



**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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NEWS RELEASE

FOR RELEASE December 11, 2003

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

Vaudt reported that the City's receipts totaled \$1,572,249 for the year ended June 30, 2003. The receipts included \$357,072 in property tax, \$47,140 in tax increment financing collections, \$185,630 from the state, \$70,860 from the federal government and \$9,533 in interest on investments. The City also received note proceeds of \$495,000 that are reported as other financing sources.

Disbursements for the year totaled \$1,953,076, and included \$772,410 for business type activities, \$252,164 for public works and \$236,552 for capital projects.

The report contains recommendations to the City Council and other City officials. For example, the City should review its internal control procedures and segregate duties to the extent possible. The City responded to each item in the report and stated that corrective action will be taken.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF MOUNT AYR
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2003

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City of Mount Ayr

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|----------------|---------------------|
| Clyde Summers | Mayor | Jan 2004 |
| Bill Schuster | Council Member | Jan 2004 |
| Eldon Still | Council Member | Jan 2004 |
| Mike Doubleday | Council Member | Jan 2004 |
| Darrel Case | Council Member | Jan 2006 |
| Jodie Wurster | Council Member | Jan 2006 |
| Duane Glick | Clerk | Jan 2004 |
| Pamella Poore | Treasurer | Jan 2004 |
| 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, listed as exhibits in the table of contents of this report, of the City of Mount Ayr, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Mount Ayr's management. Our responsibility is to express an opinion on these financial statements based on our audit.

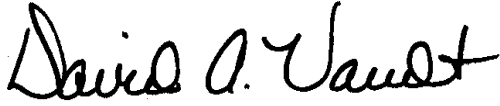
Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that our audit provides a reasonable basis for our opinion.

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, 2002.

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, 2002, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Mount Ayr as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2003 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 and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned 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, 2002, as discussed in the third preceding paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 3, 2003

Financial Statements

City of Mount Ayr
 Combined Statement of Cash Transactions
 All Fund Types

Year ended June 30, 2003

| | Governmental Fund Types | | |
|---|-------------------------|--------------------|-----------------|
| | General | Special Revenue | Debt Service |
| Receipts: | | | |
| Property tax | \$ 224,337 | 50,064 | 82,671 |
| Tax increment financing collections | - | 47,140 | - |
| Other city tax | 17,844 | 4,060 | 6,733 |
| Licenses and permits | 4,532 | - | - |
| Use of money and property | 10,828 | 120 | - |
| Intergovernmental | 81,339 | 194,822 | - |
| Charges for service | 29,395 | - | - |
| Special assessments | - | - | 39,229 |
| Miscellaneous | 46,143 | 2,666 | - |
| Total receipts | <u>414,418</u> | <u>298,872</u> | <u>128,633</u> |
| Disbursements: | | | |
| Public safety | 138,782 | - | - |
| Public works | 80,969 | 171,195 | - |
| Culture and recreation | 157,737 | 9,734 | - |
| Community and economic development | - | 90,223 | - |
| General government | 93,013 | 48,087 | - |
| Debt service | - | 38,677 | 108,430 |
| Capital projects | 7,000 | - | - |
| Business type activities | - | - | - |
| Total disbursements | <u>477,501</u> | <u>357,916</u> | <u>108,430</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>(63,083)</u> | <u>(59,044)</u> | <u>20,203</u> |
| Other financing sources (uses): | | | |
| General obligation loan agreement anticipation project note proceeds, net of \$5,000 discount | - | - | - |
| Operating transfers in | 19,480 | - | 14,495 |
| Operating transfers out | (19,480) | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>14,495</u> |
| Excess of receipts and other financing sources over (under) disbursements and other financing uses | <u>(63,083)</u> | <u>(59,044)</u> | <u>34,698</u> |
| Balance beginning of year | <u>255,657</u> | <u>223,940</u> | <u>19,588</u> |
| Balance end of year | <u>\$ 192,574</u> | <u>164,896</u> | <u>54,286</u> |

See notes to financial statements.

