



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

**NEWS RELEASE**

FOR RELEASE February 22, 2007

Contact: Andy Nielsen  
515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$4,253,336 for the year ended June 30, 2006. The receipts included \$402,021 in property tax, \$55,201 from tax increment financing, \$994,432 from charges for service, \$283,615 from operating grants, contributions and restricted interest, \$420,459 from capital grants, contributions and restricted interest, \$9,851 from unrestricted interest on investments, \$2,078,079 from sewer revenue bond proceeds and \$9,678 from other general receipts.

Disbursements for the year totaled \$4,054,541, and included \$296,361 for public works, \$141,624 for public safety and \$128,780 for culture and recreation. Also, disbursements for business type activities totaled \$3,159,522.

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/reports.htm>.

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**CITY OF MOUNT AYR**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2006**

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**City of Mount Ayr**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2006)</b>		
Clyde Summers	Mayor	Jan 2006
Darrel Case	Council Member	Jan 2006
Jodie Wurster	Council Member	Jan 2006
Gerald Cannon	Council Member	Jan 2008
Eldon Still	Council Member	Jan 2008
Bill Schuster	Council Member	Jan 2008
Duane Glick	Clerk	Jan 2006
Pamella Poore	Treasurer	Jan 2006
<b>(After January 2006)</b>		
Don Solliday	Mayor	Jan 2008
Darrel Case	Council Member	(Resigned)
Doug Still (Appointed)	Council Member	Jan 2008
Eldon Still	Council Member	Jan 2008
Bill Schuster	Council Member	Jan 2008
Gerald Cannon	Council Member	Jan 2008
Jodie Wurster	Council Member	Jan 2010
Pamella Poore	Clerk	Jan 2008
Lisa Drake	Treasurer	Jan 2008
Richard L. Wilson	Attorney	Indefinite

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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 Mount Ayr, Iowa, as of and for the year ended June 30, 2006, 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 Mount Ayr'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, 2005.

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, 2005, 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, 2006, 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.

As described in Note 13, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2006 on our consideration of the City of Mount Ayr'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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Ayr's basic financial statements. Other 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. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the fourth preceding paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 2, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since 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.

### **2006 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased by approximately \$48,000, due primarily to an overall decrease in disbursements.
- The cash basis net assets of the City's business type activities increased significantly, approximately \$151,000, due primarily to the project funding for the new Sewer Wastewater Treatment Plant.

### **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 statement by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds. 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 Statement of Activities and Net Assets reports information that helps answer this question.

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

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment Financing, and 3) the Debt Service 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 sanitary sewer operations. The Water and Sewer Funds are considered to be major funds of the City.

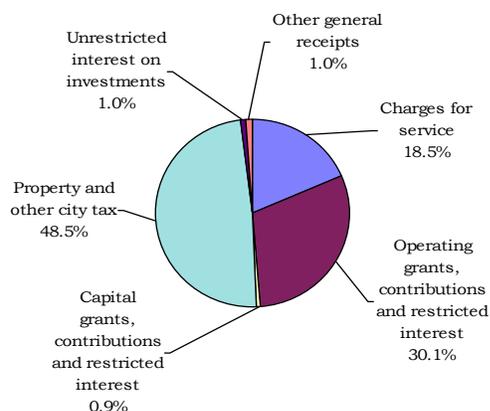
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

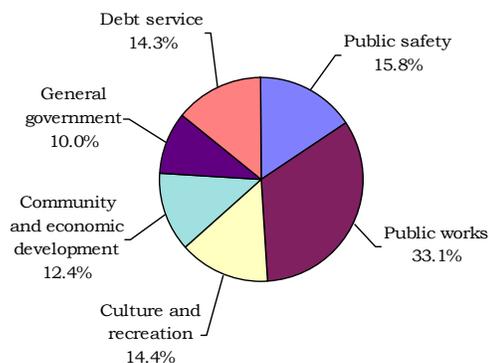
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities is \$572,478 at June 30, 2006. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 174,100
Operating grants, contributions and restricted interest	283,615
Capital grants, contributions and restricted interest	8,762
General receipts:	
Property and other city tax	457,222
Unrestricted interest on investments	9,851
Other general receipts	9,678
Total receipts	<u>943,228</u>
Disbursements:	
Public safety	141,624
Public works	296,361
Culture and recreation	128,780
Community and economic development	110,902
General government	89,462
Debt service	127,890
Total disbursements	<u>895,019</u>
Increase in cash basis net assets	48,209
Cash basis net assets beginning of year	<u>524,269</u>
Cash basis net assets end of year	<u>\$ 572,478</u>

