



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

April 3, 2008

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's receipts totaled \$3,405,889 for the year ended June 30, 2007, a 20 percent decrease from 2006. The receipts included \$487,769 in property tax, \$43,177 from tax increment financing, \$1,052,189 from charges for service, \$225,140 from operating grants, contributions and restricted interest, \$88,303 from capital grants, contributions and restricted interest, \$43,099 from unrestricted interest on investments, \$1,440,431 from sewer bond proceeds and \$25,781 from other general receipts.

Disbursements for the year totaled \$3,327,825, an 18 percent decrease from the prior year, and included \$338,538 for public works, \$188,048 for debt service and \$150,889 for public safety. Also, disbursements for business type activities totaled \$2,405,046.

The significant decrease in receipts and disbursements is due primarily to decreased construction activity on the City's wastewater treatment plant construction project.

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, 2007

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City of Mount Ayr

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Solliday	Mayor	Jan 2008
Eldon Still	Council Member	(Resigned)
Jeff Woody (Appointed)	Council Member	Nov 2008
Doug Still	Council Member	Jan 2008
Bill Schuster	Council Member	Jan 2008
Gerald Cannon	Council Member	Jan 2008
Jodie Wurster	Council Member	(Resigned)
Edwin Rotert Jr. (Appointed)	Council Member	Nov 2007
Pamella Poore	Clerk	Jan 2008
Lisa Drake	Treasurer	Jan 2008
Richard L. 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:

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, 2007, 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.

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.

In our opinion, 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, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 7, 2008 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 26 through 28 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, 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, 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

March 7, 2008



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 2.6%, or approximately \$25,000, from fiscal year 2006 to fiscal year 2007. Property and other city tax increased approximately \$86,000. Receipts of the City's business type activities decreased 26%, or approximately \$872,000, from fiscal year 2006 to fiscal year 2007, due primarily to the decrease in bond proceeds for the sewer project.
- Disbursements of the City's governmental activities increased 3.1%, or approximately \$28,000, in fiscal 2007 from fiscal 2006. Public works and debt service disbursements increased approximately \$42,000 and \$60,000, respectively, and community and economic development disbursements decreased approximately \$87,000. Disbursements of the City's business type activities decreased 24%, or approximately \$754,000, in fiscal 2007 from fiscal 2006, primarily due to the decrease in construction activity on the wastewater treatment plant project.
- The City's total cash basis net assets increased 7%, or approximately \$78,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$45,000 and the assets of the business type activities increased approximately \$33,000.

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.

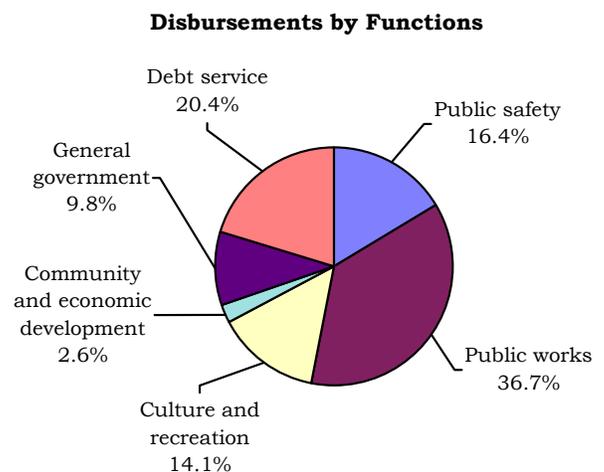
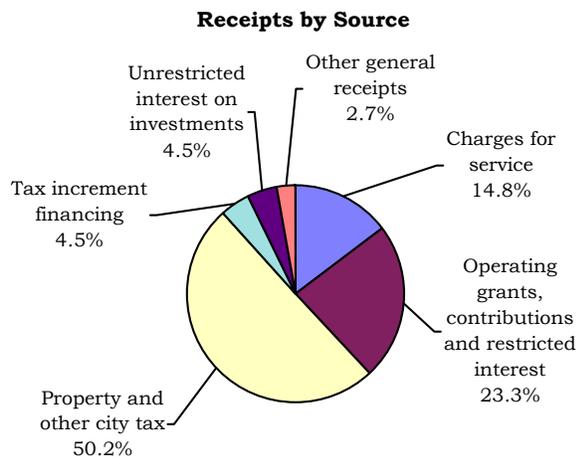
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sanitary sewer operations. The Water and Sewer Funds are considered to be major funds of 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 increased from a year ago, from \$572,478 to \$617,829. 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,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service	\$ 143,164	174,100
Operating grants, contributions and restricted interest	225,140	283,615
Capital grants, contributions and restricted interest	-	8,762
General receipts:		
Property and other city tax	487,769	402,021
Tax increment financing	43,177	55,201
Unrestricted interest on investments	43,099	9,851
Other general receipts	25,781	9,678
Total receipts	<u>968,130</u>	<u>943,228</u>
Disbursements:		
Public safety	150,889	141,624
Public works	338,538	296,361
Culture and recreation	130,230	128,780
Community and economic development	24,209	110,902
General government	90,865	89,462
Debt service	188,048	127,890
Total disbursements	<u>922,779</u>	<u>895,019</u>
Increase in cash basis net assets	45,351	48,209
Cash basis net assets beginning of year	<u>572,478</u>	<u>524,269</u>
Cash basis net assets end of year	<u>\$ 617,829</u>	<u>572,478</u>