| Capital Projects | Proprietary Fund Type Enterprise | Total (Memorandum Only) |
|---------------------|--|-------------------------------|
| - | - | 357,072 |
| - | - | 47,140 |
| - | - | 28,637 |
| - | - | 4,532 |
| - | - | 10,948 |
| 30,164 | - | 306,325 |
| - | 659,623 | 689,018 |
| - | - | 39,229 |
| - | 40,539 | 89,348 |
| 30,164 | 700,162 | 1,572,249 |
| - | - | 138,782 |
| - | - | 252,164 |
| - | - | 167,471 |
| - | - | 90,223 |
| - | - | 141,100 |
| 7,267 | - | 154,374 |
| 229,552 | - | 236,552 |
| - | 772,410 | 772,410 |
| 236,819 | 772,410 | 1,953,076 |
| (206,655) | (72,248) | (380,827) |
| 495,000 | - | 495,000 |
| 302,703 | 74,334 | 411,012 |
| (315,383) | (76,149) | (411,012) |
| 482,320 | (1,815) | 495,000 |
| 275,665 | (74,063) | 114,173 |
| 24,924 | 472,837 | 996,946 |
| 300,589 | 398,774 | 1,111,119 |

City of Mount Ayr
 Comparison of Receipts, Disbursements and Changes in Balances -
 Actual to Budget
 Year ended June 30, 2003

| | Actual |
|--|--------------|
| Receipts: | |
| Property tax | \$ 357,072 |
| Tax increment financing collections | 47,140 |
| Other city tax | 28,637 |
| Licenses and permits | 4,532 |
| Use of money and property | 10,948 |
| Intergovernmental | 306,325 |
| Charges for service | 689,018 |
| Special assessments | 39,229 |
| Miscellaneous | 89,348 |
| Total receipts | 1,572,249 |
| Disbursements: | |
| Public safety | 138,782 |
| Public works | 252,164 |
| Culture and recreation | 167,471 |
| Community and economic development | 90,223 |
| General government | 141,100 |
| Debt service | 154,374 |
| Capital projects | 236,552 |
| Business type activities | 772,410 |
| Total disbursements | 1,953,076 |
| Deficiency of receipts under disbursements | (380,827) |
| Other financing sources, net | 495,000 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 114,173 |
| Balance beginning of year | 996,946 |
| Balance end of year | \$ 1,111,119 |

See notes to financial statements.

| Amended Budget | Variance Favorable (Unfavorable) | Actual as % of Amended Budget |
|-----------------------|--|-------------------------------------|
| 357,732 | (660) | 100% |
| 38,677 | 8,463 | 122% |
| 30,193 | (1,556) | 95% |
| 5,845 | (1,313) | 78% |
| 31,600 | (20,652) | 35% |
| 570,600 | (264,275) | 54% |
| 2,749,159 | (2,060,141) | 25% |
| - | 39,229 | 100% |
| 230,000 | (140,652) | 39% |
| <u>4,013,806</u> | <u>(2,441,557)</u> | <u>39%</u> |
| 148,767 | 9,985 | 93% |
| 374,495 | 122,331 | 67% |
| 336,097 | 168,626 | 50% |
| 38,677 | (51,546) | 233% |
| 115,570 | (25,530) | 122% |
| 108,429 | (45,945) | 142% |
| 2,200,000 | 1,963,448 | 11% |
| 723,647 | (48,763) | 107% |
| <u>4,045,682</u> | <u>2,092,606</u> | <u>48%</u> |
| (31,876) | | |
| <u>-</u> | | |
| (31,876) | | |
| <u>941,730</u> | | |
| <u><u>909,854</u></u> | | |

City of Mount Ayr
Statement of Indebtedness
Year ended June 30, 2003

| 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 |
| Judgement funding | Nov 1, 1975 | 6.75 | 95,000 |
| Essential corporate purpose | Mar 1, 1979 | 5.50-5.90 | 70,000 |
| Street improvement | Jun 1, 1980 | 6.20-6.75 | 495,000 |
| Total | | | |
| General obligation notes: | | | |
| Municipal parking lot improvement | Jan 1, 1996 | 4.35-5.45% | \$ 130,000 |
| Fire truck | Apr 1, 2000 | 5.10-5.70 | 160,000 |
| Corporate purpose | Aug 1, 2001 | 4.10-5.40 | 595,000 |
| Total | | | |
| Special assessment notes: | | | |
| Sanitary sewer improvement | Aug 1, 2001 | 4.50-5.40% | \$ 95,000 |
| 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 |
| Total | | | |
| Urban renewal tax increment financing (TIF) | Jul 1, 1996 | 6.62 | \$ 175,000 |
| Revenue notes: | | | |
| Sewer | Aug 1, 1989 | 6.40-7.10% | \$ 210,000 |
| USDA Rural Development water revenue note: | Feb 5, 1991 | 6.00% | \$ 500,000 |

