	23,826
-	-	199,036
-	-	6,243
14,301	13,635	85,604
-	-	304,282
324,852	-	618,811
16,894	1,365	473,535
356,047	15,000	2,102,500
-	-	402,101
-	-	216,430
-	737	860,261
-	-	267,504
-	-	203,264
-	-	409,494
296,558	-	296,558
296,558	737	2,655,612
59,489	14,263	(553,112)
-	-	323,965
-	-	279,300
140,000	-	391,471
(11,057)	(15,127)	(391,471)
128,943	(15,127)	603,265
188,432	(864)	50,153
397,979	605,515	2,509,331
586,411	604,651	2,559,484

City of Avoca

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2003

	Actual	Less Funds Not Required to be Budgeted
Receipts:		
Property tax	\$ 391,163	-
Tax increment financing collections	23,826	-
Other city tax	199,036	-
Licenses and permits	6,243	-
Use of money and property	85,604	-
Intergovernmental	304,282	-
Charges for service	618,811	-
Miscellaneous	473,535	960
Total receipts	<u>2,102,500</u>	<u>960</u>
Disbursements:		
Public safety	402,101	-
Public works	216,430	-
Culture and recreation	860,261	-
Community and economic development	267,504	-
General government	203,264	-
Debt service	409,494	-
Business type activities	296,558	-
Total disbursements	<u>2,655,612</u>	<u>-</u>
Deficiency of receipts under disbursements	(553,112)	960
Other financing sources, net	<u>603,265</u>	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	50,153	960
Balance beginning of year	<u>2,509,331</u>	<u>95,701</u>
Balance end of year	<u><u>\$ 2,559,484</u></u>	<u><u>96,661</u></u>

See notes to financial statements.

Net	Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
391,163	401,569	(10,406)	97%
23,826	42,000	(18,174)	57%
199,036	195,635	3,401	102%
6,243	3,725	2,518	168%
85,604	93,200	(7,596)	92%
304,282	684,073	(379,791)	44%
618,811	697,350	(78,539)	89%
472,575	32,140	440,435	1470%
<u>2,101,540</u>	<u>2,149,692</u>	<u>(48,152)</u>	<u>98%</u>
402,101	390,690	(11,411)	103%
216,430	233,983	17,553	92%
860,261	904,624	44,363	95%
267,504	293,665	26,161	91%
203,264	109,605	(93,659)	185%
409,494	470,000	60,506	87%
296,558	438,750	142,192	68%
<u>2,655,612</u>	<u>2,841,317</u>	<u>185,705</u>	<u>93%</u>
(554,072)	(691,625)		
<u>603,265</u>	<u>602,250</u>		
49,193	(89,375)		
<u>2,413,630</u>	<u>2,066,195</u>		
<u>2,462,823</u>	<u>1,976,820</u>		

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

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds: Essential corporate purpose	Oct 1, 1997	4.40-5.10%	\$ 880,000
General obligation notes: Corporate purpose	Sep 1, 2002	3.05-4.00%	\$ 285,000
Revenue bonds: Sewer	Nov 19, 1991	4.62%	\$ 219,000
Loan: Swimming pool	Jul 3, 2002	5.00%	\$ 323,965

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
700,000	-	50,000	650,000	33,630
-	285,000	-	285,000	7,717
114,000	-	10,000	104,000	5,267
-	323,965	60,000	263,965	8,166

**City of Avoca**

City of Avoca

Notes to Financial Statements

June 30, 2003

**(1) Summary of Significant Accounting Policies**

The City of Avoca is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1869 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, general government and business type activities.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in one jointly governed organization that provides goods or services to the citizenry of the City but does 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 Pottawattamie County Assessor's Conference Board.

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.

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.

Fiduciary Funds

Trust Funds – The Trust Funds are used to account for monies and properties received and held by the City in a trustee capacity. These include Expendable Trust Funds and Non-Expendable Trust Funds.

C. Basis of Accounting

The City of Avoca 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 Non-Expendable Trust 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 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 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 entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1 which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2003 are as follows:

Type	Carrying Amount	Market Value
U.S. treasury securities	\$ 50,620	50,297

## (3) Long-Term Debt

### Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 55,000	31,455	55,000	10,290	11,000	4,804
2005	55,000	29,035	55,000	8,612	12,000	4,296
2006	55,000	26,560	55,000	6,715	12,000	3,742
2007	60,000	24,030	60,000	4,680	13,000	3,188
2008	65,000	21,210	60,000	2,400	13,000	2,588
2009	65,000	18,090	-	-	14,000	1,986
2010	70,000	14,905	-	-	14,000	1,340
2011	70,000	11,405	-	-	15,000	694
2012	75,000	7,905	-	-	-	-
2013	80,000	4,080	-	-	-	-
Total	\$ 650,000	188,675	285,000	32,697	104,000	22,638

The resolution providing for the issuance of the sewer revenue bonds issued under a loan agreement between the City of Avoca, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. includes the following provision:

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 funds.

