



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

June 25, 2013

Contact: Andy Nielsen
515/281-5834

The Office of Auditor of State today released an audit report on the City of Mechanicsville, Iowa.

The City's receipts totaled \$1,161,907 for the year ended June 30, 2012. The receipts included \$281,666 in property tax, \$358,506 from charges for service, \$255,496 from operating grants, contributions and restricted interest, \$181,417 from capital grants, contributions and restricted interest, \$70,021 from local option sales tax, \$9,211 from unrestricted interest on investments and \$5,590 from other general receipts.

Disbursements for the year totaled \$1,083,954, and included \$258,240 for capital projects, \$214,218 for public safety, \$145,336 for public works and \$126,012 for culture and recreation. Also, disbursements for business type activities totaled \$265,191.

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/1221-0139-B00F.pdf>.

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

JUNE 30, 2012

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City of Mechanicsville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Boyd A. Stine	Mayor	Jan 2014
Gene Brown	Mayor Pro tem	Jan 2012
Carla Barnhart	Council Member	Jan 2012
Larry Beck	Council Member	Jan 2012
Deanna Cook	Council Member	Jan 2014
Calvin Paup	Council Member	Jan 2014
Linda K. Coppess	City Clerk	Indefinite
Carol Lamont	Treasurer	Indefinite
Douglas W. Simkin	Attorney	Indefinite
(After January 2012)		
Boyd A. Stine	Mayor	Jan 2014
Calvin Paup	Mayor Pro tem	Jan 2014
Deanna Cook	Council Member	Jan 2014
Pam Cavey	Council Member	Jan 2016
Rob Davis	Council Member	Jan 2016
Pam Logue	Council Member	Jan 2016
Linda K. Coppess	City Clerk	Indefinite
Carol Lamont	Treasurer	Indefinite
Douglas W. Simkin	Attorney	Indefinite

City of Mechanicsville



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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 Mechanicsville, Iowa, as of and for the year ended June 30, 2012, 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 Mechanicsville'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, 2011.

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, 2011, 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 Mechanicsville as of June 30, 2012, 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 June 3, 2013 on our consideration of the City of Mechanicsville'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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mechanicsville's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. 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, 2011, as discussed in the third paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mechanicsville's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 28 through 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 3, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Mechanicsville 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, 2012. 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.

2012 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 9.7%, or approximately \$91,000, due primarily to increased intergovernmental receipts related to the Safe Routes to School capital project, financed in part with a federal grant.
- The cash basis net assets of the City's business type activities decreased 2.7%, or approximately \$12,000, due primarily to an increase in utility maintenance and debt service disbursements.

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.

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information 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, culture and recreation, community and economic development and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and solid waste 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, Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds, such as Tree Trust and Cemetery Perpetual Care. 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 water, sewer and solid waste system operations, considered to be major funds of the City.

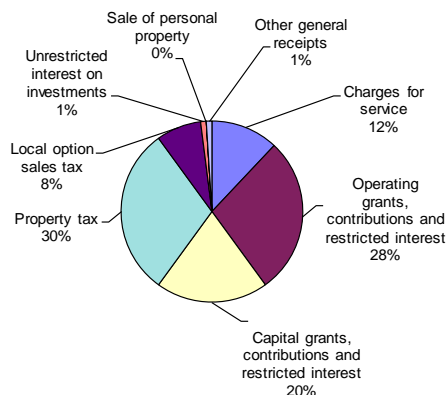
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

