



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE

June 30, 2014

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Mount Ayr, Iowa.

The City's receipts totaled \$3,416,463 for the year ended June 30, 2013. The receipts included \$594,585 in property tax, \$1,353,836 from charges for service, \$469,893 from operating grants, contributions and restricted interest, \$627,526 from capital grants, contributions and restricted interest, \$146,042 from local option sales tax, \$31,157 from tax increment financing, \$58,240 from loan proceeds, \$2,160 from unrestricted interest on investments and \$133,024 from other general receipts.

Disbursements for the year ended June 30, 2013 totaled \$3,581,106, and included \$872,811 for public safety, \$491,230 for culture and recreation and \$400,179 for public works. Also, disbursements for business type activities totaled \$1,362,731.

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/1321-0758-B00F.pdf>.

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CITY OF MOUNT AYR
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013

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City of Mount Ayr

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Donald B. Solliday	Mayor	Jan 2014
Mack Greene	Council Member	Jan 2014
Brent Ricker	Council Member	Jan 2014
Gerald Cannon	Council Member	Jan 2016
Wes Mathany	Council Member	Jan 2016
Deloris Stutzman	Council Member	Jan 2016
Pamella Poore	City Clerk	Jan 2014
Richard Wilson	Attorney	Indefinite

City of Mount Ayr



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Mount Ayr, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinions

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, 2012.

Qualified Opinions

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, 2012, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Mount Ayr as of June 30, 2013, and the respective changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Ayr's basic financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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, 2012, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 28 through 30, 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 17, 2014 on our consideration of the City of Mount Ayr's internal control over financial reporting and on 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 in considering the City of Mount Ayr's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 17, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Mount Ayr provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. 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.

2013 FINANCIAL HIGHLIGHTS

- The cash basis net position of the City's governmental activities decreased approximately \$161,000 during the fiscal year, primarily due to construction of the aquatic safe house and storm shelter.
- The cash basis net position of the City's business type activities decreased approximately \$3,000 during the fiscal year.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. 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 to the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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 Cash Basis Statement of Activities and Net Position reports information that helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund 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.

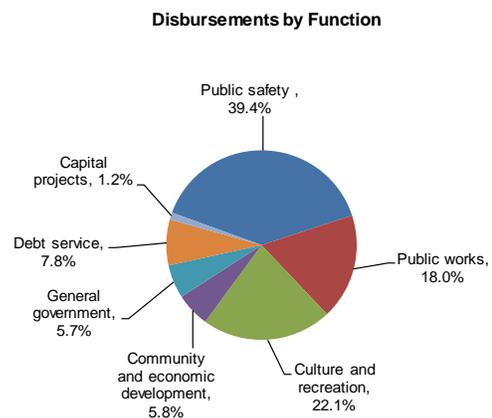
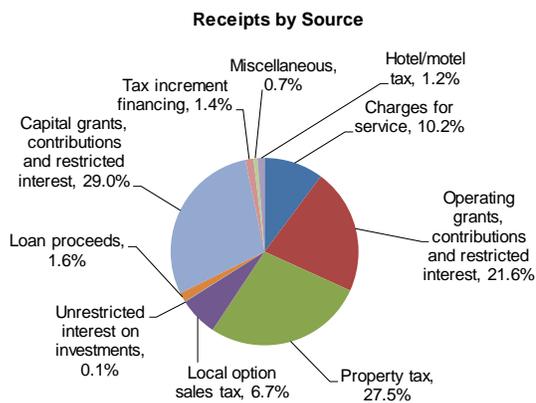
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$922,229 to \$761,070, primarily due to construction of the aquatic safe house and storm shelter. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities	
	Year ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service	\$ 220,934
Operating grants, contributions and restricted interest	469,893
Capital grants, contributions and restricted interest	627,526
General receipts:	
Property tax	594,585
Tax increment financing	31,157
Local option sales tax	146,042
Hotel/motel tax	26,822
Unrestricted interest on investments	2,160
Loan proceeds	33,900
Miscellaneous	14,197
Total receipts	<u>2,167,216</u>
Disbursements:	
Public safety	872,811
Public works	400,179
Culture and recreation	491,230
Community and economic development	129,199
General government	126,638
Debt service	172,825
Capital projects	25,493
Total disbursements	<u>2,218,375</u>
Change in cash basis net position before transfers	(51,159)
Transfers, net	<u>(110,000)</u>
Change in cash basis net position	(161,159)
Cash basis net position beginning of year	<u>922,229</u>
Cash basis net position end of year	<u>\$ 761,070</u>



Total business type activities cash basis net position decreased approximately \$3,000 from a year ago, from \$394,820 to \$391,336.

