



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

April 27, 2012

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$3,038,110 for the year ended June 30, 2011. The receipts included \$444,462 in property tax, \$188,145 from tax increment financing, \$590,539 from charges for service, \$227,383 from operating grants, contributions and restricted interest, \$66,755 from capital grants, contributions and restricted interest, \$154,431 from local option sales tax, \$10,643 from unrestricted interest on investments, \$1,349,528 from note proceeds and \$6,224 from other general receipts.

Disbursements for the year totaled \$2,428,574, and included \$488,480 for debt service, \$403,912 for capital projects and \$178,618 for culture and recreation. Also, disbursements for business type activities totaled \$1,015,209.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1121-0543-B00F.pdf>.

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

JUNE 30, 2011

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City of Ely

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jim Doyle	Mayor	Jan 2012
Bob Ballantyne	Council Member	Jan 2012
Bill Grove	Council Member	Jan 2012
Stephanie Mai	Council Member	Jan 2012
Kay Hale	Council Member	Jan 2014
Dale Stanek	Council Member	Jan 2014
Aaron Anderson	Clerk/Administrator	Indefinite
Teri Billick	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 of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Ely, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Ely's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Ely as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 12, 2012 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ely's basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Ely provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 62%, or approximately \$481,000, due primarily to note proceeds being received ahead of ongoing capital project disbursements.
- The cash basis net assets of the City's business type activities increased 37%, or approximately \$128,000, due primarily to note proceeds received for water system improvements.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sewer and sanitation systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

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

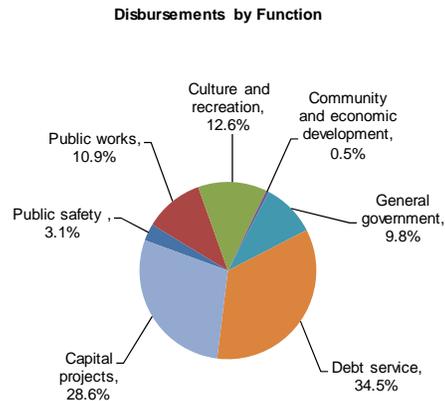
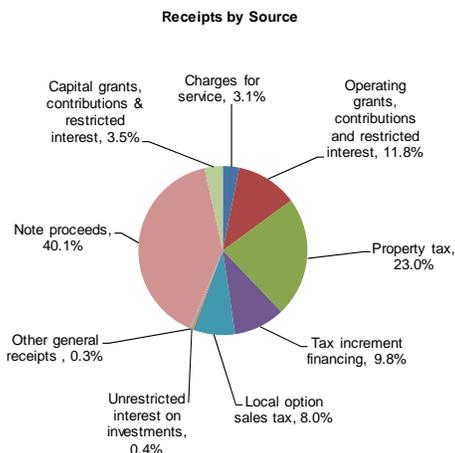
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City, and the Sanitation Fund.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$774,399 at June 30, 2010 to \$1,255,724 at June 30, 2011. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service	\$ 59,480
Operating grants, contributions and restricted interest	227,383
Capital grants, contributions and restricted interest	66,755
General receipts:	
Property tax	444,462
Tax increment financing	188,145
Local option sales tax	154,431
Unrestricted interest on investments	8,650
Note proceeds	775,333
Other general receipts	5,051
Total receipts	<u>1,929,690</u>
Disbursements:	
Public safety	43,254
Public works	154,091
Culture and recreation	178,618
Community and economic development	7,079
General government	137,931
Debt service	488,480
Capital projects	403,912
Total disbursements	<u>1,413,365</u>
Change in cash basis net assets before transfers	516,325
Transfers, net	<u>(35,000)</u>
Change in cash basis net assets	481,325
Cash basis net assets beginning of year	<u>774,399</u>
Cash basis net assets end of year	<u>\$ 1,255,724</u>