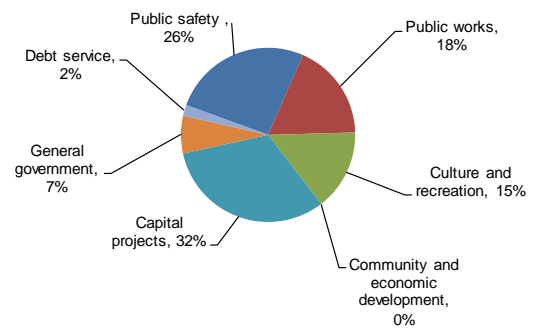
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$937,038 at June 30, 2011 to \$1,027,645 at June 30, 2012. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2012
Receipts:		-
Program receipts:		
Charges for service		\$ 113
Operating grants, contributions and restricted interest		255
Capital grants, contributions and restricted interest		181
General receipts:		
Property tax		282
Local option sales tax		70
Unrestricted interest on investments		5
Sale of personal property		1
Other general receipts		5
Total receipts		<u>912</u>
Disbursements:		
Public safety		214
Public works		145
Culture and recreation		126
Community and economic development		4
General government		56
Debt service		15
Capital projects		258
Total disbursements		<u>818</u>
Change in cash basis net assets before transfers		94
Transfers, net		<u>(3)</u>
Change in cash basis net assets		91
Cash basis net assets beginning of year		<u>937</u>
Cash basis net assets end of year		<u><u>\$ 1,028</u></u>

Receipts by Source



Disbursements by Function



The cash basis net assets increased \$90,607, due primarily to receipt of a federal grant relating to the Safe Routes to School capital project.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 88
Sewer	63
Solid waste	95
General receipts:	
Unrestricted interest on investments	4
Total receipts	<u>250</u>
Disbursements:	
Water	96
Sewer	79
Solid waste	90
Total disbursements	<u>265</u>
Increase in cash basis net assets before transfers	(15)
Transfers, net	<u>3</u>
Change in cash basis net assets	(12)
Cash basis net assets beginning of year	<u>472</u>
Cash basis net assets end of year	<u>\$ 460</u>

Total business type activities cash basis net assets decreased 2.7%, or \$12,654, decreasing from \$472,226 at June 30, 2011 to \$459,572 at June 30, 2012. The decrease is primarily due to increased utility maintenance and debt service disbursements during fiscal year 2012.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Mechanicsville completed the year, its governmental funds reported a combined fund balance of \$1,027,645, an increase of \$90,607 over last year's total fund balance of \$937,038. 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 \$133,588 from the prior year to \$649,066. The increase is primarily due to increased contributions for the sports complex project and decreased disbursements.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$22,220 to \$130,988 during the fiscal year. The decrease is primarily due to public works project disbursements, such as the purchase of a salt shed for the City.
- The Capital Projects Fund did not retain a cash balance at year end as the prior year deficit was eliminated by the end of the fiscal year. The City completed the Safe Route to School project and financed the project through the receipt of a federal grant and a transfer from the Special Revenue, Local Option Sales Tax Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$5,521 to \$261,650, due primarily to decreased charges for service receipts.
- The Enterprise, Sewer Fund cash balance decreased \$12,298 to \$160,575, due primarily to increased maintenance disbursements.
- The Enterprise, Solid Waste Fund cash balance increased \$5,165 to \$37,347.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on March 12, 2012 and resulted in an increase in operating disbursements of \$170,300, related primarily to the public works, culture and recreation, capital projects and business type activities functions.

The City’s receipts were \$43,283 more than budgeted. This was primarily due to the City receiving increased contributions for the fire and ambulance departments and the sports complex project.

Total disbursements were \$198,766 less than the amended budget, primarily due to the City’s effort to contain costs in several functional areas.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$78,000 of bonds and notes outstanding, compared to \$112,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2012	2011
Revenue bonds	\$ 63,000	83,000
Fire truck notes	15,000	29,000
Total	\$ 78,000	112,000

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 \$15,000 is significantly below its constitutional debt limit of approximately \$2.4 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City of Mechanicsville’s elected and appointed officials, department heads and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees that will be charged for various City activities.

Budgeted disbursements for fiscal year 2013 are expected to increase to \$1,772,000 in anticipation of purchasing a fire truck, storm sewer relief project construction from Monroe Street to the east side of the city limits and addressing the concerns of meeting the wastewater permit requirements. The tax levy rate increased to \$12.42347 per \$1,000 of taxable valuation for fiscal year 2013. The City anticipates bonding for \$775,000 to cover these purchases over a 15 year period and creating a storm water utility account to help provide funding for maintenance of the storm sewer.

The City anticipates continuing to collect additional receipts from private donations for the construction of the ball field. The City of Mechanicsville received a grant from the Cedar County Community Foundation and another from Minnesota Twins Fields for Kids to assist with this project. During fiscal year 2012, the City completed construction of the Safe Route to School North Cedar Route to Learning project and will be completing the Education and Encouragement portion in 2013.