**Receipts by Source**



**Disbursements by Functions**



The cash basis net assets increased by approximately \$48,000.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 416,292
Sewer	404,040
Capital grants, contributions and restricted interest	411,697
Sewer revenue bond proceeds	2,078,079
Total receipts	<u>3,310,108</u>
Disbursements:	
Water	368,686
Sewer	2,790,836
Total disbursements	<u>3,159,522</u>
Increase in cash basis net assets	150,586
Cash basis net assets beginning of year	<u>400,168</u>
Cash basis net assets end of year	<u>\$ 550,754</u>

Total business type activities cash basis net assets increased from a year ago, increasing from \$400,168 to \$550,168. In FY2006, the City issued sewer revenue bonds of \$2,078,079.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Mount Ayr completed the year, its governmental funds reported a combined fund balance of \$572,478, an increase of approximately \$48,000 over the June 30, 2005 balance of \$524,269. 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 \$12,322 from the prior year to a year-end balance of \$336,531 because the City's actual costs for street improvements were less than the amount budgeted.
- The Road Use Tax Fund cash balance increased \$8,084 to \$59,932 during the fiscal year because the City's actual costs for street projects were less than the amount budgeted.
- The Urban Renewal Tax Increment Financing Fund was established to account for urban renewal projects within the City's business district. At the end of the fiscal year, the cash balance was \$81,458, an increase of \$13,044 over the previous year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$47,606 to \$185,281, which was due primarily to a decrease in disbursements.
- The Sewer Fund cash balance increased by \$102,980 to \$365,473, which was due primarily to the increase in sewer rates and the project funding for the new wastewater treatment plant. Also, the Sewer Fund received and disbursed \$411,697 of a \$500,000 Community Development Block Grant (CDBG) and \$2,078,079 in State Revolving Loan funds for the new Wastewater Treatment Plant Project.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 15 2006. There were no changes to receipts, the beginning or ending balance. Disbursements in the capital projects function were decreased by the same amount the business type activities function was increased.

The City’s actual receipts were \$452,700 more than budgeted receipts. This was primarily due to receiving more grant proceeds than anticipated in the year on the City’s Wastewater Treatment Plant Project.

This City’s actual disbursements were \$421,861 less than budgeted disbursements. This was primarily due to the timing of payment requests for construction and engineering on the City’s Wastewater Treatment Plant Project. Also, some budgeted street improvements were not completed in the fiscal year.

**DEBT ADMINISTRATION**

At June 30, 2006, the City had \$3,633,438 in revenue notes and other long-term debt outstanding, compared to \$1,687,632 last year. Debt increased as a result of issuing \$2,078,079 in sewer revenue bonds for the Wastewater Treatment Plant Project.

Outstanding Debt at Year End		
	June 30,	
	2006	2005
General obligation notes	\$ 590,000	655,000
Special assessment notes	50,000	60,000
USDA Rural Development water revenue note	420,517	427,692
Sewer revenue bonds	2,078,079	-
General obligation loan agreement anticipation refunding notes	410,000	410,000
Urban renewal tax increment financing revenue bond	44,661	64,893
Lease purchase agreements	23,809	38,045
Loan agreement	16,372	32,002
Total	\$ 3,633,438	1,687,632

## **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 2007 budget, tax rates and fees charged for various City activities. The City's fiscal year 2007 assessed taxable valuation increased approximately 1%, or \$291,577, from the fiscal year 2006 level.

The fiscal year 2007 budget includes total receipts of \$2,796,222 and disbursements of \$2,805,298.

The FY2007 levy is \$8.10 per \$1,000 of taxable valuation, which is unchanged from FY2006.

These parameters were taken into account when adopting the budget for FY2007.

## **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 Pamella Poore, City Clerk, 200 South Taylor Street, Mount Ayr, Iowa 50854.