The City's cash balance for business type activities increased 37.4% from a year ago, increasing from \$342,879 at June 30, 2010 to \$471,090 at June 30, 2011. The increase is due primarily to note proceeds received for water system improvements.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2011</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 191,519
Sewer	269,105
Sanitation	71,608
General receipts:	
Unrestricted interest on investments	1,993
Note proceeds	574,195
Total receipts	<u>1,108,420</u>
Disbursements:	
Water	591,277
Sewer	349,593
Sanitation	74,339
Total disbursements	<u>1,015,209</u>
Change in cash basis net assets before transfers	93,211
Transfers, net	<u>35,000</u>
Change in cash basis net assets	128,211
Cash basis net assets beginning of year	<u>342,879</u>
Cash basis net assets end of year	<u>\$ 471,090</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Ely completed the year, its governmental funds reported a combined fund balance of \$1,255,724, an increase of more than \$480,000 above last year's total of \$774,399. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$137,983 over the prior year to \$691,032. The increase was due primarily to fewer disbursements during the year for park development than during fiscal year 2010.
- The Special Revenue, Road Use Tax Fund cash balance increased \$20,588 to \$30,652 at June 30, 2011. The increase is attributable to a decrease in disbursements during fiscal year 2011.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$44,374 to \$124,785 at June 30, 2011. The increase was due primarily to receiving more TIF proceeds than was obligated for in fiscal year 2011.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$19,393 from the prior year to \$22,157. Local option sales tax receipts were more than the amounts transferred to other funds.
- The Special Revenue, Friends of the Ely Public Library Fund cash balance decreased \$1,076 during the year to \$130,239 at June 30, 2011.
- The Debt Service Fund cash balance decreased \$995 to \$4,537 at June 30, 2011.
- The Capital Projects Fund cash balance increased \$260,451 from the prior year to \$251,715 at the end of the fiscal year. This increase was due to note proceeds received for the 2011 Hillcrest Street and Jappa Road improvement projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$175,228 to \$522,214 at June 30, 2011. The increase is primarily due to the receipt of note proceeds for water system improvements.
- The Sewer Fund cash balance decreased \$44,286 to a balance of (\$95,326) at June 30, 2011. The decrease is primarily due to the City having more disbursements than receipts.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 9, 2011 and resulted in an increase in budgeted disbursements of \$373,942 related to park and entrance signs and the Hillcrest Street project.

The City's receipts were \$98,648 more than budgeted. Intergovernmental receipts were \$70,276 more than budgeted, primarily due to receiving reimbursements sooner than expected.

Total disbursements were \$774,984 less than the amended budget. However, disbursements for the debt service and public works functions were \$501,245 and \$630, respectively, more than budgeted. This was primarily due to the City not anticipating the refunding notes in the budget.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$3,992,195 in long-term debt outstanding, compared to \$3,239,000 last year. This represents an increase of 55% over last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation notes	\$ 975,000	290,000
General obligation bonds	-	365,000
Revenue notes	3,017,195	2,584,000
Total	\$ 3,992,195	3,239,000

Debt increased as a result of the City issuing general obligation and water revenue notes during fiscal year 2011.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$975,000 is below its constitutional debt limit of \$5,046,046.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

So far, the City of Ely has weathered the national downturn in the housing market with minimal loss of homes and no discernible decrease in residential valuation and a minor decrease, if any, in the pace of new home construction. Ely has consistently issued building permits for between five and 15 new homes or residential units each year, including 2011. Ely experienced ongoing interest in market rate residential construction and development. A plat was approved and the developer installed municipal improvements for an 8-lot multi-family residential subdivision in 2010. In addition, a preliminary plat for a 68-lot single family residential subdivision was approved in 2011 and the developer initiated construction of municipal improvements of the first addition of this subdivision in 2011. Ely has been fortunate residential

growth has occurred in an incremental, not explosive, manner, which allows the City to extend or expand needed infrastructure in a financially sustainable manner.

The City completed significant upgrades to essential infrastructure in fiscal year 2011 through construction of a new 300,000 gallon water tower which will provide water storage and fire fighting capacity to meet several years of growth. A mechanical Wastewater Treatment Plant went online in 2007, which allows Ely to comply with known wastewater treatment standards and has capacity for a population of roughly 3,000. The City is developing a 20+/- acre site as a park with baseball/softball and soccer fields, playgrounds, sand volleyball and other recreational facilities. The park is funded mainly through donations and local option sales tax receipts.

The City of Ely's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, including tax rates and fees charged for various City activities. The City's fiscal year 2012 taxable valuation has increased approximately 6.3%, or \$3,189,125, over the fiscal year 2011 level.

The fiscal year 2012 budget contains total receipts of \$3,024,472 and disbursements of \$3,202,819. Compared to recent years, this budget reflects less activity related to construction of capital projects. Hence, lower receipts to cover capital costs and lower spending for capital projects. The fiscal year 2012 budget reflects action to increase sanitary sewer rates as needed for debt service payments.

