



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

David A. Vaudt, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE

June 20, 2008

Contact: Andy Nielsen  
515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2007, 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 \$2,292,140 for the year ended June 30, 2007. The receipts included \$451,474 in property tax, \$291,255 from tax increment financing, \$776,285 from charges for service, \$269,228 from operating grants, contributions and restricted interest, \$161,568 from capital grants, contributions and restricted interest, \$185,861 from local option sales tax, \$63,498 from hotel/motel tax and \$92,971 from other general receipts.

Disbursements for the year totaled \$1,900,503, and included \$416,886 for culture and recreation, \$335,104 for public safety and \$324,094 for public works. Also, disbursements for business type activities totaled \$412,573.

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 AVOCA**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2007**

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**City of Avoca**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Johnson	Mayor	Jan 2008
Fred Miller	Council Member	Jan 2008
Jennie Maassen	Council Member	Jan 2008
David McCain	Council Member	Jan 2010
Carol Kyle	Council Member	Jan 2010
Robert McCarthy	Council Member	Jan 2010
Clint Fichter	City Manager	Indefinite
Marjorie Kobs	Clerk	Dec 2007
Teresa Hoepner	Clerk	Indefinite
Marcia Messinger	Treasurer	Jan 2008
David Larson	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 Avoca, 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 Avoca'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. 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, 2006.

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, 2006, 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 Avoca 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.

As described in Note 9, during the year ended June 30, 2007, 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 May 7, 2008 on our consideration of the City of Avoca'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 Avoca's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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, 2006, as discussed in the third 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

May 7, 2008

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

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The City of Avoca 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.

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.

### **2007 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased 12.7%, or approximately \$261,000, due primarily to an increase in grants and miscellaneous donations for capital projects.
- The cash basis net assets of the City's business type activities increased 27.6%, or approximately \$131,000, due primarily to water and sewer rate increases.

### **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 and the City's indebtedness.

### **BASIS OF ACCOUNTING**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the 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, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

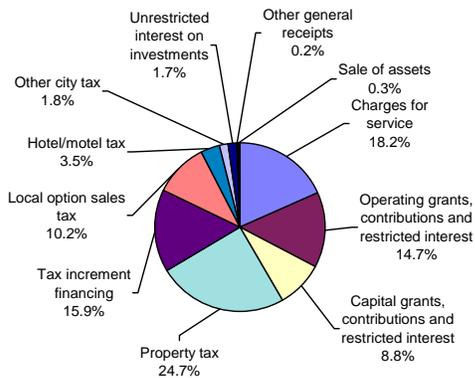
## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$2,055,108 to \$2,315,830. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

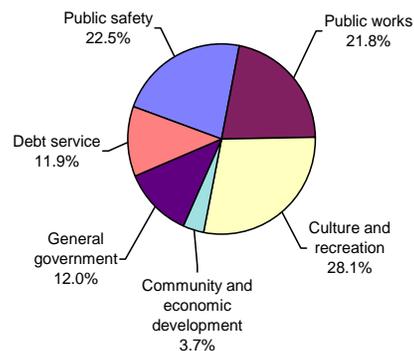
**Changes in Cash Basis Net Assets of Governmental Activities**

	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service	\$ 333,199
Operating grants, contributions and restricted interest	269,228
Capital grants, contributions and restricted interest	161,568
General receipts:	
Property tax	451,474
Tax increment financing	291,255
Local option sales tax	185,861
Hotel/motel tax	63,498
Other city tax	32,632
Unrestricted interest on investments	31,803
Other general receipts	4,140
Sale of assets	5,500
<b>Total receipts</b>	<b><u>1,830,158</u></b>
Disbursements:	
Public safety	335,104
Public works	324,094
Culture and recreation	416,886
Community and economic development	55,342
General government	178,879
Debt service	177,625
<b>Total disbursements</b>	<b><u>1,487,930</u></b>
Change in cash basis net assets before transfers	342,228
Transfers, net	<u>(81,506)</u>
Change in cash basis net assets	260,722
Cash basis net assets beginning of year	<u>2,055,108</u>
Cash basis net assets end of year	<b><u><u>\$ 2,315,830</u></u></b>