During fiscal year 2012, the City also replaced the well pump, televised and cleaned well #2 and needs to plan for the possibility of replacing this well in the next 5-8 years. Review for a potential rate increase of the water utility to address capital expenditures for replacing the aging infrastructure will also need to be done. In fiscal year 2012, a salt shed was constructed and a snow blower was purchased, as were gutters for the park pavilion, furnaces for the fire department apparatus room, awnings for the library and memorial building and engineering fees were incurred for the wastewater treatment plant to develop a plan to meet the permit requirements.

The City still hopes to develop an asset replacement schedule for items such as the street sweeper, mowers, tractors and other vehicles, as well as a plan to begin replacement of the aging sanitary sewer pipes, water pipes and various street improvements. In fiscal year 2013, the City will participate in the grant application with the Cedar County 911/EMA Commission to apply for funding to replace and program 2-way radios not currently narrowband compliant for the public safety department.

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 Linda K. Coppess, City Clerk, P.O. Box 339, 100 E. First Street, Mechanicsville, Iowa 52306.

Basic Financial Statements

City of Mechanicsville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 214,218	80,396	86,461	-
Public works	145,336	3,066	108,699	-
Culture and recreation	126,012	28,426	60,186	-
Community and economic development	4,231	-	-	-
General government	55,594	646	150	-
Debt service	15,132	-	-	-
Capital projects	258,240	-	-	181,417
Total governmental activities	818,763	112,534	255,496	181,417
Business type activities:				
Water	96,442	88,252	-	-
Sewer	78,609	62,632	-	-
Solid waste	90,140	95,088	-	-
Total business type activities	265,191	245,972	-	-
Total	\$ 1,083,954	358,506	255,496	181,417

Property and other city tax levied for general purposes

Local option sales tax

Unrestricted interest on investments

Sale of capital assets

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:

Nonexpendable:

Permanent Funds

Expendable:

Streets

Debt service

Employee benefits

Customer deposits

Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(47,361)	-	(47,361)
(33,571)	-	(33,571)
(37,400)	-	(37,400)
(4,231)	-	(4,231)
(54,798)	-	(54,798)
(15,132)	-	(15,132)
(76,823)	-	(76,823)
(269,316)	-	(269,316)
-	(8,190)	(8,190)
-	(15,977)	(15,977)
-	4,948	4,948
-	(19,219)	(19,219)
(269,316)	(19,219)	(288,535)
281,666	-	281,666
70,021	-	70,021
5,294	3,917	9,211
845	-	845
4,745	-	4,745
(2,648)	2,648	-
359,923	6,565	366,488
90,607	(12,654)	77,953
937,038	472,226	1,409,264
\$ 1,027,645	459,572	1,487,217
\$ 106,211	-	106,211
130,988	-	130,988
16,492	19,609	36,101
11,638	-	11,638
-	5,500	5,500
113,250	-	113,250
649,066	434,463	1,083,529
\$ 1,027,645	459,572	1,487,217

City of Mechanicsville

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

As of and for the year ended June 30, 2012

	Special Revenue		
	General	Road Use Tax	Capital Projects
Receipts:			
Property tax	\$ 235,656	-	-
Other city tax	3,747	-	-
Licenses and permits	896	-	-
Use of money and property	23,560	-	-
Intergovernmental	52,147	108,699	181,417
Charges for service	86,264	-	-
Special assessments	3,066	-	-
Miscellaneous	54,933	-	-
Total receipts	460,269	108,699	181,417
Disbursements:			
Operating:			
Public safety	157,645	-	-
Public works	14,417	130,919	-
Culture and recreation	119,960	-	-
Community and economic development	4,095	-	-
General government	45,932	-	-
Debt service	-	-	-
Capital projects	-	-	258,240
Total disbursements	342,049	130,919	258,240
Excess (deficiency) of receipts over (under) disbursements	118,220	(22,220)	(76,823)
Other financing sources (uses):			
Sale of capital assets	845	-	-
Operating transfers in	21,947	-	77,357
Operating transfers out	(7,424)	-	-
Total other financing sources (uses)	15,368	-	77,357
Change in cash balances	133,588	(22,220)	534
Cash balances beginning of year	515,478	153,208	(534)
Cash balances end of year	\$ 649,066	130,988	-
Cash Basis Fund Balances			
Nonspendable:			
Cemetery perpetual care	\$ -	-	-
Bequest	-	-	-
Restricted for:			
Streets	-	130,988	-
Debt service	-	-	-
Employee benefits	-	-	-
Other purposes	-	-	-
Assigned for:			
Ambulance purposes	206,393	-	-
Fire purposes	10,516	-	-
Sports complex project	23,367	-	-
Unassigned	408,790	-	-
Total cash basis fund balances	\$ 649,066	130,988	-