The City's total receipts for governmental activities increased 2.6%, or approximately \$25,000. The total cost of all programs and services increased approximately \$28,000, or 3.1%, with no new programs added this year.

The City increased property tax rates for 2007 by an average of 18 %. This increase raised the City's property tax receipts approximately \$86,000 in 2007. Based on increases in the total assessed taxable valuation, property tax receipts are budgeted to increase an additional \$32,000 next year.

The cost of all governmental activities this year was \$923,000 compared to \$895,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 14 and 15, the amount taxpayers ultimately financed for these activities was only \$554,475 because some of the cost was paid by those directly benefited from the programs (\$143,164) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$225,140). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2007 from approximately \$466,000 to approximately \$368,000, principally due to receiving grant funds for the downtown theater renovation project in 2006. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$600,000 in tax (some of which could only be used for certain programs and other receipts, such as interest and general entitlements).

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 395,648	416,292
Sewer	513,377	404,040
Capital grants, contributions and restricted interest	88,303	411,697
Sewer bond proceeds	1,440,431	2,078,079
Total receipts	<u>2,437,759</u>	<u>3,310,108</u>
Disbursements:		
Water	375,187	368,686
Sewer	2,029,859	2,790,836
Total disbursements	<u>2,405,046</u>	<u>3,159,522</u>
Increase in cash basis net assets	32,713	150,586
Cash basis net assets beginning of year	<u>550,754</u>	<u>400,168</u>
Cash basis net assets end of year	<u>\$ 583,467</u>	<u>550,754</u>

Total business type activities receipts for the fiscal year were \$2,437,759 compared to \$3,310,108 last year. This significant decrease of approximately \$872,000 was due primarily to the decrease in loan proceeds for the wastewater treatment plant construction project. The cash balance increased slightly, approximately \$33,000, from the prior year. Total disbursements for the fiscal year decreased 24%, or approximately \$754,000, due to the winding down of work on the sewer project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Mount Ayr completed the year, its governmental funds reported a combined fund balance of \$617,829, an increase of approximately \$45,000 over the June 30, 2006 balance of \$572,478. 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 \$10,979 from the prior year to \$347,510. Approximately \$2,700 of this increase was due to hotel-motel tax received for the first time this fiscal year. The City intends to use these receipts based on the Code of Iowa restrictions and Council intent.
- The Special Revenue, Road Use Tax Fund cash balance increased \$6,945 to \$66,877 during the fiscal year.
- The Special Revenue, 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 \$78,266, a decrease of \$3,192 from the previous year. The slight decrease was the result of reduced property tax proceeds in the district.
- The Special Revenue, Downtown Renovation Fund was established to account for a revolving loan program for the renovation and improvements to downtown businesses around the square. At the end of the fiscal year, the cash balance was \$65,046, an increase of \$19,347 from the previous year. The increase was mainly due to receipts for loan repayments and no loans were made in 2007.
- The Debt Service Fund cash balance increased \$11,686 to \$45,736 during the fiscal year. This increase was due to an increase in property tax. Bond principal and interest payments increased \$60,158 in fiscal 2007.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$20,461 to \$205,742, due primarily to holding the line on operating costs.
- The Sewer Fund cash balance increased \$12,252 to \$377,725, due primarily to the increase in sewer rates. Also, the Sewer Fund received and disbursed \$88,303 of a \$500,000 Community Development Block Grant (CDBG) and \$1,440,431 in State Revolving Loan funds for the wastewater treatment plant project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 21, 2007. The changes to receipts and other financing sources of \$905,000 were primarily due to the sewer revolving loan proceeds since the project did not progress as quickly as originally anticipated. Disbursements in the business type activities function and transfers out were increased approximately the same amount the receipts and other financing sources were increased.