**Receipts by Source**



**Disbursements by Function**



The cash basis net assets of the City's governmental activities increased 12.7%, or approximately \$261,000, due primarily to an increase in grants and miscellaneous donations for capital projects.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2007</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 376,377
Sewer	66,709
General receipts:	
Unrestricted interest on investments	12,375
Other general receipts	6,521
Total receipts	<u>461,982</u>
Disbursements:	
Water	357,595
Sewer	54,978
Total disbursements	<u>412,573</u>
Change in cash basis net assets before transfers	49,409
Transfers, net	<u>81,506</u>
Change in cash basis net assets	130,915
Cash basis net assets beginning of year	<u>474,987</u>
Cash basis net assets end of year	<u>\$ 605,902</u>

The cash basis net assets of the City's business type activities increased 27.6%, or approximately \$131,000, due primarily to water and sewer rate increases.

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

As the City of Avoca completed the year, its governmental funds reported a combined fund balance of \$2,315,830, an increase of \$260,722 above last year's total of \$2,055,108. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$114,942 from the prior year to \$330,938. The change in fund balance was due primarily to an increase in disbursements for emergency management, cemetery and golf course and tort liability insurance premiums.
- The Special Revenue, Employee Benefits Fund cash balance increased \$6,035 from the prior year to \$20,619.

- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$150,255 from the prior year to \$631,377. The increase was a result of no disbursements from this fund and one transfer out to the Enterprise, Water Fund to pay for a water main loop during the year.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$108,248 to \$102,585 during the fiscal year. The change in fund balance was due primarily to an interfund loan to the Capital Projects Fund to be used for future street projects.
- The Permanent, Library Trust/Endowment Fund cash balance was \$491,608, unchanged from the previous year. There was no activity in this fund during the year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased \$53,526 to \$278,385, due primarily to a water rate increase.
- The Sewer Fund cash balance increased \$77,389 to \$327,517, due primarily to a sewer rate increase and transfers from other funds of \$60,000.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 23, 2007 and resulted in an increase in operating disbursements in two functions: community and economic development and general government. The City had sufficient cash balances to absorb these additional costs.

The City’s receipts were \$127,067 less than budgeted. This was primarily due to the City budgeting more in use of money and property receipts than was received. Also, actual charges for service receipts were \$57,925 less than budgeted, mainly due to water and sewer collections being less than anticipated.

With the amendment, total disbursements were \$534,316 less than the amended budget. However, the actual disbursements for the public works and debt service functions were \$17,639 and \$2,880, respectively, more than the amended budget. This was primarily due to the City not budgeting a sufficient amount for the Road Use Tax Fund. The debt service disbursements were not significantly over the budget.

**DEBT ADMINISTRATION**

At June 30, 2007, the City had \$1,351,858 in bonds and other long-term debt outstanding, compared to \$1,513,423 last year, as shown below.

Outstanding Debt at Year-End	
	June 30, 2007
General obligation bonds and notes	\$ 820,000
Revenue bonds	56,000
Water purchase loan	475,858
Total	<u>\$ 1,351,858</u>

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 \$1,295,858 is significantly below its constitutional debt limit of approximately \$3,546,000.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City'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 value has increased \$102,868 from the fiscal year 2007 level.

The fiscal year 2008 budget contains total receipts of \$2,433,713 and disbursements of \$2,472,246. This budget is higher than the original fiscal year 2007 budget which contained total receipts of \$2,242,515 and disbursements of \$2,278,009. The fiscal year 2008 budget does not include any significant changes from the prior year.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$39,000 by the close of 2008.

## **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 Clinton Fichter, City Manager, 201 North Elm Street, Avoca, Iowa 51521.