The fiscal year 2012 tax levy is \$8.33785 per \$1,000 of taxable valuation, a decrease of more than one-cent per \$1,000 of taxable valuation from fiscal year 2011.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Aaron Anderson, City Administrator/Clerk, 1570 Rowley Street, P.O. Box 248, Ely, Iowa 52227.

Basic Financial Statements

City of Ely

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 43,254	17,122	3,450	-
Public works	154,091	3,728	127,724	-
Culture and recreation	178,618	29,216	96,209	-
Community and economic development	7,079	606	-	-
General government	137,931	8,808	-	-
Debt service	488,480	-	-	-
Capital projects	403,912	-	-	66,755
Total governmental activities	1,413,365	59,480	227,383	66,755
Business type activities:				
Water	591,277	191,279	-	-
Sewer	349,593	268,172	-	-
Sanitation	74,339	71,608	-	-
Total business type activities	1,015,209	531,059	-	-
Total	\$ 2,428,574	590,539	227,383	66,755

General Receipts and Transfers

Property and other city tax levied for:
 General purposes
 Debt service
Tax increment financing
Local option sales tax
Unrestricted interest on investments
Note proceeds, net of \$4,667 discount
Miscellaneous
Transfers
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Urban renewal tax increment financing
 Local option sales tax
 Capital projects
 Debt service
 Other purposes
Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(22,682)	-	(22,682)
(22,639)	-	(22,639)
(53,193)	-	(53,193)
(6,473)	-	(6,473)
(129,123)	-	(129,123)
(488,480)	-	(488,480)
(337,157)	-	(337,157)
(1,059,747)	-	(1,059,747)
-	(399,998)	(399,998)
-	(81,421)	(81,421)
-	(2,731)	(2,731)
-	(484,150)	(484,150)
(1,059,747)	(484,150)	(1,543,897)
386,235	-	386,235
58,227	-	58,227
188,145	-	188,145
154,431	-	154,431
8,650	1,993	10,643
775,333	574,195	1,349,528
5,051	1,173	6,224
(35,000)	35,000	-
1,541,072	612,361	2,153,433
481,325	128,211	609,536
774,399	342,879	1,117,278
\$ 1,255,724	471,090	1,726,814
\$ 30,652	-	30,652
124,785	-	124,785
22,157	-	22,157
251,715	-	251,715
4,537	5,240	9,777
130,846	-	130,846
691,032	465,850	1,156,882
\$ 1,255,724	471,090	1,726,814

City of Ely

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

As of and for the year ended June 30, 2011

	General	Special	
		Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 386,235	-	-
Tax increment financing	-	-	188,145
Other city tax	-	-	-
Licenses and permits	26,515	-	-
Use of money and property	8,650	-	-
Intergovernmental	36,991	127,355	-
Charges for service	2,779	-	-
Special assessments	-	-	-
Miscellaneous	79,315	-	-
Total receipts	<u>540,485</u>	<u>127,355</u>	<u>188,145</u>
Disbursements:			
Operating:			
Public safety	43,254	-	-
Public works	47,324	106,767	-
Culture and recreation	172,465	-	-
Community and economic development	1,528	-	5,551
General government	137,931	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>402,502</u>	<u>106,767</u>	<u>5,551</u>
Excess (deficiency) of receipts over (under) disbursements	<u>137,983</u>	<u>20,588</u>	<u>182,594</u>
Other financing sources (uses):			
Note proceeds, net of \$4,667 discount	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	-	(138,220)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(138,220)</u>
Net change in cash balances	137,983	20,588	44,374
Cash balances beginning of year	553,049	10,064	80,411
Cash balances end of year	<u>\$ 691,032</u>	<u>\$ 30,652</u>	<u>124,785</u>
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ -	-	-
Streets	-	30,652	-
Urban renewal tax increment financing	-	-	124,785
Local option sales tax	-	-	-
Capital projects	-	-	-
Other purposes	-	-	-
Unassigned	691,032	-	-
Total cash basis fund balances	<u>\$ 691,032</u>	<u>30,652</u>	<u>124,785</u>

See notes to financial statements.