<u>Changes in Cash Basis Net Position of Business Type Activities</u>	
	<u>Year ended June 30, 2013</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 486,547
Sewer	646,355
General receipts:	
Lawsuit settlement	92,005
Loan proceeds	24,340
Total receipts	<u>1,249,247</u>
Disbursements :	
Water	567,814
Sewer	794,917
Total disbursements	<u>1,362,731</u>
Change in cash basis net position before transfers	(113,484)
Transfers, net	<u>110,000</u>
Change in cash basis net position	(3,484)
Cash basis net position beginning of year	<u>394,820</u>
Cash basis net position end of year	<u><u>\$ 391,336</u></u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Mount Ayr completed the year, its governmental funds reported a combined fund balance of \$761,070, a decrease of \$161,159 from last year's total of \$922,229. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$31,876, or 8%, from the prior year to a year-end balance of \$359,370.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$36,979 from the prior year to a year-end balance of \$79,260, primarily due to transfers to the Enterprise, Sewer Fund for sewer equipment.
- The Special Revenue, Road Use Tax Fund increased \$26,805 over the prior year to a year-end balance of \$87,747.
- The Special Revenue, Judge Lewis Park Aquatic Center Fund cash balance decreased \$104,785 from the prior year to a year-end balance of \$89,674, primarily due to increased disbursements for the construction of the aquatic safe house.
- The Special Revenue, FEMA Storm Shelter Fund received and disbursed \$586,496 of federal and state grants to help fund the construction of the aquatic safe house.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$35,078 to a year-end balance of \$216,276. The City received proceeds of \$92,005 from a lawsuit settlement during the year.
- The Enterprise, Sewer Fund cash balance decreased \$38,562 to a year-end balance of \$175,060. During the year, the City spent approximately \$106,000 on lift station improvements and approximately \$57,000 to clean up contaminated soil.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 20, 2013 and resulted in an increase in budgeted operating disbursements of approximately \$689,000, relating primarily to the public safety, public works, culture and recreation and general government functions. The City had additional receipts and sufficient cash balances to absorb these additional costs.

The City’s receipts were \$771,934 less than budgeted, primarily due to delays in receiving intergovernmental grants for the CDBG Housing Rehabilitation Program and Water Booster Station Project.

Total disbursements were \$843,360 less than the amended budget. Disbursements in the community and economic development and business type activities functions were \$232,189 and \$289,240, respectively, less than the amended budget. This is primarily due to the CDBG Housing Rehabilitation Program activity being delayed until the next fiscal year and due to the Water Booster Station Project construction not getting underway as soon as initially anticipated.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$3,285,596 of general obligation bonds, sewer revenue bonds and other long-term debt outstanding, compared to \$3,500,335 last year. The chart below segregates the City’s debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2013	2012
General obligation bonds	\$ 1,116,000	1,252,000
Sewer revenue bonds	2,020,000	2,145,000
Water utility agreement	63,363	73,745
Truck agreement	12,303	-
SICOG agreement	20,000	-
Water revenue loan anticipation note	53,930	29,590
Total	\$ 3,285,596	3,500,335

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt is \$1,148,303 below its constitutional debt limit of approximately \$3,164,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Mount Ayr's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities. The City's fiscal year 2014 taxable valuation has increased approximately \$1,258,382 over fiscal year 2013.

The fiscal year 2014 budget contains total receipts of \$3,321,268 and disbursements of \$3,191,107. This budget is less than the final fiscal year 2013 budget which contained total receipts of \$4,130,157 and disbursements of \$4,424,466.

The fiscal year 2014 property tax levy is \$15.43660 per \$1,000 of taxable valuation, a decrease from \$15.56443 per \$1,000 of taxable valuation for fiscal year 2013. The debt service levy decreased from \$4.51821 per \$1,000 of taxable valuation for fiscal year 2013 to \$4.22921 per \$1,000 of taxable valuation for fiscal year 2014.

These parameters were taken into account when adopting the budget for fiscal year 2014.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Pamela Poore, City Clerk, 200 S. Taylor, Mount Ayr, Iowa 50854.

Basic Financial Statements

City of Mount Ayr

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 872,811	225	47,378	586,496
Public works	400,179	154,038	177,050	12,125
Culture and recreation	491,230	40,432	193,343	28,905
Community and economic development	129,199	-	38,175	-
General government	126,638	26,239	13,947	-
Debt service	172,825	-	-	-
Capital projects	25,493	-	-	-
Total governmental activities	2,218,375	220,934	469,893	627,526
Business type activities:				
Water	567,814	486,547	-	-
Sewer	794,917	646,355	-	-
Total business type activities	1,362,731	1,132,902	-	-
Total	\$ 3,581,106	1,353,836	469,893	627,526
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Unrestricted interest on investments				
Loan proceeds				
Lawsuit settlement				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Local option sales tax				
Streets				
Aquatic center				
Downtown renovation				
Library				
Fire				
Debt service				
Utility deposits				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Governmental Activities	Business Type Activities	Total
(238,712)	-	(238,712)
(56,966)	-	(56,966)
(228,550)	-	(228,550)
(91,024)	-	(91,024)
(86,452)	-	(86,452)
(172,825)	-	(172,825)
(25,493)	-	(25,493)
(900,022)	-	(900,022)
-	(81,267)	(81,267)
-	(148,562)	(148,562)
-		(229,829)
(900,022)	(229,829)	(1,129,851)