## **Basic Financial Statements**

City of Mount Ayr

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 141,624	36,595	6,461	-
Public works	296,361	106,491	152,548	-
Culture and recreation	128,780	26,199	19,187	-
Community and economic development	110,902	-	105,419	-
General government	89,462	4,815	-	-
Debt service	127,890	-	-	8,762
Total governmental activities	895,019	174,100	283,615	8,762
Business type activities:				
Water	368,686	416,292	-	-
Sewer	2,790,836	404,040	-	411,697
Total business type activities	3,159,522	820,332	-	411,697
Total	\$ 4,054,541	994,432	283,615	420,459
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Unrestricted interest on investments				
Sewer revenue bond proceeds				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(98,568)	-	(98,568)
(37,322)	-	(37,322)
(83,394)	-	(83,394)
(5,483)	-	(5,483)
(84,647)	-	(84,647)
(119,128)	-	(119,128)
(428,542)	-	(428,542)
-	47,606	47,606
-	(1,975,099)	(1,975,099)
-	(1,927,493)	(1,927,493)
(428,542)	(1,927,493)	(2,356,035)
305,238	-	305,238
55,201	-	55,201
96,783	-	96,783
9,851	-	9,851
-	2,078,079	2,078,079
9,678	-	9,678
476,751	2,078,079	2,554,830
48,209	150,586	198,795
524,269	400,168	924,437
\$ 572,478	550,754	1,123,232
\$ 59,932	-	59,932
81,458	-	81,458
34,050	243,835	277,885
60,507	-	60,507
336,531	306,919	643,450
\$ 572,478	550,754	1,123,232

**Exhibit B**

## 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, 2006

	Special Revenue				Total
	General	Road Use Tax	Urban Renewal Tax Increment Financing	Nonmajor	
<b>Receipts:</b>					
Property tax	\$ 271,031	-	-	109,488	380,519
Tax increment financing	-	-	55,201	-	55,201
Other city tax	15,492	-	-	6,010	21,502
Licenses and permits	4,815	-	-	-	4,815
Use of money and property	9,882	-	-	-	9,882
Intergovernmental	90,321	152,548	-	13,400	256,269
Charges for service	166,095	-	-	-	166,095
Special assessments	-	-	-	8,762	8,762
Miscellaneous	21,457	-	-	18,726	40,183
Total receipts	579,093	152,548	55,201	156,386	943,228
<b>Disbursements:</b>					
Operating:					
Public safety	141,624	-	-	-	141,624
Public works	150,942	144,464	-	955	296,361
Culture and recreation	126,049	-	-	2,731	128,780
Community and economic development	73,293	-	24,209	13,400	110,902
General government	74,863	-	-	14,599	89,462
Debt service	-	-	-	127,890	127,890
Total disbursements	566,771	144,464	24,209	159,575	895,019
Excess (deficiency) of receipts over (under) disbursements	12,322	8,084	30,992	(3,189)	48,209
<b>Other financing sources (uses):</b>					
Operating transfers in	-	-	-	17,948	17,948
Operating transfers out	-	-	(17,948)	-	(17,948)
Total other financing sources (uses)	-	-	(17,948)	17,948	-
Net change in cash balances	12,322	8,084	13,044	14,759	48,209
Cash balances beginning of year	324,209	51,848	68,414	79,798	524,269
Cash balances end of year	\$ 336,531	59,932	81,458	94,557	572,478
<b>Cash Basis Fund Balances</b>					
Reserved for debt service	\$ -	-	-	34,050	34,050
Unreserved:					
General fund	336,531	-	-	-	336,531
Special revenue funds	-	59,932	81,458	60,507	201,897
Total cash basis fund balances	\$ 336,531	59,932	81,458	94,557	572,478

See notes to financial statements.