Revenue					Nonmajor	
Local Option Sales Tax	Friends of the Ely Public Library	Debt Service	Capital Projects	Farmers Market	Total	
-	-	58,227	-	-	444,462	
-	-	-	-	-	188,145	
154,431	-	-	-	-	154,431	
-	-	-	-	-	26,515	
-	52	-	-	-	8,702	
-	-	-	66,478	-	230,824	
-	-	-	-	607	3,386	
-	-	-	606	-	606	
-	5,025	-	12,946	-	97,286	
154,431	5,077	58,227	80,030	607	1,154,357	
-	-	-	-	-	43,254	
-	-	-	-	-	154,091	
-	6,153	-	-	-	178,618	
-	-	-	-	-	7,079	
-	-	-	-	-	137,931	
-	-	488,480	-	-	488,480	
-	-	-	403,912	-	403,912	
-	6,153	488,480	403,912	-	1,413,365	
154,431	(1,076)	(430,253)	(323,882)	607	(259,008)	
-	-	-	775,333	-	775,333	
-	-	429,258	84,000	-	513,258	
(135,038)	-	-	(275,000)	-	(548,258)	
(135,038)	-	429,258	584,333	-	740,333	
19,393	(1,076)	(995)	260,451	607	481,325	
2,764	131,315	5,532	(8,736)	-	774,399	
22,157	130,239	4,537	251,715	607	1,255,724	
-	-	4,537	-	-	4,537	
-	-	-	-	-	30,652	
-	-	-	-	-	124,785	
22,157	-	-	-	-	22,157	
-	-	-	251,715	-	251,715	
-	130,239	-	-	607	130,846	
-	-	-	-	-	691,032	
22,157	130,239	4,537	251,715	607	1,255,724	

City of Ely

City of Ely

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

As of and for the year ended June 30, 2011

	Enterprise			Total
	Water	Sewer	Nonmajor Sanitation	
Operating receipts:				
Charges for service	\$ 188,134	268,172	71,549	527,855
Miscellaneous	3,385	933	59	4,377
Total operating receipts	191,519	269,105	71,608	532,232
Operating disbursements:				
Business type activities	105,809	124,495	74,339	304,643
Excess (deficiency) of operating receipts over (under) operating disbursements	85,710	144,610	(2,731)	227,589
Non-operating receipts (disbursements):				
Interest on investments	791	1,202	-	1,993
Note proceeds	574,195	-	-	574,195
Debt service	-	(225,098)	-	(225,098)
Capital projects	(485,468)	-	-	(485,468)
Net non-operating receipts (disbursements)	89,518	(223,896)	-	(134,378)
Excess (deficiency) of receipts over (under) disbursements	175,228	(79,286)	(2,731)	93,211
Operating transfers in	-	35,000	-	35,000
Net change in cash balances	175,228	(44,286)	(2,731)	128,211
Cash balances beginning of year	346,986	(51,040)	46,933	342,879
Cash balances end of year	\$ 522,214	(95,326)	44,202	471,090
Cash Basis Fund Balances				
Reserved for debt service	\$ 5,240	-	-	5,240
Unrestricted	516,974	(95,326)	44,202	465,850
Total cash basis fund balances	\$ 522,214	(95,326)	44,202	471,090

See notes to financial statements.

City of Ely

Notes to Financial Statements

June 30, 2011

(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 and general government services. The City also provides water, sewer and sanitation services for its citizens.

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.

The financial statements present the City of Ely (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Friends of the Ely Public Library is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. Although the Friends of the Ely Public 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. The financial transactions have been reported as a Special Revenue Fund of the City.

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, Linn County Joint E911 Service Board and College-Ely-Putnam Volunteer Fire Department.

B. Basis of Presentation

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

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

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is utilized to account for the collection and use of local option sales tax receipts.

The Friends of the Ely Public Library Fund is used to account for donations to the Ely Public Library.

The Debt Service Fund is utilized to account for the property tax and other receipts to be used for payment of interest and principal on the City's general long-term debt.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2011, Friends of the Ely Public Library had the following investments:

Type	Carrying Value	Fair Value	Maturity
Mutual funds	\$ 108,944	140,500	N/A
Money market	5,169	5,169	N/A
Preferred stock	5,072	4,883	N/A
Total	<u>\$ 119,185</u>	<u>150,552</u>	

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City. Friends of the Ely Public Library, a blended component unit of the City, does not have a formal policy limiting investment maturities as a means of managing exposure to credit risk.

Credit risk – Investments by Friends of the Ely Public Library in mutual funds and money market funds are unrated.

Concentration of Credit Risk – The City and Friends of the Ely Public Library place no limits on the amount that may be invested in any one issuer. However, the City's policy requires the City to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities.