## **Basic Financial Statements**

City of Avoca

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
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 335,104	24,393	79,384	-
Public works	324,094	92,391	136,108	161,568
Culture and recreation	416,886	207,490	34,818	-
Community and economic development	55,342	-	-	-
General government	178,879	8,925	18,918	-
Debt service	177,625	-	-	-
Total governmental activities	1,487,930	333,199	269,228	161,568
Business type activities:				
Water	357,595	376,377	-	-
Sewer	54,978	66,709	-	-
Total business type activities	412,573	443,086	-	-
Total	\$ 1,900,503	776,285	269,228	161,568

**General Receipts:**

Property and other city tax levied for:  
 General purposes  
 Tax increment financing  
 Local option sales tax  
 Hotel/motel tax  
 Other city tax  
 Unrestricted interest on investments  
 Sale of assets  
 Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:

Streets  
 Urban renewal purposes  
 Permanent funds  
 Capital projects  
 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
(231,327)	-	(231,327)
65,973	-	65,973
(174,578)	-	(174,578)
(55,342)	-	(55,342)
(151,036)	-	(151,036)
(177,625)	-	(177,625)
(723,935)	-	(723,935)
-	18,782	18,782
-	11,731	11,731
-	30,513	30,513
(723,935)	30,513	(693,422)
451,474	-	451,474
291,255	-	291,255
185,861	-	185,861
63,498	-	63,498
32,632	-	32,632
31,803	12,375	44,178
5,500	-	5,500
4,140	6,521	10,661
(81,506)	81,506	-
984,657	100,402	1,085,059
260,722	130,915	391,637
2,055,108	474,987	2,530,095
\$ 2,315,830	605,902	2,921,732
\$ 99,962	-	99,962
102,585	-	102,585
590,714	-	590,714
225,000	-	225,000
966,631	16,855	983,486
330,938	589,047	919,985
\$ 2,315,830	605,902	2,921,732

City of Avoca

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

As of and for the year ended June 30, 2007

	Special Revenue		
	General	Employee Benefits	Local Option Sales Tax
Receipts:			
Property tax	\$ 296,599	146,394	-
Tax increment financing	-	-	-
Other city tax	53,838	9,965	185,861
Licenses and permits	8,925	-	-
Use of money and property	41,377	-	-
Intergovernmental	212,740	-	-
Charges for service	308,289	-	-
Miscellaneous	61,572	-	-
Total receipts	983,340	156,359	185,861
Disbursements:			
Operating:			
Public safety	301,878	33,226	-
Public works	187,551	37,760	-
Culture and recreation	366,067	50,499	-
Community and economic development	27,195	-	-
General government	150,040	28,839	-
Debt service	-	-	-
Total disbursements	1,032,731	150,324	-
Excess (deficiency) of receipts over (under) disbursements	(49,391)	6,035	185,861
Other financing sources (uses):			
Sale of capital assets	5,500	-	-
Operating transfers in	105,522	-	-
Operating transfers out	(176,573)	-	(35,606)
Total other financing sources (uses)	(65,551)	-	(35,606)
Net change in cash balances	(114,942)	6,035	150,255
Cash balances beginning of year	445,880	14,584	481,122
Cash balances end of year	\$ 330,938	20,619	631,377
<b>Cash Basis Fund Balances</b>			
Unreserved:			
General fund	330,938	-	-
Special revenue funds	-	20,619	631,377
Capital projects fund	-	-	-
Permanent funds	-	-	-
Total cash basis fund balances	\$ 330,938	20,619	631,377

See notes to financial statements.