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, 2006

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 405,692	403,810	809,502
Miscellaneous	10,600	230	10,830
Total operating receipts	416,292	404,040	820,332
Operating disbursements:			
Business type activities	335,006	288,238	623,244
Excess of operating receipts over operating disbursements	81,286	115,802	197,088
Non-operating receipts (disbursements):			
Intergovernmental	-	411,697	411,697
Sewer revenue bond proceeds	-	2,078,079	2,078,079
Capital improvements	-	(2,473,211)	(2,473,211)
Debt service	(33,680)	(29,387)	(63,067)
Net non-operating receipts (disbursements)	(33,680)	(12,822)	(46,502)
Net change in cash balances	47,606	102,980	150,586
Cash balances beginning of year	137,675	262,493	400,168
Cash balances end of year	\$ 185,281	365,473	550,754
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ 63,745	180,090	243,835
Unreserved	121,536	185,383	306,919
Total cash basis fund balances	\$ 185,281	365,473	550,754

See notes to financial statements.

City of Mount Ayr

Notes to Financial Statements

June 30, 2006

**(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 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 two categories:

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. 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 Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Mount Ayr 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.

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the culture and recreation function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 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 and special assessment notes are as follows:

Year Ending June 30,	General Obligation Notes		Special Assessment Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2007	\$ 70,000	30,117	10,000	2,600	80,000
2008	75,000	26,655	10,000	2,100	85,000	28,755
2009	60,000	22,900	10,000	1,590	70,000	24,490
2010	65,000	19,910	10,000	1,070	75,000	20,980
2011	65,000	16,630	10,000	540	75,000	17,170
2012 - 2016	255,000	41,660	-	-	255,000	41,660
Total	\$ 590,000	157,872	50,000	7,900	640,000	165,772

USDA Rural Development Water Revenue Note – The City issued a water revenue note totaling \$500,000 on February 5, 1991 to defray a portion of the cost of constructing a water transmission line. The note is payable to the U.S. Department of Agriculture (USDA) in annual installments of \$33,680, including interest at 6% per annum. During the year ended June 30, 2006, the City paid \$33,680 to the USDA, leaving a balance due at June 30, 2006 of \$420,517.

The resolution providing for the issuance of the water revenue note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) The City shall make annual payments to the USDA of interest only in the years 1991 and 1992 and of \$33,680, including interest at 6% per annum, in the years 1993 through 2030, inclusive.
- (c) Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making the above payments when due.
- (d) Additional monthly transfers shall be made to a water revenue note reserve account until a specific minimum balance has been accumulated. This account is restricted for making the annual principal and interest payments whenever there is sufficient money in the water revenue note sinking account.

The City has established the sinking and reserve accounts required by the water revenue note resolution.

Sewer Revenue Bonds – On October 19, 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 3.0% per annum. The bonds were issued pursuant to the provisions of Chapter 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. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2006, the City had drawn \$2,078,079, including a \$28,250 initiation fee, of the \$2,825,000 authorized. Wells Fargo Bank Iowa, N.A., has the remaining balance of \$746,921 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted.

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) After all other accounts have sufficient balances, the net revenues available after making the required principal and interest payments should be credited to a sewer surplus fund for operation of the utility.

General Obligation Loan Agreement Anticipation Refunding Notes – The City issued \$410,000 of general obligation loan agreement anticipation refunding notes to defray a portion of the cost of constructing a new sewer treatment plant on February 1, 2004. The notes are due on November 1, 2006 and bear interest at 2.85% per annum, which is due and payable every May 1 and November 1. During the year ended June 30, 2006, the City paid \$11,685 of interest on these notes.

The resolution providing for the issuance of the notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account for the purpose of making the note principal and interest payments when due.
- (c) All funds remaining in the sewer rental account after the payment of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue surplus account within the Enterprise Funds. This account is restricted for purpose of paying for any improvement, extension or repair to the system of for note and interest payments which the other accounts might be unable to make.

The City has established the sinking account required by the note resolution.

Urban Renewal Tax Increment Financing (TIF) Revenue Bond - The urban renewal tax increment financing (TIF) revenue bond was issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bond is payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Financing Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bond shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bond is not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The loan requires semi-annual payments of \$12,105, including principal and interest at 6.62% per annum, on December 1 and June 1 of each year. The final payment is due on June 1, 2008.

**(4) Lease Purchase and Loan Agreements**

On April 14, 2004, the City entered into a lease-purchase agreement for a law enforcement vehicle. The lease term is for three years, with interest at 6.9628% per annum, and requires annual payments of \$7,951. On March 2, 2005, the City entered into a lease-purchase agreement for another law enforcement vehicle. The lease term is for three years, with interest at 8.031135% per annum, and requires annual payments of \$9,187.