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 185,000	21,086	118,000	73,206	303,000	94,292
2013	195,000	16,886	121,000	69,750	316,000	86,636
2014	140,000	14,186	125,000	66,120	265,000	80,306
2015	140,000	11,686	129,000	62,370	269,000	74,056
2016	50,000	8,656	134,000	58,500	184,000	67,156
2017 - 2021	265,000	24,148	736,000	229,680	1,001,000	253,828
2022 - 2026	-	-	864,000	111,780	864,000	111,780
2027 - 2028	-	-	216,000	7,260	216,000	7,260
Total	\$ 975,000	96,648	2,443,000	678,666	3,418,000	768,054

Sewer Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,557,000 and \$470,000 of sewer revenue notes issued April 5, 2007 and December 6, 2007, respectively, with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. Proceeds from the notes provided financing for the cost of constructing improvements and extensions to the City's sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2028. Annual principal and interest payments on the notes are expected to require more than 155% of the net receipts. The total principal and interest remaining to be paid on the notes is \$3,121,666. For the current year, principal and interest and total customer net receipts were \$225,098 and \$144,610, respectively.

The resolutions providing for the issuance of the sewer revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a separate sewer revenue sinking account for the purpose of making principal and interest payments when due.
- c) User rates shall be established at a level which produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

The City has not made sufficient monthly transfers to the sinking account and user rates have not been established which produce and maintain net receipts at the required level.

Water Revenue Notes

On November 17, 2010, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, Iowa, N.A. for the issuance of \$962,000 of water revenue capital loan notes with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing improvements to the City's water system,

including construction of a water tower. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2011, the City had drawn \$574,195 of the \$962,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining balance of \$387,805 held in trust, which the City will request as the project progresses. An initiation fee of 1% of the authorized borrowing for the water revenue capital loan notes was charged by Wells Fargo Bank, N.A. The total initiation fee of \$9,620 was withheld from the first proceeds of the water revenue capital loan notes drawn by the City. Since the City has not fully drawn down funds on the water revenue capital loan notes, a final repayment schedule has not yet been adopted for the debt.

Refunding Notes

On April 11, 2011, the City issued \$780,000 of general obligation notes. The notes were issued as a current refunding to retire the outstanding balances of \$170,000 of the \$525,000 general obligation bonds issued August 1, 2000, \$105,000 of the \$450,000 general obligation bonds issued September 1, 2002 and to pay for street and sidewalk improvement projects. The notes bear interest at rates ranging from .65% to 3.20% per annum and mature June 1, 2021.

The refunding reduced total debt service payments over the next five years by \$16,455 and resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$15,919.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$19,386, equal to the required contribution for the year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 5 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

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

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$294 for single coverage and \$735 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2011, the City contributed \$13,127 and plan members eligible for benefits contributed \$4,475 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City’s approximate liability for earned vacation payments payable to employees at June 30, 2011, primarily relating to the General Fund, was \$1,500. This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) Industrial Development Revenue Bonds

The City has issued a total of \$4,640,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$2,844,535 is outstanding at June 30, 2011. The bonds and related interest are payable solely from the rents payable by the tenants of the properties constructed and the bonds and interest do not constitute liabilities of the City.

(8) Risk Management

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

(9) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	\$ 103,220
	Local Option Sales Tax	51,038
	Capital Projects	<u>275,000</u>
		429,258
Capital Projects	Special Revenue:	
	Local Option Sales Tax	84,000
Enterprise: Sewer	Special Revenue:	
	Urban Renewal Tax Increment	<u>35,000</u>
Total		<u>\$ 548,258</u>

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

(10) Construction Commitments

During the year ended June 30, 2011, the City entered into construction contracts totaling \$1,802,819 for street projects and water storage projects. The balances remaining on the contracts started in 2011 and on-going projects from prior years totaled \$1,090,709 at June 30, 2011. Project costs will be paid as work on the unfinished projects are completed.

(11) Subsequent Event

In August 2011, the City issued \$765,000 of general obligation notes for a 2011 Downtown Dows Streetscape project.