Urban Renewal Tax Increment	Permanent Library Trust/ Endowment	Nonmajor	Total
-	-	8,481	451,474
291,255	-	-	291,255
-	-	32,327	281,991
-	-	-	8,925
-	-	11,722	53,099
-	-	136,108	348,848
-	-	-	308,289
-	-	19,205	80,777
291,255	-	207,843	1,824,658
-	-	-	335,104
-	-	98,783	324,094
-	-	320	416,886
-	-	28,147	55,342
-	-	-	178,879
177,625	-	-	177,625
177,625	-	127,250	1,487,930
113,630	-	80,593	336,728
-	-	-	5,500
3,122	-	341,573	450,217
(225,000)	-	(94,544)	(531,723)
(221,878)	-	247,029	(76,006)
(108,248)	-	327,622	260,722
210,833	491,608	411,081	2,055,108
102,585	491,608	738,703	2,315,830
-	-	-	330,938
102,585	-	414,597	1,169,178
-	-	225,000	225,000
-	491,608	99,106	590,714
102,585	491,608	738,703	2,315,830

**City of Avoca**

City of Avoca

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	\$ 376,377	66,709	443,086
Miscellaneous	1,408	-	1,408
Total operating receipts	<u>377,785</u>	<u>66,709</u>	<u>444,494</u>
Operating disbursements:			
Business type activities	<u>281,027</u>	<u>39,908</u>	<u>320,935</u>
Excess of operating receipts over operating disbursements	<u>96,758</u>	<u>26,801</u>	<u>123,559</u>
Non-operating receipts (disbursements):			
Interest on investments	6,717	5,658	12,375
Farm rent	5,113	-	5,113
Capital asset acquisitions	(40,820)	-	(40,820)
Debt service	<u>(35,748)</u>	<u>(15,070)</u>	<u>(50,818)</u>
Net non-operating receipts (disbursements)	<u>(64,738)</u>	<u>(9,412)</u>	<u>(74,150)</u>
Excess of receipts over disbursements	<u>32,020</u>	<u>17,389</u>	<u>49,409</u>
Other financing sources (uses):			
Operating transfers in	35,606	60,000	95,606
Operating transfers out	<u>(14,100)</u>	<u>-</u>	<u>(14,100)</u>
Total other financing sources (uses)	<u>21,506</u>	<u>60,000</u>	<u>81,506</u>
Net change in cash balances	53,526	77,389	130,915
Cash balances beginning of year	<u>224,859</u>	<u>250,128</u>	<u>474,987</u>
Cash balances end of year	<u>\$ 278,385</u>	<u>327,517</u>	<u>605,902</u>
<b>Cash Basis Fund Balances</b>			
Reserved for utility deposits	\$ 16,855	-	16,855
Unreserved	<u>261,530</u>	<u>327,517</u>	<u>589,047</u>
Total cash basis fund balances	<u>\$ 278,385</u>	<u>327,517</u>	<u>605,902</u>

See notes to financial statements.

City of Avoca

Notes to Financial Statements

June 30, 2007

**(1) Summary of Significant Accounting Policies**

The City of Avoca is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1869 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 Avoca has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Avoca and its blended component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The following component unit is legally separate from the City, but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate fund.

The Avoca Community Fire and Rescue Association, Inc. (Fire and Rescue Association) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting the Avoca Fire Department. In accordance with criteria set by the Governmental Accounting Standards Board, the Fire and Rescue Association meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City.

## Jointly Governed Organizations

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

### B. Basis of Presentation

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

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in 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 Employee Benefits Fund is used to account for property tax levied to finance the payment of employee benefits.

The Local Option Sales Tax Fund is used to account for receipts from the tax authorized by referendum and used for public safety and property tax relief.

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

The Library Trust/Endowment Fund is used to account for donations and bequests to the Avoca Public Library.

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 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 exceeded the amounts budgeted in the public works and debt service functions.

**(2) Cash and Pooled Investments**

The City’s deposits in banks at June 30, 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.

At June 30, 2007, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Federal Home Loan Mortgage Corporation Note (FHLMC)	\$ 50,000	48,999	March 2011

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City’s FHLMC investment at June 30, 2007 is rated AAA by Moody’s Investors Service.

Concentration of credit risk – The City places no limit on the amount that may be invested in any one issuer.