The following is a schedule of future minimum lease payments and the present value of net minimum lease payments under the law enforcement vehicles agreements:

Year Ended June 30,	Law Enforcement Vehicle	Law Enforcement Vehicle	Total
2007	\$ 7,951	9,187	17,138
2008	-	9,187	9,187
Total minimum lease payments	7,951	18,374	26,325
Less amount representing interest	(518)	(1,998)	(2,516)
Present value of net minimum lease payments	\$ 7,433	16,376	23,809

Payments under the lease-purchase agreements for the year ended June 30, 2006 totaled \$17,138.

On January 15, 2003, the City entered into a loan agreement of \$61,162 for a truck with snow plow and sander. The loan is for four years, with interest at 4.75% per annum, and requires annual payments of \$17,150.

Payments under the loan agreement for the year ended June 30, 2006 totaled \$17,150.

**(5) 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 3.70% of their annual covered salary and the City is required to contribute 5.75% 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 contributions to IPERS for the year ended June 30, 2006 was \$14,215, equal to the required contribution for each year.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and personal leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and personal leave hours payable to employees at June 30, 2006, primarily relating to the General Fund, was \$12,300. This liability has been computed based on rates of pay in effect at June 30, 2006.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Urban Renewal	
	Tax Increment Financing	\$ 17,948

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

**(8) Downtown Renovation Loans**

On February 14, 2003, June 1, 2004 and February 17, 2005, the City loaned \$40,000, \$10,000 and \$13,400, 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 a five year period. The loan repayments from the businesses will remain in the Special Revenue, Downtown Renovation Fund, a revolving loan fund, for future loans to other businesses. At June 30, 2006, the amount due from the businesses was \$30,007.

**(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) Development Agreement**

The City has entered into a development agreement for an urban renewal project. The agreement requires the City to rebate a portion of the incremental 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, 2006, the City did not rebate any incremental tax to the developer as the first payment is not due until December 1, 2007.

**(11) Construction Commitments**

Construction commitments at June 30, 2006 totaled \$727,100 which will be paid as work on the sewer treatment plant progresses. This project will be funded through debt issues, grants and local funds.

**(12) Subsequent Event**

In July 2006, the City issued \$1,165,000 of general obligation sewer improvement bonds.

**(13) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The implementation of these standards had no effect on the beginning balances of the City.

**City of Mount Ayr**

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 380,519	-
Tax increment financing	55,201	-
Other city tax	21,502	-
Licenses and permits	4,815	-
Use of money and property	9,882	-
Intergovernmental	256,269	411,697
Charges for service	166,095	820,277
Special assessments	8,762	-
Miscellaneous	40,183	55
Total receipts	943,228	1,232,029
Disbursements:		
Public safety	141,624	-
Public works	296,361	-
Culture and recreation	128,780	-
Community and economic development	110,902	-
General government	89,462	-
Debt service	127,890	-
Capital projects	-	-
Business type activities	-	3,159,522
Total disbursements	895,019	3,159,522
Excess (deficiency) of receipts over (under) disbursements	48,209	(1,927,493)
Other financing sources, net	-	2,078,079
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	48,209	150,586
Balances beginning of year	524,269	400,168
Balances end of year	\$ 572,478	550,754

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
380,519	378,497	378,497	2,022
55,201	42,158	42,158	13,043
21,502	23,578	23,578	(2,076)
4,815	5,015	5,015	(200)
9,882	6,000	6,000	3,882
667,966	259,960	259,960	408,006
986,372	969,088	969,088	17,284
8,762	13,090	13,090	(4,328)
40,238	25,171	25,171	15,067
<u>2,175,257</u>	<u>1,722,557</u>	<u>1,722,557</u>	<u>452,700</u>
141,624	165,502	165,502	23,878
296,361	358,801	358,801	62,440
128,780	126,198	126,198	(2,582)
110,902	144,158	126,210	15,308
89,462	90,941	90,941	1,479
127,890	109,943	127,891	1
-	2,750,000	-	-
<u>3,159,522</u>	<u>730,859</u>	<u>3,480,859</u>	<u>321,337</u>
<u>4,054,541</u>	<u>4,476,402</u>	<u>4,476,402</u>	<u>421,861</u>
(1,879,284)	(2,753,845)	(2,753,845)	874,561
<u>2,078,079</u>	<u>2,750,000</u>	<u>2,750,000</u>	<u>(671,921)</u>
198,795	(3,845)	(3,845)	202,640
924,437	936,762	936,762	(12,325)
<u>1,123,232</u>	<u>932,917</u>	<u>932,917</u>	<u>190,315</u>