Required Supplementary Information

City of Ely
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 444,462	-	-
Tax increment financing	188,145	-	-
Other city tax	154,431	-	-
Licenses and permits	26,515	-	-
Use of money and property	8,702	1,993	52
Intergovernmental	230,824	-	-
Charges for service	3,386	527,855	-
Special assessments	606	-	-
Miscellaneous	97,286	4,377	5,025
Total receipts	1,154,357	534,225	5,077
Disbursements:			
Public safety	43,254	-	-
Public works	154,091	-	-
Culture and recreation	178,618	-	6,153
Community and economic development	7,079	-	-
General government	137,931	-	-
Debt service	488,480	225,098	-
Capital projects	403,912	-	-
Business type activities	-	790,111	-
Total disbursements	1,413,365	1,015,209	6,153
Excess (deficiency) of receipts over (under) disbursements	(259,008)	(480,984)	(1,076)
Other financing sources, net	740,333	609,195	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	481,325	128,211	(1,076)
Balances beginning of year	774,399	342,879	131,315
Balances end of year	\$ 1,255,724	471,090	130,239

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
444,462	439,612	439,612	4,850
188,145	183,220	183,220	4,925
154,431	166,280	166,280	(11,849)
26,515	13,200	13,200	13,315
10,643	9,560	9,560	1,083
230,824	143,744	160,548	70,276
531,241	537,525	537,967	(6,726)
606	-	-	606
96,638	19,600	74,470	22,168
<u>1,683,505</u>	<u>1,512,741</u>	<u>1,584,857</u>	<u>98,648</u>
43,254	55,365	55,365	12,111
154,091	153,461	153,461	(630)
172,465	149,044	190,844	18,379
7,079	18,200	18,200	11,121
137,931	158,166	158,166	20,235
713,578	212,333	212,333	(501,245)
403,912	270,500	602,200	198,288
790,111	1,806,394	1,806,836	1,016,725
<u>2,422,421</u>	<u>2,823,463</u>	<u>3,197,405</u>	<u>774,984</u>
(738,916)	(1,310,722)	(1,612,548)	873,632
<u>1,349,528</u>	<u>1,420,000</u>	<u>2,074,384</u>	<u>724,856</u>
610,612	109,278	461,836	148,776
985,963	1,017,941	1,017,941	(31,978)
<u>1,596,575</u>	<u>1,127,219</u>	<u>1,479,777</u>	<u>116,798</u>

City of Ely

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except for 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 nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$373,942. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works and debt service functions.

Other Supplementary Information

City of Ely
 Schedule of Indebtedness
 Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire station	Jun 1, 2001	4.40-4.65%	\$ 400,000
Street improvement	Aug 3, 2009	2.00-3.00	240,000
Street improvement and refunding	Apr 11, 2011	0.65-3.20	780,000
Total			
General obligation bonds:			
Sewer and street improvements	Aug 1, 2000	5.35-5.75%	\$ 525,000
Urban renewal project	Sep 1, 2002	3.10-3.90	450,000
Total			
Revenue notes:			
Sewer	Apr 5, 2007	3.00% *	\$ 2,557,000
Sewer	Dec 6, 2007	3.00 *	470,000
Water	Nov 17, 2010	3.00 *	962,000
Total			

* The City is required to annually pay a .25% service fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
50,000	-	50,000	-	2,325
240,000	-	45,000	195,000	6,038
-	780,000	-	780,000	-
\$ 290,000	780,000	95,000	975,000	8,363
210,000	-	210,000	-	11,873
155,000	-	155,000	-	5,895
\$ 365,000	-	365,000	-	17,768
2,212,000	-	122,000	2,090,000	71,913
372,000	-	19,000	353,000	12,185
-	574,195	-	574,195	-
\$ 2,584,000	574,195	141,000	3,017,195	84,098

City of Ely
 Note Maturities
 June 30, 2011

Year Ending June 30,	General Obligation Notes					Total
	Street Improvement Issued Aug 3, 2009		Street improvement and Refunding Issued Apr 11, 2011			
	Interest Rates	Amount	Interest Rates	Amount		
2012	2.25%	\$ 45,000	.65%	\$ 140,000	185,000	
2013	2.50	50,000	1.00	145,000	195,000	
2014	2.75	50,000	1.25	90,000	140,000	
2015	3.00	50,000	1.70	90,000	140,000	
2016		-	2.30	50,000	50,000	
2017		-	2.30	50,000	50,000	
2018		-	2.70	50,000	50,000	
2019		-	2.70	55,000	55,000	
2020		-	3.20	55,000	55,000	
2021		-	3.20	55,000	55,000	
2022		-		-	-	
2023		-		-	-	
2024		-		-	-	
2025		-		-	-	
2026		-		-	-	
2027		-		-	-	
2028		-		-	-	
Total		<u>\$ 195,000</u>		<u>\$ 780,000</u>	<u>975,000</u>	

See accompanying independent auditor's report.