### Loan Payable

On July 3, 2002, the City entered into a three year loan agreement with Midstates Bank, N.A. for \$323,965 at 5% interest per annum. During the year ended June 30, 2003, the City paid \$60,000 of principal and \$8,166 in interest on the loan. The loan balance due at June 30, 2003 was \$263,965.

#### **(4) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2003 was \$24,543, equal to the required contribution for the year.

#### **(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2003 could not be determined because the City does not maintain records of each employees' accumulated compensated absences.

#### **(6) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 475 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2003 were \$26,328.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2003, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

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

#### **(7) 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 safety and general government functions exceeded the amounts budgeted.

**(8) Economic Development Forgivable Loan**

On October 8, 2002, the City approved a forgivable loan to VCM, LLC for \$250,000. The loan is for rehabilitating the former Avoca Nursing Home in order to potentially bring 100 jobs to the area. The loan will be forgivable over a four-year period, with 25% of the loan forgiven each year.

**(9) Golf Course Lease**

The City has leased a parcel of land to the Avoca Golf Club, Inc. for a term of 50 years beginning August 7, 1974 and ending August 6, 2024. The lease provides clubhouse facilities and grants the lessee the right to operate concessions.

**(10) Subsequent Events**

In August 2003, the City entered into a loan agreement with Regional Water for the City's share of water storage tank, wells and treatment plant improvements of \$762,952. A portion of the loan was repaid using \$112,600 in USDA grant funds remaining from another project and \$125,000 in available funds from water operations. The agreement calls for monthly payments of \$2,979, including interest at 4.625% per annum, for 40 years.

## **Supplemental Information**

**Schedule 1**

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

	Fire		
	General	Department	Total
Receipts:			
Property tax	\$ 278,652	-	278,652
Other city tax:			
Utility tax replacement excise tax	18,890	-	18,890
Cable franchise fee	2,201	-	2,201
	21,091	-	21,091
Licenses and permits	6,243	-	6,243
Use of money and property:			
Interest on investments	51,258	605	51,863
Sale of property	750	-	750
Cemetery lots	3,860	-	3,860
Rent	1,195	-	1,195
	57,063	605	57,668
Intergovernmental:			
State allocation	22,101	-	22,101
Community Attraction and Tourism grant	124,000	-	124,000
Township fire protection	8,147	-	8,147
Library open-access program	3,029	-	3,029
County library contribution	9,205	-	9,205
Bank franchise tax	4,875	-	4,875
Miscellaneous	1,850	-	1,850
	173,207	-	173,207
Charges for service:			
Ambulance charges	14,844	1,638	16,482
Grave openings	7,750	-	7,750
Garbage collection fees	85,472	-	85,472
Library charges	1,330	-	1,330
Golf course fees	106,572	-	106,572
Fire calls	1,575	-	1,575
Swimming pool admissions/concessions	73,633	-	73,633
Miscellaneous	1,145	-	1,145
	292,321	1,638	293,959
Miscellaneous:			
Court fines	39,865	-	39,865
Donations and contributions	381,381	19,481	400,862
Refunds and reimbursements	13,863	-	13,863
Miscellaneous	200	-	200
	435,309	19,481	454,790
Total receipts	1,263,886	21,724	1,285,610

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

	Fire		Total
	General	Department	
Disbursements:			
Public safety:			
Police:			
Personal services	89,964	-	89,964
Services and commodities	17,574	-	17,574
Capital outlay	17,011	-	17,011
	<u>124,549</u>	<u>-</u>	<u>124,549</u>
Fire:			
Services and commodities	14,116	7,890	22,006
Capital outlay	190,846	3,049	193,895
	<u>204,962</u>	<u>10,939</u>	<u>215,901</u>
Ambulance:			
Services and commodities	10,913	-	10,913
Street lighting:			
Services and commodities	30,613	-	30,613
Emergency management:			
Services and commodities	20,125	-	20,125
	<u>391,162</u>	<u>10,939</u>	<u>402,101</u>
Public works:			
Roads, bridges and sidewalks:			
Personal services	30,208	-	30,208
Services and commodities	14,532	-	14,532
	<u>44,740</u>	<u>-</u>	<u>44,740</u>
Sanitation:			
Personal services	6,108	-	6,108
Services and commodities	16,034	-	16,034
	<u>22,142</u>	<u>-</u>	<u>22,142</u>
Solid waste collection:			
Personal services	3,763	-	3,763
Services and commodities	76,459	-	76,459
	<u>80,222</u>	<u>-</u>	<u>80,222</u>
	<u>147,104</u>	<u>-</u>	<u>147,104</u>