The City's actual receipts were \$63,604 less than budgeted receipts. This was primarily due to water and sewer usage and collections being less than expected.

This City's actual disbursements were \$368,313 less than budgeted disbursements. This was primarily due to the timing of payment requests for and progress on the construction and engineering on the City's wastewater treatment plant project.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$4,373,070 in revenue bonds and other long-term debt outstanding, compared to \$3,633,438 last year. Debt increased as a result of issuing \$649,510 in sewer general obligation bonds for the wastewater treatment plant project and paying off the sewer anticipation project notes.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,201,071 is significantly below its constitutional debt limit of \$2,795,445.

	Outstanding Debt at Year End	
	June 30,	
	2007	2006
General obligation bonds	\$ 649,510	-
General obligation notes	520,000	590,000
Special assessment notes	40,000	50,000
USDA Rural Development water revenue note	411,999	420,517
Sewer revenue bonds	2,720,000	2,078,079
General obligation loan agreement anticipation refunding notes	-	410,000
Urban renewal tax increment financing revenue bond	23,057	44,661
Lease purchase agreements	8,504	23,809
Loan agreement	-	16,372
Total	\$ 4,373,070	3,633,438

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 2008 budget, tax rates and fees charged for various City activities. The City's fiscal year 2008 assessed taxable valuation increased approximately 1.5%, or \$472,627, from the fiscal year 2007 level.

The fiscal year 2008 budget includes total receipts of \$2,612,857 and disbursements of \$2,619,981.

The FY2008 General Fund levy is \$8.10 per \$1,000 of taxable valuation, which is unchanged from FY2007.

These parameters were taken into account when adopting the budget for FY2008.

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, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 150,889	4,246	37,298	-
Public works	338,538	109,440	151,854	-
Culture and recreation	130,230	25,142	27,105	-
Community and economic development	24,209	-	-	-
General government	90,865	4,336	-	-
Debt service	188,048	-	8,883	-
Total governmental activities	922,779	143,164	225,140	-
Business type activities:				
Water	375,187	395,648	-	-
Sewer	2,029,859	513,377	-	88,303
Total business type activities	2,405,046	909,025	-	88,303
Total	\$ 3,327,825	1,052,189	225,140	88,303

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Unrestricted interest on investments
 Sewer 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

Cash Basis Net Assets

Restricted:
 Streets
 Urban renewal purposes
 Downtown renovation
 Debt service
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(109,345)	-	(109,345)
(77,244)	-	(77,244)
(77,983)	-	(77,983)
(24,209)	-	(24,209)
(86,529)	-	(86,529)
(179,165)	-	(179,165)
(554,475)	-	(554,475)
-	20,461	20,461
-	(1,428,179)	(1,428,179)
-	(1,407,718)	(1,407,718)
(554,475)	(1,407,718)	(1,962,193)
319,078	-	319,078
43,177	-	43,177
168,691	-	168,691
43,099	-	43,099
-	1,440,431	1,440,431
25,781	-	25,781
599,826	1,440,431	2,040,257
45,351	32,713	78,064
572,478	550,754	1,123,232
\$ 617,829	583,467	1,201,296
\$ 66,877	-	66,877
78,266	-	78,266
65,046	-	65,046
45,736	219,472	265,208
14,394	-	14,394
347,510	363,995	711,505
\$ 617,829	583,467	1,201,296