Revenue Notes				
Sewer		Sewer		Total
Issued Apr 5, 2007		Issued Dec 6, 2007		
Interest Rates	Amount	Interest Rates	Amount	
3.00%	\$ 102,000	3.00%	\$ 16,000	118,000
3.00	105,000	3.00	16,000	121,000
3.00	108,000	3.00	17,000	125,000
3.00	112,000	3.00	17,000	129,000
3.00	116,000	3.00	18,000	134,000
3.00	119,000	3.00	19,000	138,000
3.00	123,000	3.00	19,000	142,000
3.00	127,000	3.00	20,000	147,000
3.00	131,000	3.00	21,000	152,000
3.00	136,000	3.00	21,000	157,000
3.00	140,000	3.00	22,000	162,000
3.00	145,000	3.00	23,000	168,000
3.00	149,000	3.00	23,000	172,000
3.00	154,000	3.00	24,000	178,000
3.00	159,000	3.00	25,000	184,000
3.00	164,000	3.00	26,000	190,000
	-	3.00	26,000	26,000
	<u>\$ 2,090,000</u>		<u>\$ 353,000</u>	<u>2,443,000</u>

City of Ely



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Ely, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 12, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Ely is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Ely's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Ely's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Ely's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of 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

March 12, 2012

City of Ely

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas:
- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions, handling and recording cash.
 - (2) Receipts - collecting, depositing, recording and custody.
 - (3) Utility receipts - billing, collecting, depositing, reconciling and posting.
 - (4) Disbursements – purchasing, preparing checks and recording.
 - (5) Payroll – preparing, approving and distributing.
 - (6) Financial reporting – preparing, posting and reconciling.
 - (7) Computer system – performing all general accounting functions and controlling all data input and output.

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

Response – The City will review control activities and maximize internal control as much as possible; including having independent reviewer(s) initial and date the review.

Conclusion – Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were reconciled on a monthly basis. However, the reconciliations and delinquent listings were not reviewed by an independent person.

Recommendation – An independent person should review the monthly utility reconciliations and monitor delinquent accounts.

Response – We will provide the reconciliation and delinquent list to the City Council for approval.

Conclusion – Response accepted.

City of Ely

Schedule of Findings

Year ended June 30, 2011

- (C) Financial Reporting – During the audit, we identified a material amount of water receipts misclassified as sewer receipts. Additionally, the City did not transfer bond proceeds from the Capital Projects Fund to the Debt Service Fund from which debt refunding payments were made. These have been corrected for financial reporting purposes.

Recommendation – The City should implement procedures to ensure receipts are properly recorded and classified in the City's financial statements.

Response – The City will implement a procedure to review receipts and confirm they are properly classified in the financial statements.

Conclusion – Response accepted.

- (D) Computer System – During our review of internal control, the existing control activities in the City's computer system were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer system were noted:

The City does not have written policies for:

- A disaster recovery plan to include all operations of the City.
- Requiring time out/log off or screen saver password to protect computer terminals when not in use.
- Requiring password changes because software does not require the user to change logins/passwords periodically.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's internal control over its computer system.

Response – The City will adopt a disaster recovery plan that includes all of the City's operations, and policies for time out/log off and to require periodic changing of passwords and logins on the City's computers.

Conclusion – Response accepted.

- (E) Compensatory Time Records – During the year, one City employee used more than the available amount of vacation.

Recommendation – The City should ensure employees do not exceed their allowed vacation.

Response – The City will review leave balances prior to approving requests for leave to ensure employees do not take more vacation than their balance.

Conclusion – Response accepted.

City of Ely

Schedule of Findings

Year ended June 30, 2011

- (F) Invoices – One invoice for \$500 was mistakenly paid twice. Additionally, two invoices were not properly approved by the City Council.

Recommendation – The City should take the appropriate steps to ensure invoices are properly cancelled to avoid duplicate payments. Also, the City should ensure all invoices are approved by the City Council.

Response – The City will enact procedures to ensure invoices are properly due for payment to avoid double payments and all invoices are approved by the City Council. Procedures will include review and sign-off of coding by a second person before checks are written.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Ely

Schedule of Findings

Year ended June 30, 2011

Part III: Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public works and debt service functions.