**Schedule 1**

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

	General	Fire Department	Total
Disbursements (continued):			
Culture and recreation:			
Library:			
Personal services	46,025	-	46,025
Services and commodities	27,027	-	27,027
Capital outlay	8,988	-	8,988
	<u>82,040</u>	-	<u>82,040</u>
Golf Course:			
Personal services	55,451	-	55,451
Services and commodities	74,951	-	74,951
Capital outlay	13,603	-	13,603
	<u>144,005</u>	-	<u>144,005</u>
Park:			
Personal services	10,076	-	10,076
Services and commodities	6,293	-	6,293
Capital outlay	1,173	-	1,173
	<u>17,542</u>	-	<u>17,542</u>
Cemetery:			
Personal services	8,169	-	8,169
Services and commodities	4,108	-	4,108
Capital outlay	8,303	-	8,303
	<u>20,580</u>	-	<u>20,580</u>
Swimming pool:			
Personal services	54,417	-	54,417
Services and commodities	39,424	-	39,424
Aquatic center construction	493,350	-	493,350
Interest on loan	8,166	-	8,166
	<u>595,357</u>	-	<u>595,357</u>
	<u>859,524</u>	-	<u>859,524</u>

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

	General	Fire Department	Total
Disbursements (continued):			
Community and economic development:			
Services and commodities	13,300	-	13,300
General government:			
Personal services	56,234	-	56,234
Services and commodities	40,038	-	40,038
Capital outlay	2,507	-	2,507
	<u>98,779</u>	<u>-</u>	<u>98,779</u>
Total disbursements	<u>1,509,869</u>	<u>10,939</u>	<u>1,520,808</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(245,983)</u>	<u>10,785</u>	<u>(235,198)</u>
Other financing sources (uses):			
Loan proceeds	323,965	-	323,965
Operating transfers in (out):			
General:			
General	-	(81,357)	(81,357)
Fire Department	81,357	-	81,357
Debt Service	(60,000)	-	(60,000)
Enterprise:			
Water	(15,943)	-	(15,943)
Trust:			
Library Gift and Bequest	15,127	-	15,127
Total other financing sources (uses)	<u>344,506</u>	<u>(81,357)</u>	<u>263,149</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	98,523	(70,572)	27,951
Balance beginning of year	<u>455,686</u>	<u>109,938</u>	<u>565,624</u>
Balance end of year	<u>\$ 554,209</u>	<u>39,366</u>	<u>593,575</u>

See accompanying independent auditor's report.

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

	Road Use Tax	Employee Benefits
Receipts:		
Property tax	\$ -	104,077
Tax increment financing collections	-	-
Other city tax:		
Utility tax replacement excise tax	-	7,099
Local option sales tax	-	-
Hotel/motel tax	-	-
	-	7,099
Intergovernmental:		
Road use tax allocation	131,075	-
Total receipts	131,075	111,176
Disbursements:		
Public works:		
Roads, bridges and sidewalks:		
Personal services	10,067	-
Services and commodities	15,720	-
Capital outlay	43,539	-
	69,326	-
Community and economic development:		
Services and commodities	-	-
Economic development loan	-	-
	-	-
General government:		
Personal services	-	104,485
Total disbursements	69,326	104,485
Excess (deficiency) of receipts over (under) disbursements	61,749	6,691
Other financing uses:		
Operating transfers out:		
Debt Service	-	-
Enterprise:		
Sewer Rental	-	-
Total other financing uses	-	-