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, 2007

	Special Revenue						Total
	General	Road Use Tax	Urban Renewal Tax Increment Financing	Downtown Renovation	Debt Service	Nonmajor	
Receipts:							
Property tax	\$ 270,332	-	-	-	159,297	28,001	457,630
Tax increment financing	-	-	43,177	-	-	-	43,177
Other city tax	19,020	-	-	-	9,394	1,725	30,139
Licenses and permits	3,820	-	-	-	-	-	3,820
Use of money and property	44,324	-	-	-	-	-	44,324
Intergovernmental	49,069	151,855	-	-	-	-	200,924
Charges for service	134,097	-	-	-	-	-	134,097
Special assessments	-	-	-	-	8,883	-	8,883
Miscellaneous	25,789	-	-	19,347	-	-	45,136
Total receipts	546,451	151,855	43,177	19,347	177,574	29,726	968,130
Disbursements:							
Operating:							
Public safety	150,889	-	-	-	-	-	150,889
Public works	193,628	144,910	-	-	-	-	338,538
Culture and recreation	127,718	-	-	-	-	2,512	130,230
Community and economic development	-	-	24,209	-	-	-	24,209
General government	71,265	-	-	-	-	19,600	90,865
Debt service	-	-	-	-	188,048	-	188,048
Total disbursements	543,500	144,910	24,209	-	188,048	22,112	922,779
Excess (deficiency) of receipts over (under) disbursements	2,951	6,945	18,968	19,347	(10,474)	7,614	45,351
Other financing sources (uses):							
Operating transfers in	8,028	-	-	-	22,160	-	30,188
Operating transfers out	-	-	(22,160)	-	-	(8,028)	(30,188)
Total other financing sources (uses)	8,028	-	(22,160)	-	22,160	(8,028)	-
Net change in cash balances	10,979	6,945	(3,192)	19,347	11,686	(414)	45,351
Cash balances beginning of year	336,531	59,932	81,458	45,699	34,050	14,808	572,478
Cash balances end of year	\$ 347,510	66,877	78,266	65,046	45,736	14,394	617,829
Cash Basis Fund Balances							
Reserved for debt service	\$ -	-	-	-	45,736	-	45,736
Unreserved:							
General fund	347,510	-	-	-	-	-	347,510
Special revenue funds	-	66,877	78,266	65,046	-	14,394	224,583
Total cash basis fund balances	\$ 347,510	66,877	78,266	65,046	45,736	14,394	617,829

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, 2007

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 391,589	513,377	904,966
Miscellaneous	4,059	-	4,059
Total operating receipts	395,648	513,377	909,025
Operating disbursements:			
Business type activities	341,507	308,827	650,334
Excess of operating receipts over operating disbursements	54,141	204,550	258,691
Non-operating receipts (disbursements):			
Intergovernmental	-	88,303	88,303
Sewer bond proceeds	-	1,440,431	1,440,431
Capital improvements	-	(1,112,891)	(1,112,891)
Debt service	(33,680)	(608,141)	(641,821)
Net non-operating receipts (disbursements)	(33,680)	(192,298)	(225,978)
Net change in cash balances	20,461	12,252	32,713
Cash balances beginning of year	185,281	365,473	550,754
Cash balances end of year	\$ 205,742	377,725	583,467
Cash Basis Fund Balances			
Reserved for debt service	\$ 33,680	185,792	219,472
Unreserved	172,062	191,933	363,995
Total cash basis fund balances	\$ 205,742	377,725	583,467

See notes to financial statements.

City of Mount Ayr

Notes to Financial Statements

June 30, 2007

(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 Downtown Renovation Fund is used to account for the revolving loan program for the improvement and renovation of downtown storefronts.

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

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, 2007, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		Special Assessment Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 75,000	26,655	10,000	2,100	110,000	88,400	195,000	117,155
2009	60,000	22,900	10,000	1,590	110,000	84,825	180,000	109,315
2010	65,000	19,910	10,000	1,070	115,000	81,250	190,000	102,230
2011	65,000	16,630	10,000	540	120,000	77,513	195,000	94,683
2012	45,000	13,285	-	-	120,000	73,613	165,000	86,898
2013-2017	210,000	28,375	-	-	660,000	306,800	870,000	335,175
2018-2022	-	-	-	-	775,000	192,562	775,000	192,562
2023-2026	-	-	-	-	710,000	58,500	710,000	58,500
Total	\$ 520,000	127,755	40,000	5,300	2,720,000	963,463	3,280,000	1,096,518

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, 2007, the City paid principal of \$8,518 to the USDA, leaving a balance due at June 30, 2007 of \$411,999.