| 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 |
| <hr/> | | | | | |
| \$ | - | - | - | - | 5,177 |
| <hr/> | | | | | |
| 85,000 | - | 10,000 | 75,000 | 4,469 | - |
| 150,000 | - | 15,000 | 135,000 | 8,200 | - |
| 595,000 | - | 30,000 | 565,000 | 28,690 | - |
| <hr/> | | | | | |
| \$ | 830,000 | - | 55,000 | 41,359 | - |
| <hr/> | | | | | |
| 90,000 | - | 10,000 | 80,000 | 4,500 | - |
| <hr/> | | | | | |
| - | - | - | - | - | 1,500 |
| - | - | - | - | - | 86 |
| - | - | - | - | - | 1,050 |
| <hr/> | | | | | |
| \$ | - | - | - | - | 2,636 |
| <hr/> | | | | | |
| 118,278 | - | 16,648 | 101,628 | 7,560 | - |
| <hr/> | | | | | |
| 60,000 | - | 20,000 | 40,000 | 3,545 | - |
| <hr/> | | | | | |
| 449,784 | - | 6,841 | 442,943 | 26,839 | - |
| <hr/> | | | | | |

City of Mount Ayr
Statement of Indebtedness
Year ended June 30, 2003

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|---|---------------|----------------|--------------------------|
| General obligation loan agreement anticipation project notes (note 4): Sewer project | Aug 20, 2002 | 3.25% | \$ 500,000 |
| Lease purchase agreements (note 5): | | | |
| Bobcat | Feb 29, 2000 | 6.15% | \$ 24,090 |
| Police car | Mar 3, 2000 | 6.75 | 19,625 |
| Loan agreements (note 5): | | | |
| Fire department pickup | Dec 1, 2000 | 9.50% | \$ 10,000 |
| Truck | Jan 15, 2003 | 4.75 | 61,162 |
| Police car | May 15, 2003 | 6.07 | 19,625 |
| Total | | | |

See notes to financial statements.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|-------------------------------|
| - | 500,000 | - | 500,000 | 7,267 | - |
| 11,525 | - | 5,590 | 5,935 | 688 | - |
| 10,456 | - | 10,456 | - | 803 | - |
| \$ 21,981 | - | 16,046 | 5,935 | 1,491 | - |
| 6,260 | - | 6,260 | - | 533 | - |
| - | 61,162 | - | 61,162 | - | - |
| - | 5,497 | - | 5,497 | - | - |
| \$ 6,260 | 66,659 | 6,260 | 66,659 | 533 | - |

City of Mount Ayr

Notes to Financial Statements

June 30, 2003

(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, culture and recreation, community and economic development, general government and business type activities.

A. Reporting Entity

For financial reporting purposes, 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 and the Wayne, Ringgold and Decatur County Solid Waste Management Commission.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 that are not paid through other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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

Capital Projects Funds – The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

C. 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.

D. Budgets and Budgetary Accounting

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

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned “Memorandum Only” to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2003 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.

(3) Bonds and Notes Payable

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

| Year Ending June 30, | General Obligation Notes | | Special Assessment Notes | | Sewer Revenue Notes | | Total | |
|----------------------------|-----------------------------|----------|-----------------------------|----------|------------------------|----------|-----------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2004 | \$ 60,000 | 38,848 | 10,000 | 4,040 | 20,000 | 2,130 | 90,000 | 45,018 |
| 2005 | 60,000 | 36,077 | 10,000 | 3,570 | 20,000 | 710 | 90,000 | 40,357 |
| 2006 | 65,000 | 33,255 | 10,000 | 3,090 | - | - | 75,000 | 36,345 |
| 2007 | 70,000 | 30,118 | 10,000 | 2,600 | - | - | 80,000 | 32,718 |
| 2008 | 75,000 | 26,655 | 10,000 | 2,100 | - | - | 85,000 | 28,755 |
| 2009 | 60,000 | 22,900 | 10,000 | 1,590 | - | - | 70,000 | 24,490 |
| 2010 | 65,000 | 19,910 | 10,000 | 1,070 | - | - | 75,000 | 20,980 |
| 2011 | 65,000 | 16,630 | 10,000 | 540 | - | - | 75,000 | 17,170 |
| 2012 | 45,000 | 13,285 | - | - | - | - | 45,000 | 13,285 |
| 2013 | 50,000 | 11,035 | - | - | - | - | 50,000 | 11,035 |
| 2014 | 50,000 | 8,485 | - | - | - | - | 50,000 | 8,485 |
| 2015 | 55,000 | 5,885 | - | - | - | - | 55,000 | 5,885 |
| 2016 | 55,000 | 2,970 | - | - | - | - | 55,000 | 2,970 |
| Total | \$ 775,000 | 266,053 | 80,000 | 18,600 | 40,000 | 2,840 | 895,000 | 287,493 |

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund. However, during the year, \$10,000 of note principal and \$4,469 of note interest was paid from the Special Revenue Fund, Tax Increment Financing Account.