See notes to financial statements.

Nonmajor	Total
41,600	277,256
70,684	74,431
-	896
408	23,968
-	342,263
-	86,264
-	3,066
48,096	103,029
160,788	911,173
56,573	214,218
-	145,336
6,052	126,012
136	4,231
9,662	55,594
15,132	15,132
-	258,240
87,555	818,763
73,233	92,410
-	845
7,424	106,728
(101,952)	(109,376)
(94,528)	(1,803)
(21,295)	90,607
268,886	937,038
247,591	1,027,645
95,011	95,011
11,200	11,200
-	130,988
16,492	16,492
11,638	11,638
113,250	113,250
-	206,393
-	10,516
-	23,367
-	408,790
247,591	1,027,645

City of Mechanicsville

City of Mechanicsville

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

As of and for the year ended June 30, 2012

	Enterprise			Total
	Water	Sewer	Solid Waste	
Operating receipts:				
Charges for service	\$ 88,252	62,632	95,088	245,972
Operating disbursements:				
Business type activities	73,952	78,609	90,140	242,701
Excess (deficiency) of operating receipts over (under) operating disbursements	14,300	(15,977)	4,948	3,271
Non-operating receipts (disbursements):				
Interest on investments	2,669	1,031	217	3,917
Debt service	(22,490)	-	-	(22,490)
Net non-operating receipts (disbursements)	(19,821)	1,031	217	(18,573)
Excess (deficiency) of receipts over (under) disbursements	(5,521)	(14,946)	5,165	(15,302)
Operating transfers in	-	2,648	-	2,648
Change in cash balances	(5,521)	(12,298)	5,165	(12,654)
Cash balances beginning of year	267,171	172,873	32,182	472,226
Cash balances end of year	\$ 261,650	160,575	37,347	459,572
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 19,609	-	-	19,609
Customer deposits	5,500	-	-	5,500
Unrestricted	236,541	160,575	37,347	434,463
Total cash basis fund balances	\$ 261,650	160,575	37,347	459,572

See notes to financial statements.

City of Mechanicsville

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Mechanicsville is a political subdivision of the State of Iowa located in Cedar County. It was first incorporated in 1855 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 solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Mechanicsville 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.

These financial statements present the City of Mechanicsville (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 – Mechanicsville Fire and Ambulance is an entity which is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. The financial transactions have been reported as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Cedar County Assessor's Conference Board, Cedar County Emergency Management Commission, Cedar County Joint E911 Service Board and Cedar County Solid Waste Commission.

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:

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

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

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

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

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

The City reports the following major governmental funds:

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

The Special Revenue, Road Use Tax Fund is used for the road use tax allocation from the State to be used for road construction and maintenance.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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.

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the capital projects function prior to adoption of a budget amendment.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation					
	Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 15,000	600	21,000	1,890	36,000	2,490
2014	-	-	21,000	1,260	21,000	1,260
2015	-	-	21,000	630	21,000	630
Total	\$ 15,000	600	63,000	3,780	78,000	4,380

General Obligation Notes

On June 1, 2008, the City issued general obligation notes for \$68,000 to purchase a fire truck. The agreement requires five annual payments, with the first due on June 1, 2009, including interest at 4.0% per annum, with the final payment due June 1, 2013. The principal balance at June 30, 2012 was \$15,000.