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 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 3.0% 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. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. At June 30, 2007, the City had drawn down all of the \$2,825,000 amount authorized.

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.

The City has established the sinking account required by the sewer revenue bond resolution.

Sewer Improvement General Obligation Bonds – On August 10, 2006, 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 \$1,165,000 of sewer improvement general obligation 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. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2007, the City had drawn \$693,510, including an \$11,650 initiation fee, of the \$1,165,000 authorized. Wells Fargo Bank Iowa, N.A., has the remaining balance of \$471,490 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted.

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 Ending June 30,	Law Enforcement Vehicle
2008	\$ 9,187
Less amount representing interest	(683)
Present value of net minimum lease payments	\$ 8,504

Payments under the lease-purchase agreements for the year ended June 30, 2007 were \$15,305 of principal and \$1,833 of interest.

On January 15, 2003, the City entered into a loan agreement of \$61,162 for a truck with a snow plow and sander. The loan is for four years, with interest at 4.75% per annum, and requires annual payments of \$17,150. The final payment of \$16,372 of principal and \$778 of interest was made during the year ended June 30, 2007.

(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 years ended June 30, 2007 and June 30, 2006 were \$14,547 and \$14,215, respectively, equal to the required contributions 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, 2007, primarily relating to the General Fund, was \$14,400. This liability has been computed based on rates of pay in effect at June 30, 2007.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Emergency	\$ 8,028
Debt Service	Special Revenue: Urban Renewal Tax Increment Financing	<u>22,160</u>
Total		<u>\$ 30,188</u>

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, February 17, 2005 and July 20, 2006, the City loaned \$40,000, \$10,000, \$13,400 and \$20,000, 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, 2007, the amount due from the businesses was \$30,660. However, after June 30, 2007, the \$20,000 loan was in default due to bankruptcy and was partially forgiven by the Council as of October 29, 2007.

(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, 2007, 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, 2007 totaled \$54,500 of retainage payable which will be paid as work is finalized on the sewer treatment plant. This project was funded through debt issues, grants and local funds.

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, 2007

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 457,630	-
Tax increment financing	43,177	-
Other city tax	30,139	-
Licenses and permits	3,820	-
Use of money and property	44,324	-
Intergovernmental	200,924	88,303
Charges for service	134,097	904,966
Special assessments	8,883	-
Miscellaneous	45,136	4,059
Total receipts	<u>968,130</u>	<u>997,328</u>
Disbursements:		
Public safety	150,889	-
Public works	338,538	-
Culture and recreation	130,230	-
Community and economic development	24,209	-
General government	90,865	-
Debt service	188,048	-
Business type activities	-	2,405,046
Total disbursements	<u>922,779</u>	<u>2,405,046</u>
Excess (deficiency) of receipts over (under) disbursements	45,351	(1,407,718)
Other financing sources, net	-	1,440,431
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	45,351	32,713
Balances beginning of year	<u>572,478</u>	<u>550,754</u>
Balances end of year	<u>\$ 617,829</u>	<u>583,467</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
457,630	457,256	457,256	374
43,177	46,370	46,370	(3,193)
30,139	27,501	27,501	2,638
3,820	4,865	4,865	(1,045)
44,324	10,000	10,000	34,324
289,227	216,034	216,034	73,193
1,039,063	1,229,436	1,234,436	(195,373)
8,883	12,600	12,600	(3,717)
49,195	20,000	20,000	29,195
1,965,458	2,024,062	2,029,062	(63,604)
150,889	175,288	175,288	24,399
338,538	361,742	361,742	23,204
130,230	126,253	139,253	9,023
24,209	54,210	54,210	30,001
90,865	102,030	102,030	11,165
188,048	204,563	204,563	16,515
2,405,046	1,759,052	2,659,052	254,006
3,327,825	2,783,138	3,696,138	368,313
(1,362,367)	(759,076)	(1,667,076)	304,709
1,440,431	750,000	1,650,000	(209,569)
78,064	(9,076)	(17,076)	95,140
1,123,232	1,006,341	1,006,341	116,891
1,201,296	997,265	989,265	212,031