419,396	-	419,396
175,189	-	175,189
31,157	-	31,157
146,042	-	146,042
26,822	-	26,822
2,160	-	2,160
33,900	24,340	58,240
-	92,005	92,005
14,197	-	14,197
(110,000)	110,000	-
738,863	226,345	965,208
(161,159)	(3,484)	(164,643)
922,229	394,820	1,317,049
\$ 761,070	391,336	1,152,406

\$ 79,260	-	79,260
87,747	-	87,747
89,674	-	89,674
48,419	-	48,419
73,553	-	73,553
37,840	-	37,840
41,093	15,883	56,976
-	9,811	9,811
113,293	-	113,293
190,191	365,642	555,833
\$ 761,070	391,336	1,152,406

City of Mount Ayr

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

As of and for the year ended June 30, 2013

	Special Revenue			
	General	Local Option Sales Tax	Road Use Tax	Judge Lewis Park Aquatic Center
Receipts:				
Property tax	\$ 354,492	-	-	-
Tax increment financing	-	-	-	-
Local option sales tax	-	146,042	-	-
Other city tax	26,822	-	-	-
Licenses and permits	5,660	-	-	-
Use of money and property	31,010	-	-	-
Intergovernmental	46,772	-	161,940	21,500
Charges for service	167,040	-	-	-
Miscellaneous	83,077	-	-	143,060
Total receipts	714,873	146,042	161,940	164,560
Disbursements:				
Operating:				
Public safety	176,032	73,021	-	-
Public works	272,044	-	128,135	-
Culture and recreation	196,603	-	-	269,345
Community and economic development	34,278	-	-	-
General government	102,692	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	781,649	73,021	128,135	269,345
Excess (deficiency) of receipts over (under) disbursements	(66,776)	73,021	33,805	(104,785)
Other financing sources (uses):				
Loan proceeds	33,900	-	-	-
Operating transfers in	7,000	-	-	-
Operating transfers out	(6,000)	(110,000)	(7,000)	-
Total other financing sources (uses)	(34,900)	(110,000)	(7,000)	-
Change in cash balances	(31,876)	(36,979)	26,805	(104,785)
Cash balances beginning of year	391,246	116,239	60,942	194,459
Cash balances end of year	\$ 359,370	79,260	87,747	89,674
Cash Basis Fund Balances				
Restricted for:				
Local option sales tax	\$ -	79,260	-	-
Streets	-	-	87,747	-
Aquatic Center	-	-	-	89,674
Downtown renovation	48,419	-	-	-
Library	73,553	-	-	-
Fire	37,840	-	-	-
Debt service	-	-	-	-
Other purposes	9,367	-	-	-
Assigned for fire truck	40,000	-	-	-
Unassigned	150,191	-	-	-
Total cash basis fund balances	\$ 359,370	79,260	87,747	89,674

See notes to financial statements.

FEMA		
Storm Shelter		
Shelter	Nonmajor	Total
-	240,093	594,585
-	31,157	31,157
-	-	146,042
-	-	26,822
-	-	5,660
-	27,430	58,440
586,496	50,300	867,008
-	-	167,040
-	10,425	236,562
586,496	359,405	2,133,316

586,497	37,261	872,811
-	-	400,179
-	25,282	491,230
-	94,921	129,199
-	23,946	126,638
-	172,825	172,825
-	25,493	25,493
586,497	379,728	2,218,375

(1)	(20,323)	(85,059)
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-	-	33,900
-	6,000	13,000
-	-	(123,000)
-	6,000	(76,100)

(1)	(14,323)	(161,159)
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1	159,342	922,229
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-	145,019	761,070
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-	-	79,260
-	-	87,747
-	-	89,674
-	-	48,419
-	-	73,553
-	-	37,840
-	41,093	41,093
-	103,926	113,293
-	-	40,000
-	-	150,191
-	145,019	761,070