**(3) Long-Term Debt**

Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds and Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 170,000	35,883	13,000	1,680	183,000	37,563
2009	110,000	28,945	14,000	1,290	124,000	30,235
2010	115,000	24,252	14,000	870	129,000	25,122
2011	115,000	19,178	15,000	450	130,000	19,628
2012	125,000	14,035	-	-	125,000	14,035
2013 - 2014	185,000	10,565	-	-	185,000	10,565
Total	\$ 820,000	132,858	56,000	4,290	876,000	137,148

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

The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.

The interest rate on the bonds is 3.00% per annum.

#### Loan Agreement

On August 12, 2003, the City entered into a water purchase loan totaling \$762,952 with Regional Water to be used for constructing improvements to the municipal waterworks system. A portion of the loan was repaid using \$112,600 in USDA grant funds remaining from another project and \$125,000 in available funds from water operations. The loan bears 4.625% per annum interest and is to be repaid in monthly installments of \$2,979, including interest, for a period of 40 years. During the year ended June 30, 2007, \$35,748, including interest of \$22,183, was paid on the loan. The principal balance at June 30, 2007 was \$475,858.

#### **(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 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 contribution to IPERS for the year ended June 30, 2007 was \$26,978, equal to the required contribution for the year.

#### **(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time 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 compensated absences payable to employees at June 30, 2007 could not be determined because the City does not maintain records of each employee's accumulated compensated absence balance.

**(6) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Hotel/Motel Tax	\$ 79,750
	Library Gift and Bequest	11,672
	Enterprise:	
	Sewer	14,100
		<u>105,522</u>
Special Revenue:		
Urban Renewal Tax Increment	Debt Service	3,122
Special Revenue:		
Incentives	General	17,000
Special Revenue:		
Fire Department Reserve	General	99,573
Capital Projects	Special Revenue:	
	Urban Renewal Tax Increment	225,000
Enterprise:	Special Revenue:	
Water	Local Option Sales Tax	<u>35,606</u>
Enterprise:		
Sewer	General	<u>60,000</u>
		<u>\$ 545,823</u>

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

**(7) Risk Management**

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

**(8) Golf Course Lease**

The City has leased a parcel of land to the Avoca Golf Club, Inc. for a term of 50 years beginning August 7, 1974 and ending August 6, 2024. The lease provides clubhouse facilities and grants the lessee the right to operate concessions.

**(9) 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, 2007. 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.

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

**(10) Commitments**

On June 6, 2006, the City entered into a 28E agreement with Pottawattamie County Secondary Roads Department for approximately \$120,000 for reconstruction of Highway G-18. The agreement is interest free and calls for one-fourth of the payment to be made upon completion of the project followed by three equal annual payments. In January 2008, the City was notified the project was complete and the final cost to the City was \$144,147. During the year ended June 30, 2007, no payments were made under this agreement.

In May 2007, the City entered into contracts totaling \$51,343 for resurfacing the swimming pool parking lot and North Cherry Street improvements. In June 2007, the City entered into a contract totaling \$259,958 for Chestnut/Lyon Street improvements. No payments were made on these contracts during the year ended June 30, 2007. The City will use available funds and a CITIES grant for \$181,801 to pay for these improvements.

**(11) Subsequent Events**

In August 2007, the City entered into an incentive agreement totaling \$115,000 for a local business venture. In October 2007, the City awarded a contract totaling \$78,442 for the Mill Street/Peck Sewer improvement project. In November 2007, the City awarded a contract totaling \$39,443 for the East Side Sanitary Sewer improvement project. In December 2007, the City awarded an economic development grant for \$125,000 using local option sales tax and tax increment financing to Avoca Betterment Foundation for improvements to a blighted building.