The resolution providing for the issuance of the sewer revenue notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

- (b) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers to a sewer revenue note reserve account shall be made until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

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

Urban Renewal Tax Increment Financing (TIF) Revenue Bond – The urban renewal tax increment financing (TIF) revenue bond was issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bond is payable solely from the income and proceeds of the Urban Renewal Tax Increment 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.

USDA 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, 2003, the City paid \$33,680 to the USDA, leaving a balance due at June 30, 2003 of \$442,943.

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 insufficient money in the water revenue note sinking account.

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

(4) General Obligation Loan Agreement Anticipation Project Notes

During the year ended June 30, 2003, the City issued \$500,000 in project notes for sewer improvements at 3.25% interest per annum. As of June 30, 2003, none of the notes had been redeemed.

(5) Lease Purchase and Loan Agreements

On February 29, 2000, the City entered into a lease-purchase agreement for a bobcat. The lease is for four years, with interest at 6.15% per annum, and provides for annual payments of \$6,278. Also, on March 3, 2000, the City entered into a lease-purchase agreement for a police car. The lease term is for four years, with interest at 6.75% per annum, and provides for annual payments of \$5,761. On May 15, 2003, the bank rolled the balance due on the police car lease of \$5,497 into a loan agreement as described below.

The following is a schedule of future minimum lease payments and the present value of net minimum lease payments under the bobcat lease agreement:

| Year Ending June 30, | Amount |
|---|-----------------|
| 2004 | \$ 6,278 |
| Less amount representing interest | <u>(343)</u> |
| Present value of net minimum lease payments | <u>\$ 5,935</u> |

Payments under the bobcat lease agreement for the year ended June 30, 2003 totaled \$6,278. Payments under the police car lease agreement for the year ended June 30, 2003 totaled \$5,762 prior to conversion to a loan agreement.

Loan Agreements

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

On May 15, 2003, the City entered into a loan agreement for the balance of \$5,497 due on the police car lease purchase agreement. The loan provides for one payment of principal, with interest at 6.07% per annum, due on February 28, 2004.

No payments were made on either of these loan agreements during the year ended June 30, 2003.

(6) 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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2003 was \$15,690, equal to the required contribution for the year.

(7) 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, 2003, primarily relating to the General Fund, was \$15,600. This liability has been computed based on rates of pay in effect at June 30, 2003.

(8) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2003, disbursements in the community and economic development, general government, debt service and business type activities functions exceeded the amounts budgeted.

(9) Downtown Renovation Loan

In March 2003, the City loaned \$40,000 to a local business to improve and renovate downtown storefronts. The loan is to be repaid, interest free, to the City of Mount Ayr in monthly installments of \$667 over a five year period ending February 14, 2008. The loan repayments from the business remain in the Special Revenue, Downtown Renovation Fund, a revolving loan fund, for future loans to other businesses. At June 30, 2003, the amount due from the business was \$37,334.

(10) 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.

(11) Deficit Balance

The Debt Service Fund, General Obligation Notes Account had a deficit balance of \$3,304 at June 30, 2003. The deficit balance was a result of taxes that were incorrectly posted to the wrong fund. The deficit will be eliminated with a corrective transfer.

City of Mount Ayr

Supplemental Information

Schedule 1

City of Mount Ayr
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

| | Fire | | | |
|------------------------------------|------------|---------|------------|---------|
| | General | Library | Department | Total |
| Receipts: | | | | |
| Property tax | \$ 224,337 | - | - | 224,337 |
| Other city tax: | | | | |
| Mobile home tax | 76 | - | - | 76 |
| Utility tax replacement excise tax | 17,768 | - | - | 17,768 |
| | 17,844 | - | - | 17,844 |
| Licenses and permits | 4,532 | - | - | 4,532 |
| Use of money and property: | | | | |
| Interest on investments | 9,205 | 208 | - | 9,413 |
| Rent | 1,125 | 290 | - | 1,415 |
| | 10,330 | 498 | - | 10,828 |
| Intergovernmental: | | | | |
| State allocation | 28,115 | - | - | 28,115 |
| Bank franchise tax | 2,693 | - | - | 2,693 |
| Bulletproof vest grant | 696 | - | - | 696 |
| Library service | - | 15,000 | - | 15,000 |
| Other cities contributions | - | 586 | - | 586 |
| Township contributions | 34,249 | - | - | 34,249 |
| | 65,753 | 15,586 | - | 81,339 |
| Charges for service: | | | | |
| Library fees | - | 565 | - | 565 |
| Park fees | 5,772 | - | - | 5,772 |
| Swimming pool fees | 22,526 | - | - | 22,526 |
| Miscellaneous | 532 | - | - | 532 |
| | 28,830 | 565 | - | 29,395 |
| Miscellaneous: | | | | |
| Contributions and donations | 16,793 | 1,739 | 4,717 | 23,249 |
| Gates Foundation grant | - | 4,895 | - | 4,895 |
| Sales tax collected | 774 | - | - | 774 |
| Fundraiser proceeds | - | - | 3,442 | 3,442 |
| Fines and fees | 7,231 | 384 | - | 7,615 |
| Miscellaneous | 4,618 | 1,465 | 85 | 6,168 |
| | 29,416 | 8,483 | 8,244 | 46,143 |
| Total receipts | 381,042 | 25,132 | 8,244 | 414,418 |