Local Option Sales Tax	Urban Renewal	Hotel/Motel Tax	Emergency	Total
-	-	-	8,434	112,511
-	23,826	-	-	23,826
-	-	-	574	7,673
155,092	-	-	-	155,092
-	-	15,180	-	15,180
155,092	-	15,180	574	177,945
-	-	-	-	131,075
155,092	23,826	15,180	9,008	445,357
-	-	-	-	10,067
-	-	-	-	15,720
-	-	-	-	43,539
-	-	-	-	69,326
-	4,204	-	-	4,204
-	250,000	-	-	250,000
-	254,204	-	-	254,204
-	-	-	-	104,485
-	254,204	-	-	428,015
155,092	(230,378)	15,180	9,008	17,342
-	(83,930)	-	-	(83,930)
-	(113,000)	-	-	(113,000)
-	(196,930)	-	-	(196,930)

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

	<u>Road Use Tax</u>	<u>Employee Benefits</u>
Excess (deficiency) of receipts over (under) disbursements and other financing uses	61,749	6,691
Balance beginning of year	<u>329,272</u>	<u>15,613</u>
Balance end of year	<u>\$ 391,021</u>	<u>22,304</u>

See accompanying independent auditor's report.

Local Option Sales Tax	Urban Renewal	Hotel/Motel Tax	Emergency	Total
155,092	(427,308)	15,180	9,008	(179,588)
24,717	523,655	-	31,883	925,140
179,809	96,347	15,180	40,891	745,552

**Schedule 3**

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

Receipts:	
Miscellaneous:	
Accrued interest on general obligation capital loan note	<u>\$ 486</u>
Disbursements:	
Debt service:	
Principal redeemed	110,000
Interest paid	41,347
Registrar and management fees	2,210
Remittance to Care Initiatives for nursing home construction	<u>255,937</u>
Total disbursements	<u>409,494</u>
Deficiency of receipts under disbursements	<u>(409,008)</u>
Other financing sources:	
General obligation capital loan note proceeds	279,300
Operating transfers in:	
General:	
General	60,000
Special Revenue:	
Urban Renewal	<u>83,930</u>
Total other financing sources	<u>423,230</u>
Excess of receipts and other financing sources over disbursements	14,222
Balance beginning of year	<u>15,073</u>
Balance end of year	<u><u>\$ 29,295</u></u>

See accompanying independent auditor's report.

City of Avoca  
Combining Schedule of Cash Transactions  
Enterprise Funds  
Year ended June 30, 2003

	Water	Sewer Rental	Utility Deposit	Total
<b>Receipts:</b>				
Use of money and property:				
Interest on investments	\$ 3,332	5,442	48	8,822
Farm rent	5,479	-	-	5,479
	<u>8,811</u>	<u>5,442</u>	<u>48</u>	<u>14,301</u>
Charges for service:				
Sale of water	264,801	-	-	264,801
Sewer rental fees	-	60,051	-	60,051
	<u>264,801</u>	<u>60,051</u>	<u>-</u>	<u>324,852</u>
Miscellaneous:				
Customer deposits	-	-	7,802	7,802
Miscellaneous	9,092	-	-	9,092
	<u>9,092</u>	<u>-</u>	<u>7,802</u>	<u>16,894</u>
Total receipts	<u>282,704</u>	<u>65,493</u>	<u>7,850</u>	<u>356,047</u>
Disbursements:				
Business type activities:				
Water:				
Personal services	123,077	-	-	123,077
Services and commodities	99,486	-	3,314	102,800
Capital outlay	18,876	-	-	18,876
	<u>241,439</u>	<u>-</u>	<u>3,314</u>	<u>244,753</u>
Sewer:				
Personal services	-	5,154	-	5,154
Services and commodities	-	22,202	1,227	23,429
Capital outlay	-	7,898	-	7,898
Debt service:				
Principal redeemed	-	10,000	-	10,000
Interest paid	-	5,267	-	5,267
Registration fee	-	57	-	57
	<u>-</u>	<u>50,578</u>	<u>1,227</u>	<u>51,805</u>
Total disbursements	<u>241,439</u>	<u>50,578</u>	<u>4,541</u>	<u>296,558</u>
Excess of receipts over disbursements	<u>41,265</u>	<u>14,915</u>	<u>3,309</u>	<u>59,489</u>

**Schedule 4**

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City of Avoca  
Combining Schedule of Cash Transactions  
Enterprise Funds  
Year ended June 30, 2003

	Water	Sewer Rental	Utility Deposit	Total
Other financing sources:				
Operating transfers in:				
General:				
General	15,943	-	-	15,943
Special Revenue:				
Urban Renewal	-	113,000	-	113,000
Total other financing sources	15,943	113,000	-	128,943
Excess of receipts and other financing sources over disbursements	57,208	127,915	3,309	188,432
Balance beginning of year	182,372	204,389	11,218	397,979
Balance end of year	\$ 239,580	332,304	14,527	586,411

See accompanying independent auditor's report.