**Required Supplementary Information**

City of Avoca  
 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	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 451,474	-	-
Tax increment financing	291,255	-	-
Other city tax	281,991	-	-
Licenses and permits	8,925	-	-
Use of money and property	53,099	17,488	202
Intergovernmental	348,848	-	-
Charges for service	308,289	443,086	-
Miscellaneous	80,777	1,408	15,990
Total receipts	1,824,658	461,982	16,192
Disbursements:			
Public safety	335,104	-	-
Public works	324,094	-	-
Culture and recreation	416,886	-	-
Community and economic development	55,342	-	-
General government	178,879	-	-
Debt service	177,625	-	-
Capital projects	-	-	-
Business type activities	-	412,573	-
Total disbursements	1,487,930	412,573	-
Excess (deficiency) of receipts over (under) disbursements	336,728	49,409	16,192
Other financing sources, net	(76,006)	81,506	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	260,722	130,915	16,192
Balances beginning of year	2,055,108	474,987	24,970
Balances end of year	\$ 2,315,830	605,902	41,162

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
451,474	451,296	451,296	178
291,255	290,230	290,230	1,025
281,991	162,091	162,091	119,900
8,925	6,500	6,500	2,425
70,385	118,600	273,600	(203,215)
348,848	304,498	304,498	44,350
751,375	809,300	809,300	(57,925)
66,195	100,000	100,000	(33,805)
<u>2,270,448</u>	<u>2,242,515</u>	<u>2,397,515</u>	<u>(127,067)</u>
335,104	384,970	384,970	49,866
324,094	306,455	306,455	(17,639)
416,886	441,396	441,396	24,510
55,342	-	109,810	54,468
178,879	133,850	180,850	1,971
177,625	174,745	174,745	(2,880)
-	380,000	380,000	380,000
412,573	456,593	456,593	44,020
<u>1,900,503</u>	<u>2,278,009</u>	<u>2,434,819</u>	<u>534,316</u>
369,945	(35,494)	(37,304)	407,249
<u>5,500</u>	<u>-</u>	<u>-</u>	<u>5,500</u>
375,445	(35,494)	(37,304)	412,749
<u>2,505,125</u>	<u>2,265,093</u>	<u>2,221,296</u>	<u>283,829</u>
<u>2,880,570</u>	<u>2,229,599</u>	<u>2,183,992</u>	<u>696,578</u>

City of Avoca

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 except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 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, the Capital Projects Fund, the Permanent Funds 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 \$156,810. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public works and debt service functions.

**Other Supplementary Information**

City of Avoca

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			
	Road Use Tax	Hotel/Motel Tax	Emergency	Library Gift and Bequest
Receipts:				
Property tax	\$ -	-	8,481	-
Other city tax	-	31,749	578	-
Use of money and property	-	-	-	11,520
Intergovernmental	136,108	-	-	-
Miscellaneous	-	-	-	1,850
Total receipts	136,108	31,749	9,059	13,370
Disbursements:				
Operating:				
Public works	98,783	-	-	-
Culture and recreation	-	-	-	320
Community and economic development	-	-	-	-
Total disbursements	98,783	-	-	320
Excess (deficiency) of receipts over (under) disbursements	37,325	31,749	9,059	13,050
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	(79,750)	-	(11,672)
Total other financing sources (uses)	-	(79,750)	-	(11,672)
Net change in cash balances	37,325	(48,001)	9,059	1,378
Cash balances beginning of year	62,637	129,499	65,740	16,094
Cash balances end of year	\$ 99,962	81,498	74,799	17,472
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	\$ 99,962	81,498	74,799	17,472
Capital projects fund	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 99,962	81,498	74,799	17,472

See accompanying independent auditor's report.

Incentives	Fire and Rescue Association	Fire Department Reserve	Debt Service	Capital Projects	Permanent		Total
					Cemetery Perpetual Care	Greene Cemetery Trust	
-	-	-	-	-	-	-	8,481
-	-	-	-	-	-	-	32,327
-	202	-	-	-	-	-	11,722
-	-	-	-	-	-	-	136,108
-	15,990	-	-	-	1,365	-	19,205
-	16,192	-	-	-	1,365	-	207,843
-	-	-	-	-	-	-	98,783
-	-	-	-	-	-	-	320
28,147	-	-	-	-	-	-	28,147
28,147	-	-	-	-	-	-	127,250
(28,147)	16,192	-	-	-	1,365	-	80,593
17,000	-	99,573	-	225,000	-	-	341,573
-	-	-	(3,122)	-	-	-	(94,544)
17,000	-	99,573	(3,122)	225,000	-	-	247,029
(11,147)	16,192	99,573	(3,122)	225,000	1,365	-	327,622
11,278	24,970	-	3,122	-	29,735	68,006	411,081
131	41,162	99,573	-	225,000	31,100	68,006	738,703
131	41,162	99,573	-	-	-	-	414,597
-	-	-	-	225,000	-	-	225,000
-	-	-	-	-	31,100	68,006	99,106
131	41,162	99,573	-	225,000	31,100	68,006	738,703