City of Mount Ayr

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service 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 was adopted but did not increase total budgeted disbursements. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the culture and recreation function.

**Other Supplementary Information**

**City of Mount Ayr**

## 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, 2006

	Special Revenue			Total
	Employee Benefits	Downtown Renovation	Debt Service	
Receipts:				
Property tax	\$ 17,704	-	91,784	109,488
Other city tax	1,011	-	4,999	6,010
Intergovernmental	-	13,400	-	13,400
Special assessments	-	-	8,762	8,762
Miscellaneous	-	18,726	-	18,726
Total receipts	18,715	32,126	105,545	156,386
Disbursements:				
Operating:				
Public works	955	-	-	955
Culture and recreation	2,731	-	-	2,731
Community and economic development	-	13,400	-	13,400
General government	14,599	-	-	14,599
Debt service	-	-	127,890	127,890
Total disbursements	18,285	13,400	127,890	159,575
Excess (deficiency) of receipts over (under) disbursements	430	18,726	(22,345)	(3,189)
Other financing sources:				
Operating transfers in	-	-	17,948	17,948
Net change in cash balances	430	18,726	(4,397)	14,759
Cash balances beginning of year	14,378	26,973	38,447	79,798
Cash balances end of year	\$ 14,808	45,699	34,050	94,557
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	-	34,050	34,050
Unreserved:				
Special revenue funds	14,808	45,699	-	60,507
Total cash basis fund balances	\$ 14,808	45,699	34,050	94,557

See accompanying independent auditor's report.

City of Mount Ayr  
Schedule of Indebtedness  
Year ended June 30, 2006

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	6.20-6.75	495,000
Total			
General obligation notes:			
Municipal parking lot improvement	Jan 1, 1996	4.35-5.45%	\$ 130,000
Fire truck	Apr 1, 2000	5.10-5.70	160,000
Corporate purpose	Aug 1, 2001	4.10-5.40	595,000
Total			
Special assessment notes:			
Sanitary sewer improvement	Aug 1, 2001	4.50-5.40%	\$ 95,000
USDA Rural Development			
water revenue note	Feb 5, 1991	6.00%	\$ 500,000
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 19, 2005	3.00	2,825,000
Total			
General obligation loan agreement			
anticipation refunding notes:			
Sewer project	Feb 1, 2004	2.85%	\$ 410,000
Urban renewal tax increment			
financing (TIF) revenue bond	Jul 1, 1996	6.62%	\$ 175,000
Lease purchase agreements:			
Vehicle	Apr 14, 2004	6.9628%	\$ 20,880
Vehicle	Mar 2, 2005	8.031135	23,662
Total			
Loan agreement:			
Truck	Jan 15, 2003	4.75%	\$ 61,162

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
<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,177</b>
55,000	-	15,000	40,000	2,948	-
105,000	-	15,000	90,000	5,823	-
495,000	-	35,000	460,000	24,485	-
<b>\$ 655,000</b>	<b>-</b>	<b>65,000</b>	<b>590,000</b>	<b>33,256</b>	<b>-</b>
60,000	-	10,000	50,000	3,090	-
427,692	-	7,175	420,517	26,505	-
-	-	-	-	-	1,500
-	-	-	-	-	86
-	-	-	-	-	1,050
-	2,078,079	-	2,078,079	17,702	-
<b>\$ -</b>	<b>2,078,079</b>	<b>-</b>	<b>2,078,079</b>	<b>17,702</b>	<b>2,636</b>
410,000	-	-	410,000	11,685	-
64,893	-	20,232	44,661	3,977	-
14,383	-	6,950	7,433	1,001	-
23,662	-	7,286	16,376	1,900	-
<b>\$ 38,045</b>	<b>-</b>	<b>14,236</b>	<b>23,809</b>	<b>2,901</b>	<b>-</b>
32,002	-	15,630	16,372	1,520	-