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$397,000 of water revenue bonds issued in June 1999. Proceeds from the bonds provided financing for the construction of a water tower. The bonds are payable solely from water customer net receipts and are payable through 2015. Annual principal and interest payments on the bonds are expected to require 157% of net receipts. The total principal and interest remaining to be paid on the bonds is \$66,780. For the current year, principal and interest paid and total customer net receipts were \$22,490 and \$14,300, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

The City's net operating receipts of \$14,300 for the year ended June 30, 2012 did not support the principal and interest paid during the fiscal year. The City has not established water rates to provide net operating receipts of at least the required 110% of the principal and interest coming due in each year.

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012 was \$17,532, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time 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 and compensatory time payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 8,600
Compensatory time	<u>6,000</u>
Total	<u>\$ 14,600</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 21,810
	Library Trust	137
		<u>21,947</u>
Debt Service	General	7,424
Capital Projects	Special Revenue:	
	Local Option Sales Tax	77,357
Enterprise:	Special Revenue:	
Sewer	Tax Increment Financing	<u>2,648</u>
Total		<u>\$ 109,376</u>

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

(7) 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 fiscal years.

(8) Subsequent Event

On September 10, 2012, the City approved the issuance of \$775,000 of general obligation corporate purpose notes for the purpose of financing the acquisition of a fire truck and construction of storm sewer improvements. The notes were issued on September 26, 2012, bear interest at the rate of 3.25% per annum and mature on June 1, 2027.

City of Mechanicsville

Other Information

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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 277,256	-	-
Other city tax	74,431	-	-
Licenses and permits	896	-	-
Use of money and property	23,968	3,917	177
Intergovernmental	342,263	-	-
Charges for service	86,264	245,972	-
Special assessments	3,066	-	-
Miscellaneous	103,029	-	43,851
Total receipts	911,173	249,889	44,028
Disbursements:			
Public safety	214,218	-	33,578
Public works	145,336	-	-
Culture and recreation	126,012	-	-
Community and economic development	4,231	-	-
General government	55,594	-	-
Debt service	15,132	-	-
Capital projects	258,240	-	-
Business type activities	-	265,191	-
Total disbursements	818,763	265,191	33,578
Excess (deficiency) of receipts over (under) disbursements	92,410	(15,302)	10,450
Other financing sources, net	(1,803)	2,648	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	90,607	(12,654)	10,450
Balances beginning of year	937,038	472,226	38,181
Balances end of year	\$ 1,027,645	459,572	48,631

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
277,256	276,639	276,639	617
74,431	74,374	74,374	57
896	540	540	356
27,708	32,206	32,206	(4,498)
342,263	254,600	331,017	11,246
332,236	337,200	338,000	(5,764)
3,066	-	-	3,066
59,178	3,350	20,975	38,203
1,117,034	978,909	1,073,751	43,283
180,640	209,393	209,393	28,753
145,336	171,787	200,787	55,451
126,012	159,648	165,948	39,936
4,231	5,210	5,210	979
55,594	73,680	73,680	18,086
15,132	15,160	15,160	28
258,240	150,000	270,000	11,760
265,191	293,964	308,964	43,773
1,050,376	1,078,842	1,249,142	198,766
66,658	(99,933)	(175,391)	242,049
845	-	-	845
67,503	(99,933)	(175,391)	242,894
1,371,083	1,108,863	1,108,863	262,220
1,438,586	1,008,930	933,472	505,114

City of Mechanicsville

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Other 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 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, the Permanent Funds 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 \$170,300. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the capital projects function prior to adoption of the budget amendment.