City of Mount Ayr

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

As of and for the year ended June 30, 2013

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 486,547	646,355	1,132,902
Operating disbursements:			
Business type activities	431,178	423,083	854,261
Excess of operating receipts over operating disbursements	55,369	223,272	278,641
Non-operating receipts (disbursements):			
Loan proceeds	24,340	-	24,340
Capital projects	(122,284)	-	(122,284)
Equipment	-	(120,282)	(120,282)
Hazardous material clean-up	-	(56,840)	(56,840)
Debt service	(14,352)	(194,712)	(209,064)
Lawsuit settlement	92,005	-	92,005
Total non-operating receipts (disbursements)	(20,291)	(371,834)	(392,125)
Excess (deficiency) of receipts over (under) disbursements	35,078	(148,562)	(113,484)
Operating transfers in	-	110,000	110,000
Change in cash balances	35,078	(38,562)	(3,484)
Cash balances beginning of year	181,198	213,622	394,820
Cash balances end of year	\$ 216,276	175,060	391,336
Cash Basis Fund Balances			
Restricted for:			
Utility deposits	\$ 9,811	-	9,811
Debt service	-	15,883	15,883
Unrestricted	206,465	159,177	365,642
Total cash basis fund balances	\$ 216,276	175,060	391,336

See notes to financial statements.

City of Mount Ayr

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position (previously referred to as 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The 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 Judge Lewis Park Aquatic Center Fund is used to account for grant monies and donations for the purpose of building and maintaining an aquatic center.

The FEMA Storm Shelter Fund is used to account for grant monies for the purpose of building a storm shelter.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position 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 which 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. Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the culture and recreation and general government functions prior to the budget amendment.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Long-Term Debt

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

Year Ending June 30,	General Obligation		Sewer Revenue		Total	
	Bonds		Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 132,000	31,998	130,000	60,600	262,000	92,598
2015	138,000	30,737	130,000	56,700	268,000	87,437
2016	140,000	25,563	135,000	52,800	275,000	78,363
2017	86,000	24,212	140,000	48,750	226,000	72,962
2018	88,000	19,120	145,000	44,550	233,000	63,670
2019-2023	352,000	59,930	800,000	154,500	1,152,000	214,430
2024-2026	180,000	10,950	540,000	32,700	720,000	43,650
Total	\$ 1,116,000	202,510	2,020,000	450,600	3,136,000	653,110

Sewer Revenue Bonds – On October 1, 2005, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$2,825,000 of sewer revenue bonds with interest at 3.25% per annum. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the City’s sewer system. Annual principal and interest payments on the bonds are expected to require less than 85% of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,470,600. For the current year, principal and interest paid and total customer net receipts were \$189,350 and \$223,272, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account for the purpose of making principal and interest payments when due.

- (c) The City shall establish rates charged to customers sufficient to produce new revenues equal to at least 110% of the principal and interest due in the fiscal year.

Southern Iowa Rural Water Association (SIRWA) Water Utility Agreement – In 1990, the City entered into an agreement with SIRWA to jointly finance and construct a water transmission main and water treatment plant improvements. The City agreed to pay its share of the cost of the project. The City's share of the water treatment plant improvements totaled \$160,816 and is being repaid with monthly payments of \$995, including interest at 5.75% per annum, continuing through April 2018. The City's share of the ground storage and sludge lagoon totaled \$33,480 and is being repaid with monthly payments of \$201, including interest at 5.75% per annum, continuing through March 2020. During the year ended June 30, 2013, the City paid \$14,352, including interest of \$3,970, to SIRWA for the debt. The principal balance at June 30, 2013 was \$63,363.

Truck Loan Agreement – On December 7, 2012, the City entered into a promissory note for \$13,900 to purchase a truck. The loan bears 4.75% per annum interest and is to be repaid in eight semi-annual installments of \$1,931 beginning June 7, 2013. During the year ended June 30, 2013, a total of \$1,931, including interest of \$334, was paid on the note. The principal balance at June 30, 2013 was \$12,303.

Southern Iowa Council of Governments (SICOG) Municipal Pool Loan Agreement – On December 10, 2012, the City entered into an installment loan for \$20,000 to provide for rehabilitation of the municipal swimming pool. The loan bears 3.00% per annum interest and is to be repaid in three annual installments of \$7,071, beginning December 10, 2013. During the year ended June 30, 2013, no payments were made on the loan.

Water Revenue Loan Anticipation Note – On December 11, 2011, the City entered into an agreement with the Iowa Finance Authority for issuance of an interest free interim project note, not to exceed \$55,000. The principal on the note is payable solely and only from the future proceeds of an authorized loan and disbursement agreement and the corresponding issuance of water revenue bonds within three years of the date of the agreement. The agreement was executed pursuant to the provisions of Sections 76.13 and 384.24A of the Code of Iowa for the purpose of paying the costs of planning and designing improvements to the water system. The City receives drawdowns from the Iowa Finance Authority for costs as they are incurred. At June 30, 2013, the City had drawn \$53,930 of the \$55,000 authorized.