City of Mount Ayr

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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 increased budgeted disbursements by \$913,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

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, 2007

	Special Revenue		
	Employee Benefits	Emergency	Total
Receipts:			
Property tax	\$ 20,455	7,546	28,001
Other city tax	1,243	482	1,725
Total receipts	<u>21,698</u>	<u>8,028</u>	<u>29,726</u>
Disbursements:			
Operating:			
Culture and recreation	2,512	-	2,512
General government	19,600	-	19,600
Total disbursements	<u>22,112</u>	<u>-</u>	<u>22,112</u>
Excess (deficiency) of receipts over (under) disbursements	(414)	8,028	7,614
Other financing uses:			
Operating transfers out	-	(8,028)	(8,028)
Net change in cash balances	(414)	-	(414)
Cash balances beginning of year	14,808	-	14,808
Cash balances end of year	<u>\$ 14,394</u>	<u>-</u>	<u>14,394</u>
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	<u>\$ 14,394</u>	<u>-</u>	<u>14,394</u>

See accompanying independent auditor's report.

City of Mount Ayr
Schedule of Indebtedness
Year ended June 30, 2007

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
Sewer improvement	Aug 10, 2006	3.25	1,165,000
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 1, 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
-	693,510	44,000	649,510	11,691	-
<u>\$ -</u>	<u>693,510</u>	<u>44,000</u>	<u>649,510</u>	<u>11,691</u>	<u>5,177</u>
40,000	-	20,000	20,000	2,160	-
90,000	-	15,000	75,000	5,013	-
460,000	-	35,000	425,000	22,945	-
<u>\$ 590,000</u>	<u>-</u>	<u>70,000</u>	<u>520,000</u>	<u>30,118</u>	<u>-</u>
50,000	-	10,000	40,000	2,600	-
420,517	-	8,518	411,999	25,162	-
-	-	-	-	-	1,500
-	-	-	-	-	86
-	-	-	-	-	1,050
2,078,079	746,921	105,000	2,720,000	79,680	-
<u>\$ 2,078,079</u>	<u>746,921</u>	<u>105,000</u>	<u>2,720,000</u>	<u>79,680</u>	<u>2,636</u>
410,000	-	410,000	-	5,843	-
44,661	-	21,604	23,057	2,605	-
7,433	-	7,433	-	518	-
16,376	-	7,872	8,504	1,315	-
<u>\$ 23,809</u>	<u>-</u>	<u>15,305</u>	<u>8,504</u>	<u>1,833</u>	<u>-</u>
16,372	-	16,372	-	778	-

Schedule 3

City of Mount Ayr
 Bond and Note Maturities
 June 30, 2007

General Obligation Notes							
Year Ending June 30,	Municipal Parking Lot Improvement		Fire Truck		Corporate Purpose		Total
	Issued Jun 1, 1996		Issued Apr 1, 2000		Issued Aug 1, 2001		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
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>\$ 20,000</u>		<u>\$ 75,000</u>		<u>\$ 425,000</u>	<u>520,000</u>

Year Ending June 30,	Special Assessment Notes		Sewer Revenue Bonds	
	Sanitary Sewer Improvement		Sewer Treatment Plant	
	Issued Aug 1, 2001		Issued Oct 1, 2005	
	Interest Rates	Amount	Interest Rates	Amount
2008	5.10%	\$ 10,000	3.25%	\$ 110,000
2009	5.20	10,000	3.25	110,000
2010	5.30	10,000	3.25	115,000
2011	5.40	10,000	3.25	120,000
2012		-	3.25	120,000
2013		-	3.25	125,000
2014		-	3.25	130,000
2015		-	3.25	130,000
2016		-	3.25	135,000
2017		-	3.25	140,000
2018		-	3.25	145,000
2019		-	3.25	150,000
2020		-	3.25	155,000
2021		-	3.25	160,000
2022		-	3.25	165,000
2023		-	3.25	170,000
2024		-	3.25	175,000
2025		-	3.25	180,000
2026		-	3.25	185,000
		<u>\$ 40,000</u>		<u>\$ 2,720,000</u>