Supplementary Information

City of Mechanicsville

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

As of and for the year ended June 30, 2012

	Employee Benefits	Local Option Sales Tax	Special Tax Increment Financing
Receipts:			
Property tax	\$ 41,600	-	-
Other city tax	663	70,021	-
Use of money and property	-	-	-
Miscellaneous	-	-	-
Total receipts	42,263	70,021	-
Disbursements:			
Operating:			
Public safety	22,995	-	-
Culture and recreation	6,041	-	-
Community and economic development	136	-	-
General government	9,662	-	-
Debt service	-	-	-
Total disbursements	38,834	-	-
Excess (deficiency) of receipts over (under) disbursements	3,429	70,021	-
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	(99,167)	(2,648)
Total other financing sources (uses)	-	(99,167)	(2,648)
Change in cash balances	3,429	(29,146)	(2,648)
Cash balances beginning of year	8,209	82,416	2,648
Cash balances end of year	\$ 11,638	53,270	-
Cash Basis Fund Balances			
Nonspendable:			
Cemetery perpetual care	\$ -	-	-
Bequests	-	-	-
Restricted for:			
Debt service	-	-	-
Employee benefits	11,638	-	-
Other purposes	-	53,270	-
Total cash basis fund balances	\$ 11,638	53,270	-

See accompanying independent auditor's report.

Revenue			Permanent				Total
Library Trust	Mechanicsville Fire and Ambulance	Debt Service	Gift Trust	Tree Trust	Cemetery Perpetual Care		
-	-	-	-	-	-	41,600	
-	-	-	-	-	-	70,684	
51	177	-	-	180	-	408	
2,995	43,851	-	-	-	1,250	48,096	
3,046	44,028	-	-	180	1,250	160,788	
-	33,578	-	-	-	-	56,573	
-	-	-	11	-	-	6,052	
-	-	-	-	-	-	136	
-	-	-	-	-	-	9,662	
-	-	15,132	-	-	-	15,132	
-	33,578	15,132	11	-	-	87,555	
3,046	10,450	(15,132)	(11)	180	1,250	73,233	
-	-	7,424	-	-	-	7,424	
(137)	-	-	-	-	-	(101,952)	
(137)	-	7,424	-	-	-	(94,528)	
2,909	10,450	(7,708)	(11)	180	1,250	(21,295)	
6,712	38,181	24,200	1,894	10,865	93,761	268,886	
9,621	48,631	16,492	1,883	11,045	95,011	247,591	
-	-	-	-	-	95,011	95,011	
-	-	-	1,200	10,000	-	11,200	
-	-	16,492	-	-	-	16,492	
-	-	-	-	-	-	11,638	
9,621	48,631	-	683	1,045	-	113,250	
9,621	48,631	16,492	1,883	11,045	95,011	247,591	

City of Mechanicsville
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire truck	Jun 1, 2008	4.00%	\$ 68,000
Revenue bonds:			
Water	Jun 1, 1999	3.00% *	\$ 397,000

* The City is required to annually pay a .05% servicing 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
29,000	-	14,000	15,000	1,132
83,000	-	20,000	63,000	2,490

Schedule 3

City of Mechanicsville
Bond and Note Maturities
June 30, 2012

Year Ending June 30,	General Obligation Notes		Revenue Bonds	
	Fire Truck		Water	
	Issued Jun 1, 2008		Issued June 1, 1999	
	Interest Rates	Amount	Interest Rates	Amount
2013	4.00%	\$ 15,000	3.00%	\$ 21,000
2014		-	3.00	21,000
2015		-	3.00	21,000
Total		<u>\$ 15,000</u>		<u>\$ 63,000</u>

See accompanying independent auditor's report.



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Mary Mosiman, CPA
Auditor of State

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 Mechanicsville, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 3, 2013. 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, 2011. 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

The management of the City of Mechanicsville is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Mechanicsville'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 Mechanicsville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mechanicsville'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 another deficiency we consider to be a significant deficiency.

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 Mechanicsville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the 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 deficiency described in the accompanying Schedule of Findings as item (D) to be a significant deficiency.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Mechanicsville'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, 2012 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 Mechanicsville'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 Mechanicsville'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 Mechanicsville and other parties to whom the City of Mechanicsville 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 Mechanicsville 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.


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 3, 2013

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – preparing bank account reconciliations, initiating cash receipt and disbursement functions and handling and recording cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check signing, recording and reconciling.
- (8) Payroll – preparing and distributing.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting – preparing, reconciling and distributing.

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

Response – Recommendation acknowledged and initials can be secured for evidence of review.

Conclusion – Response accepted.

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2012

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings and delinquent accounts were not reconciled for the entire fiscal year.