(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 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013 was \$21,961, 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 and vision benefits for employees, retirees and their spouses. There are 5 active and no retired members in the medical/prescription and vision plans as of June 30, 2013. Retired participants must be age 55 or older at retirement.

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plans on a pay-as-you-go basis. The most recent active member monthly premiums for the City and medical/prescription drug benefits plan members range from \$327 to \$1,115 for single coverage and/or family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2013, the City contributed \$48,402 and plan members eligible for medical/prescription drug benefits contributed \$4,046 to the plan. During the year, the City contributed \$1,105 and plan members eligible for vision benefits contributed \$919 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2013, primarily relating to the General Fund, was \$14,000. This liability has been computed based on rates of pay in effect at June 30, 2013.

(7) Interfund Loan

During the year ended June 30, 2012, the General Fund loaned \$21,000 to the Special Revenue, Road Use Tax Fund to purchase a skid loader. The interest free loan will be repaid over 3 years. The City repaid \$7,000 during the year ended June 30, 2013. The balance at June 30, 2013 was \$14,000.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Road Use Tax	\$ 7,000
Special Revenue: CDBG Housing	General	6,000
Enterprise: Sewer	Special Revenue: Local Option Sales Tax	110,000
Total		<u>\$ 123,000</u>

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

(9) 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.

(10) Water Usage Contract

In December 1990, the City and the Southern Iowa Rural Water Association (SIRWA) entered into a contract for the City to purchase water from SIRWA. The term of the contract is 40 years. During the year ended June 30, 2013, the City paid \$206,889 under the contract.

(11) Downtown Renovation Loans

On May 2, 2009, October 27, 2010 and June 19, 2012, respectively, the City loaned \$30,000, \$30,000 and \$14,600, respectively, to local businesses to improve and renovate downtown storefronts. The loans are to be repaid, interest free, to the City in monthly installments of varying amounts over one to five year periods. The loan repayments from the businesses will remain in the Downtown Renovation Account, a revolving loan account within the General Fund, for future loans to other businesses. At June 30, 2013, the amount due from the businesses was \$36,653.

(12) Development Agreement

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

During the year ended June 30, 2013, the City rebated \$22,346 of incremental property tax to the developer. The cumulative amount paid as of June 30, 2013 is \$117,950.

(13) Litigation

The City is involved in one lawsuit as of June 30, 2013. The probability of loss, if any, is undeterminable.

(14) Subsequent Events

In July 2013, the City issued \$830,000 of general obligation bonds for solid waste disposal. In September 2013, the City issued \$378,000 of water revenue bonds.

Other Information

City of Mount Ayr

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

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 594,585	-
Tax increment financing	31,157	-
Other city tax	172,864	-
Licenses and permits	5,660	-
Use of money and property	58,440	-
Intergovernmental	867,008	-
Charges for service	167,040	1,132,902
Miscellaneous	236,562	92,005
Total receipts	<u>2,133,316</u>	<u>1,224,907</u>
Disbursements:		
Public safety	872,811	-
Public works	400,179	-
Culture and recreation	491,230	-
Community and economic development	129,199	-
General government	126,638	-
Debt service	172,825	-
Capital projects	25,493	-
Business type activities	-	1,362,731
Total disbursements	<u>2,218,375</u>	<u>1,362,731</u>
Deficiency of receipts under disbursements	(85,059)	(137,824)
Other financing sources, net	(76,100)	134,340
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(161,159)	(3,484)
Balances beginning of year	<u>922,229</u>	<u>394,820</u>
Balances end of year	<u>\$ 761,070</u>	<u>391,336</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
594,585	566,533	566,533	28,052
31,157	22,588	22,588	8,569
172,864	169,006	201,006	(28,142)
5,660	5,300	5,300	360
58,440	53,224	53,224	5,216
867,008	1,485,845	1,702,595	(835,587)
1,299,942	1,203,000	1,329,161	(29,219)
328,567	49,600	249,750	78,817
3,358,223	3,555,096	4,130,157	(771,934)
872,811	757,690	983,590	110,779
400,179	416,500	486,500	86,321
491,230	346,665	594,783	103,553
129,199	361,388	361,388	232,189
126,638	112,008	133,508	6,870
172,825	172,826	172,826	1
25,493	16,900	39,900	14,407
1,362,731	1,551,971	1,651,971	289,240
3,581,106	3,735,948	4,424,466	843,360
(222,883)	(180,852)	(294,309)	71,426
58,240	-	20,000	38,240
(164,643)	(180,852)	(274,309)	109,666
1,317,049	1,102,823	1,102,823	214,226
1,152,406	921,971	828,514	323,892

City of Mount Ayr

Notes to Other Information – Budgetary Reporting

June 30, 2013

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$688,518. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the culture and recreation and general government functions prior to the budget amendment on May 20, 2013.