**City of Avoca**

City of Avoca  
Combining Schedule of Cash Transactions  
Trust Funds  
Year ended June 30, 2003

	Non-Expendable Trust	
	Cemetery Perpetual Care	Greene Cemetery Trust
Receipts:		
Use of money and property:		
Interest on investments	\$ -	-
Miscellaneous:		
Perpetual care payments	960	-
Memorial and gifts	-	-
	960	-
Total receipts	960	-
Disbursements:		
Culture and recreation:		
Services and commodities	-	-
Capital outlay	-	-
Total disbursements	-	-
Excess of receipts over disbursements	960	-
Other financing uses:		
Operating transfers out:		
General:		
General	-	-
	-	-
Excess (deficiency) of receipts over (under) disbursements and other financing uses	960	-
Balance beginning of year	27,695	68,006
Balance end of year	\$ 28,655	68,006

See accompanying independent auditor's report.

Expendable Trust			
Library Trust	Library Gift and Bequest	Library Endowment	Total
-	13,635	-	13,635
-	-	-	960
-	405	-	405
-	405	-	1,365
-	14,040	-	15,000
-	33	-	33
-	704	-	704
-	737	-	737
-	13,303	-	14,263
-	(15,127)	-	(15,127)
-	(1,824)	-	(864)
231,752	18,206	259,856	605,515
231,752	16,382	259,856	604,651

**Schedule 6**

## City of Avoca

## Bond and Note Maturities

Year ended June 30, 2003

Year Ending June 30,	General Obligation Bonds		General Obligation Notes	
	Essential		Corporate	
	Corporate Purpose		Purpose	
	Issued Oct 1, 1997		Issued Sep 1, 2002	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2004	4.40%	\$ 55,000	3.05%	\$ 55,000
2005	4.50	55,000	3.45	55,000
2006	4.60	55,000	3.70	55,000
2007	4.70	60,000	3.80	60,000
2008	4.80	65,000	4.00	60,000
2009	4.90	65,000		-
2010	5.00	70,000		-
2011	5.00	70,000		-
2012	5.10	75,000		-
2013	5.10	80,000		-
Total		<u>\$ 650,000</u>		<u>\$ 285,000</u>

Year Ending June 30,	Sewer	
	Revenue Bonds	
	Issued Nov 19, 1991	
	Interest	
	Rates	Amount
2004	4.62%	\$ 11,000
2005	4.62	12,000
2006	4.62	12,000
2007	4.62	13,000
2008	4.62	13,000
2009	4.62	14,000
2010	4.62	14,000
2011	4.62	15,000
Total		<u>\$ 104,000</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 Avoca, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated January 21, 2004. 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 Avoca'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'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. Prior audit statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Avoca'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 Avoca'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), (B) and (C) are material weaknesses. None of the prior audit reportable conditions have been resolved and are repeated as items (A), (B), (C), (D), (E) and (G).

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 Avoca and other parties to whom the City of Avoca 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 Avoca 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

January 21, 2004

City of Avoca  
Schedule of Findings  
Year ended June 30, 2003

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

(A) Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One of two individuals has control over each of the following areas:

- (1) Receipts - collecting, depositing and posting.
- (2) Disbursements - check writing, mailing and posting.
- (3) Payroll - preparation and distribution.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Investing - recordkeeping and investing.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In addition, dual signatures should be required on payroll checks and other checks which exceed a dollar threshold established by the City Council.

Response – We will investigate alternatives and make changes to improve internal controls. There will be a second signature required on payroll checks and checks over \$2,500 after Council passes a resolution to that effect.

Conclusion – Response accepted.

(B) Receipts – Receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

Response – Receipts were not issued, but all receipts were noted on our receipts register for all utility and other receipts. I have started a separate numbered receipt book for other-than-utility receipts.

Conclusion – Response accepted.

City of Avoca

Schedule of Findings

Year ended June 30, 2003

- (C) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. The utility stubs retained to document payment are not marked with the date paid and checks received are not endorsed immediately.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. Also, utility stubs should be marked with the date paid and checks received should be restrictively endorsed immediately.

Response – We will prepare a reconciliation of billings to collections and delinquents. Utility stubs are retained with a dated listing of the amounts paid. Checks received will be endorsed immediately. Utility stubs will be date stamped when received.