City of Avoca  
 Schedule of Indebtedness  
 Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Essential corporate purpose	Oct 1, 1997	4.40-5.10%	\$ 880,000
Corporate purpose	Sep 1, 2002	3.05-4.00	285,000
Corporate purpose	Dec 1, 2004	2.35-4.10	380,000
Total			
Revenue bonds:			
Sewer	Nov 19, 1991	3.00%	\$ 219,000
Water purchase loan:			
Regional Water	Aug 12, 2003	4.625%	\$ 762,952

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
485,000	-	60,000	425,000	24,030
120,000	-	60,000	60,000	4,680
350,000	-	15,000	335,000	12,715
\$ 955,000	-	135,000	820,000	41,425
69,000	-	13,000	56,000	2,070
489,423	-	13,565	475,858	22,183

City of Avoca  
 Bond and Note Maturities  
 June 30, 2007

Year Ending June 30,	General Obligation Bonds and Notes			
	Corporate Purpose Issued Oct 1, 1997		Corporate Purpose Issued Sep 1, 2002	
	Interest Rates	Amount	Interest Rates	Amount
2008	4.80%	\$ 65,000	4.00%	\$ 60,000
2009	4.90	65,000		-
2010	5.00	70,000		-
2011	5.00	70,000		-
2012	5.10	75,000		-
2013	5.10	80,000		-
2014		-		-
Total		<u>\$ 425,000</u>		<u>\$ 60,000</u>

See accompanying independent auditor's report.

Corporate Purpose			Revenue Bonds	
Issued Dec 1, 2004			Sewer	
Issued Dec 1, 2004			Issued Nov 19, 1991	
Interest Rates	Amount	Total	Interest Rates	Amount
3.15%	\$ 45,000	170,000	3.00%	\$ 13,000
3.35	45,000	110,000	3.00	14,000
3.50	45,000	115,000	3.00	14,000
3.65	45,000	115,000	3.00	15,000
3.80	50,000	125,000		-
3.95	50,000	130,000		-
4.10	55,000	55,000		-
	<u>\$ 335,000</u>	<u>820,000</u>		<u>\$ 56,000</u>

**City of Avoca**



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

David A. Vaudt, CPA  
Auditor of State

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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 Avoca, 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 May 7, 2008. Our report expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006. 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'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 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'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's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings 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'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 (A) and (B) are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 the accompanying Schedule of Findings.

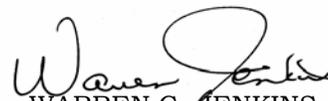
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City'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 Avoca and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Avoca 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

  
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May 7, 2008

City of Avoca

Schedule of Findings

Year ended June 30, 2007

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

(A) Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One of two individuals has control over each of the following areas:

- (1) Receipts--collecting, depositing and posting.
- (2) Disbursements--check writing, mailing and posting.
- (3) Payroll--preparation and distribution.
- (4) Utilities--billing, collecting, depositing and posting.
- (5) Investing--recordkeeping and investing.

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

Response – We will investigate this and make changes to improve internal controls.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will prepare the reconciliations each month and file with the Council for review.

Conclusion – Response accepted.

City of Avoca

Schedule of Findings

Year ended June 30, 2007

- (C) Separately Maintained Records – The Library Board, Fire Department, the utility deposit account and various police department accounts are maintained as separate accounting records. These transactions and the resulting balances are not recorded in the Clerk’s records. 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.”