Supplementary Information

City of Mount Ayr

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

As of and for the year ended June 30, 2013

	Special		
	Employee Benefits	Loch Ayr Lake	CDBG Housing
Receipts:			
Property tax	\$ 64,904	-	-
Tax increment financing	-	-	-
Use of money and property	-	27,430	-
Intergovernmental	-	-	38,175
Miscellaneous	-	-	-
Total receipts	64,904	27,430	38,175
Disbursements:			
Operating:			
Public safety	37,261	-	-
Culture and recreation	4,530	20,752	-
Community and economic development	-	-	41,175
General government	23,946	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	65,737	20,752	41,175
Excess (deficiency) of receipts over (under) disbursements	(833)	6,678	(3,000)
Other financing sources:			
Operating transfers in	-	-	6,000
Change in cash balances	(833)	6,678	3,000
Cash balances beginning of year	20,955	22,025	-
Cash balances end of year	\$ 20,122	28,703	3,000
Cash Basis Fund Balances			
Restricted for other purposes	\$ 20,122	28,703	3,000

See accompanying independent auditor's report.

Revenue				
Urban Extension TIF	Mount Ayr Inn TIF	Debt Service	Capital Projects City Scape	Total
-	-	175,189	-	240,093
8,811	22,346	-	-	31,157
-	-	-	-	27,430
-	-	-	12,125	50,300
-	-	-	10,425	10,425
8,811	22,346	175,189	22,550	359,405
-	-	-	-	37,261
-	-	-	-	25,282
31,400	22,346	-	-	94,921
-	-	-	-	23,946
-	-	172,825	-	172,825
-	-	-	25,493	25,493
31,400	22,346	172,825	25,493	379,728
(22,589)	-	2,364	(2,943)	(20,323)
-	-	-	-	6,000
(22,589)	-	2,364	(2,943)	(14,323)
60,341	-	38,729	17,292	159,342
37,752	-	41,093	14,349	145,019
37,752	-	41,093	14,349	145,019

City of Mount Ayr
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer	Jul 1, 1969	6.00 %	\$ 50,000
Funding	Jul 1, 1973	6.00	28,000
Street improvement	Mar 1, 1975	6.50	170,000
Judgemental funding	Nov 1, 1975	6.75	95,000
Essential corporate purpose	Mar 1, 1979	5.50-5.90	70,000
Street improvement	Jun 1, 1980	6.20-3.75	495,000
Sewer improvement	Aug 10, 2006	3.00	976,000
Refunding bonds	Sep 8, 2010	2.10-3.40	735,000
Total			
Revenue bonds:			
Water	Aug 1, 1967	5.00 %	\$ 15,000
Sewer	Jun 1, 1969	5.75	145,000
Water	Mar 1, 1979	6.75-7.00	100,000
Sewer	Oct 1, 2005	3.25	2,825,000
Total			
Loan agreements:			
Water utility (SIRWA)	Dec 11, 1990	5.75 %	\$ 194,296
Truck	Dec 7, 2012	4.75	13,900
Municipal pool (SICOG)	Dec 10, 2012	3.00	20,000
Total			
Water revenue loan anticipation note	Dec 23, 2011	0 %	\$ 55,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
-	-	-	-	-	150
-	-	-	-	-	210
-	-	-	-	-	487
-	-	-	-	-	1,350
-	-	-	-	-	280
-	-	-	-	-	2,700
707,000	-	41,000	666,000	21,210	-
545,000	-	95,000	450,000	13,347	-
\$ 1,252,000	-	136,000	1,116,000	34,557	5,177
-	-	-	-	-	1,500
-	-	-	-	-	86
-	-	-	-	-	1,050
2,145,000	-	125,000	2,020,000	64,350	-
\$ 2,145,000	-	125,000	2,020,000	64,350	2,636
73,745	-	10,382	63,363	3,970	-
-	13,900	1,597	12,303	334	-
-	20,000	-	20,000	-	-
\$ 73,745	33,900	11,979	95,666	4,304	-
29,590	24,340	-	53,930	-	-

Schedule 3

City of Mount Ayr

Bond Maturities

June 30, 2013

General Obligation Bonds						
Year Ending June 30,	Sewer Improvement Issued August 10, 2006		Refunding Issued September 8, 2010		Total	
	Interest Rates	Amount	Interest Rates	Amount		
2014	3.00%	\$ 42,000	2.10%	\$ 90,000	132,000	
2015	3.00	43,000	2.10	95,000	138,000	
2016	3.00	45,000	2.75	95,000	140,000	
2017	3.00	46,000	2.75	40,000	86,000	
2018	3.00	48,000	3.40	40,000	88,000	
2019	3.00	49,000	3.40	45,000	94,000	
2020	3.00	51,000	3.40	45,000	96,000	
2021	3.00	52,000		-	52,000	
2022	3.00	54,000		-	54,000	
2023	3.00	56,000		-	56,000	
2024	3.00	58,000		-	58,000	
2025	3.00	60,000		-	60,000	
2026	3.00	62,000		-	62,000	
Total		<u>\$ 666,000</u>		<u>\$ 450,000</u>	<u>1,116,000</u>	