City of Mount Ayr

Note Maturities

June 30, 2006

General Obligation Notes							
Year Ending June 30,	Municipal Parking Lot Improvement Issued Jun 1, 1996		Fire Truck Issued Apr 1, 2000		Corporate Purpose Issued Aug 1, 2001		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
	2007	5.35%	\$ 20,000	5.45%	\$ 15,000	4.50%	
2008	5.45	20,000	5.50	15,000	4.60	40,000	75,000
2009		-	5.55	20,000	4.70	40,000	60,000
2010		-	5.60	20,000	4.80	45,000	65,000
2011		-	5.70	20,000	4.90	45,000	65,000
2012		-		-	5.00	45,000	45,000
2013		-		-	5.10	50,000	50,000
2014		-		-	5.20	50,000	50,000
2015		-		-	5.30	55,000	55,000
2016		-		-	5.40	55,000	55,000
Total		<u>\$ 40,000</u>		<u>\$ 90,000</u>		<u>\$ 460,000</u>	<u>590,000</u>

See accompanying independent auditor's report.



**Schedule 4**

City of Mount Ayr  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Rural Business Enterprise	10.769		\$ 13,400
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	05-WS-082	411,697
U.S Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Clean Water-State Revolving Fund	66.458	CS19229601	1,732,733
Total indirect			2,144,430
Total			\$ 2,157,830

**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 on 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.



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Mount Ayr, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 2, 2006. 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, 2005. 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

In planning and performing our audit, we considered the City of Mount Ayr's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Mount Ayr's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

## 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 that 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, 2006 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.

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 Mount Ayr and other parties to whom the City of Mount Ayr may report, including federal awarding agencies and pass-through entities. 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 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.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 2, 2006

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

**City of Mount Ayr**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Mount Ayr, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2006. The City of Mount Ayr's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Mount Ayr's management. Our responsibility is to express an opinion on the City of Mount Ayr's compliance based on our audit.

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 non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs 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. Our audit does not provide a legal determination on the City of Mount Ayr's compliance with those requirements.

In our opinion, the City of Mount Ayr complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

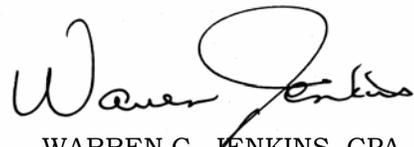
The management of the City of Mount Ayr is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Mount Ayr's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Mount Ayr and other parties to whom the City of Mount Ayr may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 2, 2006

City of Mount Ayr  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2006

**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) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (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 programs are as follows:
  - CFDA Number 14.228 – Community Development Block Grants/State's Program.
  - CFDA Number 66.458 – Capitalization Grants for Clean Water – State Revolving Fund.
- (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.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part II: Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

II-A-06 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.

For the City, one of two individuals has control over each of the following areas:

Receipts - collecting, depositing, journalizing, posting and reconciling.

For the Library, one individual has control over each of the following areas:

- (1) Receipts – mail opening, collecting, depositing, posting and reconciling.
- (2) Disbursements – posting, reconciling and check writing.
- (3) Payroll – preparation and distribution.
- (4) Cash – preparing bank reconciliations, handling and recording cash.

For the Fire Department, 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 – preparing bank reconciliations, handling and recording cash.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, Library and the Fire Department should review their operating procedures to obtain the maximum internal control possible under the circumstances.

Response –

City – The City office staff will work to obtain the most segregation of duties as possible. The Mayor will assist by reviewing our posting detail and checking it against the bank deposit slips.

Library – Due to the limited amount of staff, we try to segregate whenever possible. The Library Board review and approves all bills and payroll along with the monthly and annual report and is also consulted on all investing decisions. We will continue to review our office procedures and separate duties as staff allows.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Fire Department – Due to the limited amount of staff, we try to segregate whenever possible. We have an financial report each month of receipts and disbursements. Quarterly we have a complete financial report. All bills paid are accompanied by a receipt and voted on by the department. We keep a record of all cancelled checks. Two signatures are required on all checks. The officers have access to the records at anytime.