Recommendation – For better accountability, financial and budgetary control, all City financial activity and balances should be recorded in the Clerk’s records.

Response – We have closed these accounts into the City bank account and will include them on the City Clerk’s records.

Conclusion – Response accepted.

- (D) Investments – The City purchases certificates of deposit (CD’s) to invest temporarily idle funds. Each time the City has a small amount to invest, another CD is purchased. Over several years, this has resulted in a large number of small CD’s. Accounting for these certificates and the interest on the certificates has become cumbersome and difficult to manage. Additionally, a \$9,200 variance existed between the City’s investment register and the bank. This has been resolved for audit purposes.

Recommendation – Certificates of deposit should be combined resulting in fewer certificates and interest payments to account for. This would make investments more manageable. The City should ensure the investment register is complete and agrees to the bank.

Response – We will confirm the investments and make any corrections necessary. We have been working on combining investments to make this more manageable.

Conclusion – Response accepted.

- (E) Compensated Absences – City department heads account for the number of vacation, sick leave and comp time days used. Accurate information for amounts earned but not used at the end of fiscal year 2007 was not available.

Recommendation – The City should keep accurate information of each employee’s vacation, sick leave and comp time activity/balance.

Response – This will be taken care of with our new software.

Conclusion – Response accepted.

City of Avoca

Schedule of Findings

Year ended June 30, 2007

- (F) Financial Accounting and Reporting – The City Clerk submits monthly financial reports to the Council containing bank account balances, receipts, disbursements and investments. However, the City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments as approved by the City Finance Committee on September 25, 2002. As a result, receipts and disbursements were not classified to the proper function in accordance with the Uniform Chart of Accounts. These were classified and resolved for audit purposes.

Recommendation – To provide better financial information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments.

Response – We have taken care of this with our new software.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

City of Avoca

Schedule of Findings

Year ended June 30, 2007

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the public works and debt service functions. 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 – We will amend the budget in the future if necessary.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Robert McCarthy, Council Member, Brother owns McCarthy Trenching	Water main	\$ 24,670
	Street lights	7,325
	Miscellaneous work	2,539

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transactions with the Council Member may represent a conflict of interest.

Recommendation – The City should consult legal counsel to determine the disposition of these matters.

Response – These and future related business transactions involving a possible conflict of interest for a City official or employee will be reviewed by the City Attorney.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Avoca

Schedule of Findings

Year ended June 30, 2007

- (7) Deposits and Investments – The investment policy refers to an old section of the Code of Iowa and earned interest was not always allocated to the appropriate funds.

Recommendation – The investment policy should be amended to refer to Chapters 12B and 12C of the Code of Iowa and earned interest should be credited to the appropriate funds.

Response – We will amend the investment policy to refer to Chapter 12 of the Code of Iowa and will allocate interest to the proper funds.

Conclusion – Response accepted.

- (8) Tax Increment Financing (TIF) – The City’s Urban Renewal Area #2 has a deficit balance of \$45,411. Tax increment financing receipts were sufficient to pay for debt in Area #2, but were not sufficient to eliminate the deficit balance. Also, the revised debt certificate forms for reporting outstanding obligations to the County Auditor were not used.

Recommendation – The City should certify qualified indebtedness increased by any deficit fund balance on hand when the TIF Debt Certificate is submitted. The revised debt certificate forms should be used by the City.

Response – We will use the revised forms in the future and will eliminate the deficit in Urban Renewal Area #2.

Conclusion – Response accepted.

- (9) Revenue Bonds – The City has complied with the requirements of the revenue bond resolution.

- (10) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will contact the bank and will obtain both sides of each check in the future.

Conclusion – Response accepted.

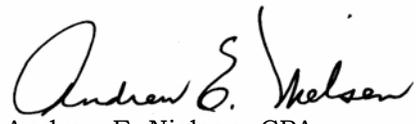
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City of Avoca

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Delynne M. Kroeger, 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