Sewer Revenue Bonds		
Year Ending June 30,	Issued October 1, 2005	
Interest Rates	Amount	
2014	3.00%	\$ 130,000
2015	3.00	130,000
2016	3.00	135,000
2017	3.00	140,000
2018	3.00	145,000
2019	3.00	150,000
2020	3.00	155,000
2021	3.00	160,000
2022	3.00	165,000
2023	3.00	170,000
2024	3.00	175,000
2025	3.00	180,000
2026	3.00	185,000
Total		<u>\$ 2,020,000</u>

See accompanying independent auditor's report.

City of Mount Ayr
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.218	11-HSG-040	\$ 38,175
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Hazard Mitigation Grant	97.039	DR-1737-033-01	517,496
Total			<u>\$ 555,671</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Mount Ayr and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

City of Mount Ayr



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, 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 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, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Mount Ayr, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2014. Our report expressed qualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since we were able to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2012.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Mount Ayr's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Mount Ayr's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Ayr's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Mount Ayr's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-13 and II-B-13 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-13 and II-D-13 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Mount Ayr's Responses to the Findings

The City of Mount Ayr's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Mount Ayr's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Mount Ayr during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 17, 2014

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control over Compliance
Required by OMB Circular A-133**

City of Mount Ayr



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STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control over Compliance
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Mount Ayr, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Mount Ayr's major federal program for the year ended June 30, 2013. The City of Mount Ayr's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Mount Ayr's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Mount Ayr's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Mount Ayr's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Mount Ayr complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

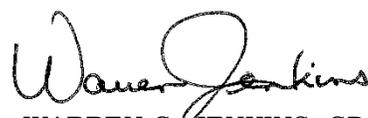
The management of the City of Mount Ayr is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Mount Ayr's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Ayr's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 17, 2014

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified opinions were issued on the financial statements which 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.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 97.039 – Hazard Mitigation Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Mount Ayr did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-13 Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. A limited amount of individuals are responsible for the following areas:

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

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

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – posting, reconciling and check writing.
- (3) Cash – handling and recording cash. Also, a bank reconciliation is not prepared.

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

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

Conclusion – Response accepted.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

II-B-13 Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not properly reconciled each month during the year. Although the City’s software prepares a utility reconciliation, the City does not generate and retain reports from the utility system to support the amounts on the reconciliation. The delinquent accounts listings were not maintained for fiscal year 2013. Also, the City did not generate a monthly billing cash summary or an adjustment summary.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. Documentation should be retained to support the amounts included on the reconciliation produced by the City’s software. The City Council or other independent person should review the reconciliations and monitor delinquencies.

Response – It is the City’s practice to print out a listing of all delinquent accounts monthly as well as reconcile the utility billing collections. The City’s software does produce a “Utility Billing Trial Balance Report” to be reconciled to an “Accounts Receivable Audit Report” at month end. This was thought to have been the appropriate means of reconciling the utility billing collections and delinquencies. The City pledges to review these steps to ensure correct reconciliation of the utility accounts each month and at year-end.

Conclusion – Response accepted.

II-C-13 Store Credit – The City has store credit available for use by employees while on City business. The City has not adopted a formal policy to regulate the use of the store credit and to establish procedures for the proper accounting of store credit charges.

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

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

Conclusion – Response accepted.

II-D-13 Disaster Recovery Plan – The following items are missing from the City’s disaster recovery plan:

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

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

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

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

Conclusion – Response accepted.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the culture and recreation and general government functions prior to the budget amendment on May 20, 2013. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will work to closely monitor all disbursements by function to help ensure amendments are made prior to exceeding the budget in accordance with Chapter 384.18 of the code of Iowa.

Conclusion – Response accepted.

IV-B-13 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.

IV-C-13 Travel Expenses – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-13 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Brent Ricker, City Council Member, Sons owns Ricker Brothers Mowing	Mowing	\$ 515
Justin Kuonen, City employee	Sludge removal, per bid	24,315
Amanda Cannon, Utility Clerk, Father-in-Law is Gregg Cannon	Mowing, per bid	2,140
Amanda Cannon, Utility Clerk, Father-in-Law owns Cannon Port-A-Pot	Port-a-Pots	1,870

In accordance with Chapters 362.5(3)(d) and (k) of the Code of Iowa, the transactions do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year or the transactions were the result of contracts entered into through competitive bids.