Conclusion – Response accepted.

- (D) Separately Maintained Records – The Library Board and Fire Department maintain accounting records pertaining to their operations. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." Also, utility deposits are not shown on the Clerk's Report.

Recommendation – For better accountability, financial and budgetary control, all City financial activity and balances should be recorded in the Clerk's records.

Response – Requests have been made to the Library Board and the Fire Department to give a detailed statement of funds collected, expended and fund balances to be included in monthly Clerk's report. The utility deposits activity and balances will also be included in the monthly Clerk's report.

Conclusion – Response accepted.

- (E) Investments – The City purchases certificates of deposit to invest temporarily idle funds. Each time the City has a small amount to invest, a certificate of deposit is purchased. Over several years, this has resulted in a large number of small certificates of deposit. Accounting for these certificates and the interest on the certificates has become cumbersome and difficult to manage.

Recommendation – Certificates of deposit should be combined, resulting in fewer certificates and interest payments to account for. This would make investments more manageable and easier for independent review.

Response – Certificates of deposit will be cashed in to be combined into larger fund investments.

Conclusion – Response accepted.

City of Avoca

Schedule of Findings

Year ended June 30, 2003

- (F) Payroll – Time cards/sheets were not maintained for all City employees.

Recommendation – Time cards/sheets should be maintained for all City employees. Time cards should be approved and initialed by the employee’s supervisor or by an independent official who is not involved with payroll.

Response – Request has been made to all departments to turn in time cards, initialed by supervisor.

Conclusion – Response accepted.

- (G) Compensated Absences – City department heads account for the number of vacation, sick leave and comp time days used. However, accurate information for amounts earned but not used at the end of fiscal year 2003 was not available from the City Clerk.

Recommendation – The City Clerk should keep complete and accurate records of each employee’s vacation, sick leave and comp time activity/balances.

Response – Request has been made to all department heads for records of employee’s vacation, sick leave, and comp time activity/balances.

Conclusion – Response accepted.

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

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

Response – Request and response have been received for image of both front and back of each cancelled check.

Conclusion – Response accepted.

City of Avoca

Schedule of Findings

Year ended June 30, 2003

**Other Findings Related to Statutory Reporting:**

- (1) Official Depositories – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were 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 safety and general government functions. In addition, disbursements exceeded the budget in the culture and recreation function before the budget was amended. 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.

Also, note proceeds totaling \$279,300 were recorded in the Debt Service Fund and related disbursements of \$255,937 were budgeted from and charged to the debt service function. These disbursements consisted of reimbursements to Care Initiatives for nursing home construction and should have been charged to the capital projects function in a Capital Projects Fund or the General Fund.

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. Also, the City should budget in accordance with the Chart of Accounts for Iowa City Governments.

Response – In the future, we will amend the budget, if needed, in all functions. We will set up capital projects in a separate fund, not the Debt Service Fund.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that 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
Marvin Piittmann, Mayor, owner of Piittmann Seed	Lawn seed	\$ 127
Tom Bruck, Council Member, manager of Agriland FS, Inc.	Pool and golf course chemicals	24,311
Robert McCarthy, Council Member, Brother owns McCarthy Trenching	Pool lift station, per bid Miscellaneous work	7,209 3,572

City of Avoca

Schedule of Findings

Year ended June 30, 2003

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transaction with the Mayor does not appear to represent a conflict of interest since the cumulative amount was less than \$2,500 during the fiscal year. The bid amount with the Council Member does not appear to represent a conflict of interest since the purchase was competitively bid. The transactions with the Council Members which were not bid and were over \$2,500 appear to represent conflicts of interest.

Recommendation – The City should consult legal counsel to determine the disposition of these matters.

Response – Business transactions in excess of \$2,500 have been pointed out to City officials. City will consult with attorney and competitively bid purchases in the future.

Conclusion – Response accepted.

- (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 insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted. However, the City's investment policy does not refer to Chapter 12B and 12C of the Code of Iowa.

Recommendation – The City's investment policy should be amended to refer to Chapter 12B and 12C of the Code of Iowa.

Response – Investment policy will be amended.

Conclusion – Response accepted.

- (9) Revenue Bonds – The City has complied with the requirements of the revenue bond resolution.

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City of Avoca

Staff

This audit was performed by:

Cynthia L. Weber, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Jeffrey L. Lenhart, Assistant Auditor

Andrew E. Nielsen, CPA  
Deputy Auditor of State