Conclusion –

City – Response accepted.

Library – Response accepted.

Fire Department – Response accepted.

II-B-06 Information Systems – During our review of internal control, the existing control activities in the City's computer based financial systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's financial computer based systems were noted:

The City does not have written policies over the financial computer system for:

- password privacy and confidentiality.
- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- ownership of in-house developed software and data.
- requiring backups be performed daily rather than just weekly, monthly and yearly.
- ensuring only software licensed to the City is installed on computers and monitoring software licensing requirements to ensure the City is in compliance.
- usage of the internet.

Also, the City does not require back up tapes to be stored off site daily or have adequate fire protection.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over financial computer based systems. The City should also require off-site storage of backup tapes and obtain adequate fire protection.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Response – The City’s office staff will begin immediately to develop a written policy addressing each of these points. We already have in place the practice of burning our weekly backups to CDs, where a copy is kept at a different site in case of fire.

Conclusion – Response accepted.

- II-C-06 Library Annual Report – The Library prepares monthly and annual financial reports. However, the beginning balance, receipts detail, disbursements detail and ending balance were incorrect. Also, the Library paid one disbursement with a bank cashier’s check rather than with a Library check and the amount was not included in the financial statements. In addition, the book balances did not include all investments. This matter was resolved for audit purposes.

Recommendation – The Library monthly and annual financial reports should include all activity in the check register and disbursements made with cashier’s checks should be included. Also, the book balances should include all investments and match the bank reconciliation book balances.

Response – In the future we will ensure all disbursements are made with a Library check. Also, we will make sure that the beginning of year balance on the annual report along with the end of year balance agree with the reconciled bank balance and include all updated investment amounts. We will monthly balance and reconcile our receipts and disbursements and provide a balanced report to the Board.

Conclusion – Response accepted.

- II-D-06 Separately Maintained Records – The Mount Ayr Library and the Mount Ayr Fire Department maintain separate accounting records for their operations. These transactions and resulting balances are not included in the City’s accounting records.

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 Council on a monthly basis.

Response – The City will take your recommendation under serious consideration. We will be requesting a monthly report from the Library and Fire Department to achieve better accountability and will also consider taking over the record keeping.

Conclusion – Response accepted.

- II-E-06 Grant Receipts – The City received three grant warrants totaling \$73,293 from the State which were endorsed to the grantee without recording the receipt and disbursement in the City’s records. This matter was resolved for audit purposes.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Recommendation – All receipts should be recorded in the City’s records to properly account for receipts and disbursements.

Response – In the future any warrants received from the State will be directly deposited into the City’s checking account and disbursed back out by a City warrant to the grantee.

Conclusion – Response accepted.

**INSTANCE OF NON-COMPLIANCE:**

No matters were noted.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCE OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

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

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the culture and recreation function. 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City staff monitors the budget on a regular basis and always tries to sufficiently amend the budget as needed. We will follow your recommendation and strive for this to not happen in the future.

Conclusion – Response accepted.

IV-B-06 Questionable Disbursement – One Library disbursement was noted we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. This disbursement is detailed as follows:

Paid To	Purpose	Amount
South Central Iowa Community Foundation (SCICF)	Allocation to establish a Mount Ayr Library fund endowment with the SCICF	\$ 2,500

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Library Board should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City (through the Library Board) should establish written policies and procedures, including the requirement for proper documentation.

Response – This will be brought up at the next Board meeting and it will be discussed. Any future payments will contain public purpose documentation.

Conclusion – Response accepted.

IV-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- IV-D-06 Business Transactions – No business transactions between the City and City officials or employees were noted.
- IV-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- IV-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-06 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-06 Revenue Bonds and Notes – No instances of noncompliance with the City's revenue bond and note resolutions were noted.

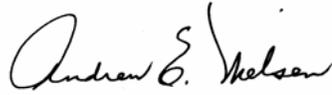
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City of Mount Ayr

Staff

This audit was performed by:

K. David Voy, CPA, Manager  
Nancy F. Curtis, CPA, Senior Auditor II  
Melissa M. Wellhausen, CPA, Staff Auditor  
Matthew R. Ritchey, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State