IV-E-13 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.

IV-F-13 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

IV-G-13 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.

IV-H-13 Tax Increment Financing (TIF) Debt Certification – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from the fund as provided in Chapter 403.19 of the Code of Iowa. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available TIF incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) of the Code of Iowa requires the city to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City has certified projected and actual costs paid from the Special Revenue, Urban Extension TIF Fund for the Downtown Urban Renewal Area TIF rather than actual indebtedness.

The City has no TIF debt outstanding at June 30, 2013 in the Downtown Urban Renewal Area but the City has a balance of \$37,752 at June 30, 2013 in the Special Revenue, Urban Extension TIF Fund.

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

Recommendation – The City should only certify existing TIF indebtedness, not projected costs. The City should credit interest to the TIF Fund as required. The City should consult bond counsel to determine the disposition of the balance in the Special Revenue, Urban Extension TIF Fund.

Response – The TIF certification filed was for the Mount Ayr Downtown Urban Renewal Area to provide physical improvements to the downtown square, specifically the “Streetscape Project.” Bond counsel will be consulted on these matters. The City has upcoming projects to be financed with general obligation debt so the balance in the Special Revenue, Urban Extension TIF Fund will be used to pay future TIF indebtedness. The City will credit interest to the TIF Fund.

Conclusion – Response accepted.

IV-I-13 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City Public Library and the Judge Lewis Aquatic Center do not receive an image of the back of each cancelled check.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response – Direct communication will be made with the Library and Aquatic Center Boards directing them to make arrangements to retain images of both the front and back of the cancelled checks as required by Iowa Code Chapter 554C.114.

Conclusion – Response accepted.

IV-J-13 Separately Maintained Records – The Library, the Fire Department and the Judge Lewis Aquatic Center Committee maintain separate accounting records for their operations. These transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget or monthly financial reports.

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

Response – The City will take your recommendation under serious consideration and facilitate direct communication with each of the Boards to request timely transaction reporting allowing for better budgetary control and inclusion in the City's financial accounting records.

Conclusion – Response accepted.

IV-K-13 Fire Department – The Fire Department maintains a separate bank account which includes donations to the Department as well as contributions from the City. The City's contributions are paid semi-annually and are calculated at \$10 for fire calls and \$5 for meetings attended by each volunteer firefighter. The City makes a contribution to the Department rather than directly compensating each of the volunteer firefighters. The Department maintains a separate account for each firefighter within the Department's checking account to be used at the firefighter's discretion for department related expenses.

During the year ended June 30, 2013, the Department paid \$1,000 to a volunteer fire fighter to help with personal expenses related to the death of a family member. The Department accounted for this disbursement as \$845 of deductions from fellow firefighter's accounts and \$155 from the individual's account. The use of Department funds for personal expenses does not appear to be a proper disbursement of public funds.

Recommendation – The Department should limit disbursements to items meeting the test of public purpose. The City should review this matter with legal counsel.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Response – The City does not entirely agree the checking account in question is public funds. It is funded from payment for services of the individual firefighters and could be considered their personal funds. However, the method of payment and maintenance could lead to the conclusion it is public funds. We will research the matter and determine the method for payment and maintenance of funds which will show the funds are personal and not public funds.

Conclusion – Response acknowledged. Since the checking account includes private donations made to a City department and the City contributions are made to the Department, not the individual firefighters, the funds in the checking account are public funds. The City should review this matter with legal counsel.

IV-L-13 Annual Urban Renewal Report – The annual urban renewal report was not certified to the Iowa Department of Management on or before December 1. The report was filed on December 3, 2012. However, the amount reported by the City as TIF debt outstanding was understated by \$22,118, primarily due to the City reporting the outstanding debt as of June 30, 2012 rather than as of June 30, 2011.

Recommendation – The City should file the annual urban renewal report timely and ensure the debt amounts reported on the Levy Authority Summary agree with the City's records.

Response – The Department of Management had provided for leniency with the reporting deadline, as this reporting requirement had just been implemented with HF 2460 (Urban Renewal Reporting Act of 2012) and the web site wasn't available for the extensive data entry needed for the first report until October 2012. The City will file the report on or before December 1 and ensure the debt amounts reported agree with the City's records.

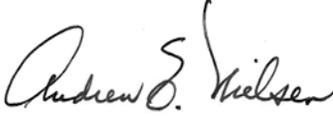
Conclusion – Response accepted.

City of Mount Ayr

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Russell G. Jordan, CPA, Staff Auditor
Tiffany N. Aliprandi, Assistant Auditor
Corey M. Vannausdle, Assistant Auditor


Andrew E. Nielsen, CPA
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