See accompanying independent auditor's report,

City of Mount Ayr

Schedule of Receipts by Source and Disbursements by Function –
All Governmental Funds

For the Last Two Years

	<u>2007</u>	<u>2006</u>
Receipts:		
Property tax	\$ 457,630	380,519
Tax increment financing	43,177	55,201
Other city tax	30,139	21,502
Licenses and permits	3,820	4,815
Use of money and property	44,324	9,882
Intergovernmental	200,924	256,269
Charges for service	134,097	166,095
Special assessments	8,883	8,762
Miscellaneous	45,136	40,183
	<u> </u>	<u> </u>
Total	<u>\$ 968,130</u>	<u>943,228</u>
Disbursements:		
Operating:		
Public safety	\$ 150,889	141,624
Public works	338,538	296,361
Culture and recreation	130,230	128,780
Community and economic development	24,209	110,902
General government	90,865	89,462
Debt service	188,048	127,890
	<u> </u>	<u> </u>
Total	<u>\$ 922,779</u>	<u>895,019</u>

See accompanying independent auditor's report.

Schedule 5

City of Mount Ayr
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
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	\$ 88,303
U.S Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS19229601	622,434
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS19229602	488,299
			<u>1,110,733</u>
Total			<u>\$ 1,199,036</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 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.

**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**

City of Mount Ayr



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 7, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Mount Ayr's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Ayr's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might not be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Mount Ayr's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Mount Ayr's financial statements that is more than inconsequential will not be prevented or detected by the City of Mount Ayr's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Mount Ayr's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-07 and II-B-07 are material weaknesses.

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, 2007 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.

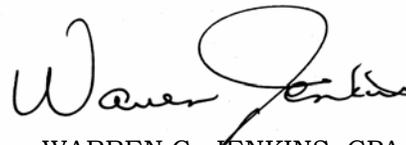
The City of Mount Ayr's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Mount Ayr's responses and, accordingly, we express no opinion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

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

March 7, 2008

**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

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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 program for the year ended June 30, 2007. The City of Mount Ayr's major federal program is 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 program 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 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. 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 program for the year ended June 30, 2007.

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, 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 control deficiency in the City's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

March 7, 2008

City of Mount Ayr

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

- (a) Unqualified 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 in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (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 was noted.
- (e) An unqualified 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 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, 2007

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-07 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 and posting.

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 – 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.

Responses –

City – The City office staff is committed to achieving the highest level of internal control possible with the staff we have. Recently a new “Receipt Management” software has been implemented to help ensure efficiency and accountability. The Mayor also assists by reviewing posting details and checking 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, 2007

Fire Department – Due to limited amount of staff, we try to segregate whenever possible. We prepare a financial report each month with 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 – Responses accepted.

- II-B-07 Library Annual Report – The Library prepares monthly and annual financial reports. However, the beginning balance and ending balance on the annual report were incorrect. In addition, bank reconciliations were not always prepared to reconcile book and bank balances.

Recommendation – The Library annual financial report should include all bank account balances for the checking and investment accounts at the beginning of the year and at the end of the year. Also, the bank balance should be reconciled to the book balance monthly.

Response – We will make sure 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 balance monthly and reconcile our receipts and disbursements and provide a balanced report to the Board.

Conclusion – Response accepted.

- II-C-07 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. Monthly reports will be reviewed and reported to the Council. Receipts, disbursement and payroll can be handled through City Hall if the Library Board would want to make that transition.

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, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT 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, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

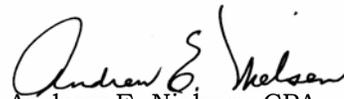
- IV-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.
- IV-B-07 Questionable Disbursement – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-C-07 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-07 Business Transactions – No business transactions between the City and City officials or employees were noted.
- IV-E-07 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-07 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-07 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-07 Revenue Bonds and Notes – No instances of noncompliance with the City’s revenue bond and note resolutions were noted.

City of Mount Ayr

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II
Keith C. Kistenmacher, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State