Recommendation – The budget should have been amended in sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Disbursements from the Debt Service Fund exceeded the budget to take advantage of an opportunity to realize net interest cost savings related to refunding existing general obligation bond issues. Bids for the issue were not received in time to include in a budget amendment. In the future, the City will ensure disbursement amounts do not exceed budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

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

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Joe Varva, City employee, Owner of Varva Lumber	Lumber and supplies	\$ 124

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with the City employee do not appear to represent conflicts of interest since the cumulative amount was less than \$2,500 during the year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

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

The City did not always publish minutes within fifteen days as required by Chapter 372.13(6) of the Code of Iowa or did not publish them at all.

Recommendation – The City should publish minutes as required.

Response – Council minutes will be published as required.

Conclusion – Response accepted.

City of Ely

Schedule of Findings

Year ended June 30, 2011

- (7) 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.
- (8) Revenue Notes – The City's sewer revenue note resolutions require the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers that produce net operating receipts equal to at least 110% of the principal and interest coming due in each fiscal year. The City's net sewer operating receipts of \$144,610 were less than 110% of the \$225,098 of sewer revenue note principal and interest due during the year.

Additionally, the City did not transfer sufficient amounts to the sinking account for the revenue note payments.

Recommendation – The City should review sewer rates and consult bond counsel to determine the disposition of this matter.

Additionally, the City should transfer sufficient amounts from the Sewer Fund to the related sewer sinking account to pay the revenue note payments.

Response – The City will review sewer rates to determine changes needed to generate necessary revenue to meet debt service requirements consistent with the terms of the notes. Sufficient funds will be transferred from the Sewer Fund into the sewer sinking account for revenue note payments.

Conclusion – Response accepted.

- (9) Financial Condition – The Enterprise, Sewer Fund had a deficit balance of \$95,326 at June 30, 2011.

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

Response – The City is actively investigating and pursuing alternatives to remedy this situation. Options being considered include, but are not limited to, refunding debt service at lower interest rate, negotiating changes to the existing debt service schedules and increasing sanitary sewer rates.

Conclusion – Response accepted.

- (10) Tax Increment Financing (TIF) Indebtedness Certification – Chapter 403.19 of the Code of Iowa provides a municipality shall certify TIF indebtedness to the County Auditor. The County Auditor shall provide available TIF increment property tax in subsequent fiscal years without further certification (emphasis added) until the amount of certified indebtedness is paid to the City. The following were noted regarding the City's TIF indebtedness certification to the County Auditor:

- a. The City paid three downtown commercial grants totaling \$5,551 during fiscal year 2011 out of the Special Revenue, Urban Renewal Tax Increment Fund. However, the City did not properly create TIF debt. Additionally, the City certified \$30,000 in both fiscal year 2012 and

City of Ely

Schedule of Findings

Year ended June 30, 2011

2013 to be used for economic development purposes. However, no TIF debt has been created.

- b. The City transferred \$35,000 from the Special Revenue, Urban Renewal Tax Increment Fund to the Enterprise, Sewer Fund to assist with paying the debt associated with the wastewater treatment plant. However, the City did not establish this as TIF debt and the sewer revenue note agreement states, in part, "The debt shall be payable solely from the net revenues of the sewer system, wastewater system or water system." In addition, the City has certified an additional \$85,000 over the next two years to be transferred to the Enterprise, Sewer Fund from the Special Revenue, Urban Renewal Tax Increment Fund.

Recommendation – The City should consult legal counsel to determine the disposition of the City's TIF certifications and the amount of TIF debt to be decertified, if any.

Response – The City will consult with counsel to determine the disposition of TIF certifications and any amount to decertify and will act upon counsel's recommendation.

Conclusion – Response accepted.

- (11) 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 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 auditor.

Recommendation – The City should take steps to ensure 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 work with the Fire Department to confirm the accuracy of their financial statements and will consult with appropriate sources regarding disposition of this matter.

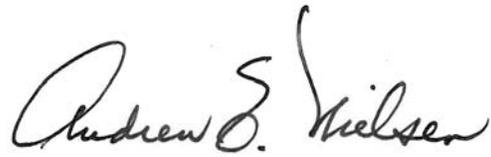
Conclusion – Response accepted.

City of Ely

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Daniel L. Grady, Senior Auditor
Jenny R. Lawrence, Staff Auditor
Brooke A. Lytle, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State