Recommendation – Procedures should be established to reconcile monthly utility billings and delinquent accounts. The City Council should review the reconciliation each month and monitor delinquent accounts.

Response – The report showing the reconciliation of the collected amounts was modified and corrected by the software vendor in August 2012. The report shows the total delinquent accounts and total amounts billed. The current reconciliation report can be used to perform the recommended reconciliation and review.

Conclusion – Response accepted.

- (C) Mechanicsville Fire and Ambulance – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, collecting, depositing, posting of receipts and bank reconciliations are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of volunteers. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Officials should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be evidenced by the signature or initials of the reviewer and the date of the review.

Response – The City will meet with Mechanicsville Fire and Ambulance and discuss segregation of duties and the recommendation.

Conclusion – Response accepted.

- (D) Computer System – The City does not have a written disaster recovery plan.

Recommendation – The City should develop a written disaster recovery plan and test it periodically.

Response – The City acknowledges this recommendation and continues to gather information for developing a plan.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2012

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the capital projects function prior to adoption of the March 12, 2012 budget amendment. Chapter 384.20 of the Code of Iowa state, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The original budget adopted in March 2011 projected about half of the SRTS project would remain uncompleted prior to the end of fiscal year 2011. The payment made in August was originally projected and budgeted to be done in fiscal year 2011. The delay of the construction and payment into fiscal year 2012 created the budgeted shortfall when the final contract payments were made in fiscal year 2012. The budget was amended to accommodate for the mistiming of the events. However, the City acknowledges the amendment should have been done sooner.

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:

Name, Title and Business Connection	Transaction Description	Amount
Linda Coppess, City Clerk, husband is part owner of Odd Jobber	Tree service, per bid	\$ 1,450
Lonni Koch, Fire Chief and Ambulance Coordinator, co-owner of Koch's Service & Supply LLC, along with husband	Building maintenance and repairs, per bid	5,023
	Not bid	2,388

In accordance with Chapter 5.07 of the City Code of Ordinances and Chapter 362.5(3)(d) of the Code of Iowa, the transaction with Odd Jobber does not appear to represent a conflict of interest since it was entered into through competitive bidding.

Of the transactions with Koch's Service & Supply LLC, \$5,023 does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa. The remaining \$2,388 does not represent a conflict of interest in accordance with Chapter 362.5(3)(k) of the Code of Iowa since the cumulative total during the fiscal year was less than \$2,500.

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2012

- (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) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Water Revenue Bonds – During the year ended June 30, 1999, the City issued water revenue bonds for the construction of a water tower under an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo, N.A. As part of the continuing disclosure requirements of the bond, the City agreed to have an annual audit performed during the term of the loan. The last audit of the City was for the year ended June 30, 2008.

The water revenue bond resolution requires the City to “establish, impose, adjust and provide for the collection of rates to be charged to customers of the Utility to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the utility and to leave a balance of net revenues equal to at least 110% of the principal of and interest on all of the Bonds and any other Parity Obligations due in such fiscal year, as the same become due.”

The City has not established water rates to produce net operating revenues equal to at least 110% of the principal and interest coming due in each year as required by the bond resolution.

Recommendation – The City should comply with the continuing disclosure requirements in the water revenue bond resolution and have an annual audit.

In addition, the City should ensure net operating receipts for the Enterprise, Water Fund are sufficient to make required debt service payments and comply with the water revenue bond resolution.

Response – Correspondence was sent to the Iowa Finance Authority requesting the agreement be amended to correspond with the City's four year audit requirement. No response has been received.

Prior years excess operating receipts over operating disbursements permitted the City to prepay \$120,000 of principal debt in fiscal year 2009-2010. The fiscal year 2012 disbursements included a one time capital disbursement for replacing the well pump, televising, and cleaning of well #2. This \$13,327 disbursement created the shortfall. The City Council is reviewing rates to address the potential need of building additional cash reserves for the replacement of aging infrastructure.

Conclusion – Response acknowledged. The City should continue to work towards compliance with the water revenue bond agreement.

City of Mechanicsville

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Daniel L. Grady, Senior Auditor II
Brandon J. Vogel, Staff Auditor
Andi J. Kaufman, CPA, Staff 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