City of Mount Ayr
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

| | General | Library | Fire Department | Total |
|-------------------------------|---------|---------|--------------------|---------|
| Disbursements: | | | | |
| Public safety: | | | | |
| Police: | | | | |
| Services and commodities | 100,995 | - | - | 100,995 |
| Fire department: | | | | |
| Services and commodities | 19,853 | - | 6,995 | 26,848 |
| Capital outlay | - | - | 2,289 | 2,289 |
| Debt service: | | | | |
| Principal redeemed | - | - | 6,260 | 6,260 |
| Interest paid | - | - | 533 | 533 |
| | 19,853 | - | 16,077 | 35,930 |
| Animal control: | | | | |
| Contractual services | 1,857 | - | - | 1,857 |
| | 122,705 | - | 16,077 | 138,782 |
| Public works: | | | | |
| Roads, bridges and sidewalks: | | | | |
| Personal services | 28,984 | - | - | 28,984 |
| Services and commodities | 31,449 | - | - | 31,449 |
| Capital outlay | 11,825 | - | - | 11,825 |
| | 72,258 | - | - | 72,258 |
| Airport: | | | | |
| Services and commodities | 8,711 | - | - | 8,711 |
| | 80,969 | - | - | 80,969 |
| Culture and recreation: | | | | |
| Library: | | | | |
| Personal services | - | 23,126 | - | 23,126 |
| Services and commodities | - | 11,551 | - | 11,551 |
| Capital outlay | - | 425 | - | 425 |
| | - | 35,102 | - | 35,102 |

Schedule 1

City of Mount Ayr
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

| | General | Library | Fire Department | Total |
|--|-----------------|----------------|--------------------|-----------------|
| Disbursements (continued): | | | | |
| Culture and recreation: | | | | |
| Parks: | | | | |
| Personal services | 9,222 | - | - | 9,222 |
| Services and commodities | 28,134 | - | - | 28,134 |
| Capital outlay | 24,569 | - | - | 24,569 |
| | <u>61,925</u> | <u>-</u> | <u>-</u> | <u>61,925</u> |
| Swimming pool: | | | | |
| Personal services | 24,324 | - | - | 24,324 |
| Services and commodities | 19,851 | - | - | 19,851 |
| | <u>44,175</u> | <u>-</u> | <u>-</u> | <u>44,175</u> |
| Cemetery: | | | | |
| Contractual services | 16,530 | - | - | 16,530 |
| Other recreation and culture: | | | | |
| Services and commodities | 5 | - | - | 5 |
| | <u>122,635</u> | <u>35,102</u> | <u>-</u> | <u>157,737</u> |
| General government: | | | | |
| Mayor and council members: | | | | |
| Personal services | 4,096 | - | - | 4,096 |
| Clerk and treasurer: | | | | |
| Personal services | 33,037 | - | - | 33,037 |
| Services and commodities | 20,817 | - | - | 20,817 |
| | <u>53,854</u> | <u>-</u> | <u>-</u> | <u>53,854</u> |
| City hall and general buildings: | | | | |
| Services and commodities | 3,673 | - | - | 3,673 |
| Capital outlay | 31,390 | - | - | 31,390 |
| | <u>35,063</u> | <u>-</u> | <u>-</u> | <u>35,063</u> |
| | <u>93,013</u> | <u>-</u> | <u>-</u> | <u>93,013</u> |
| Capital projects: | | | | |
| Gooseberry Lake: | | | | |
| Services and commodities | 7,000 | - | - | 7,000 |
| Total disbursements | <u>426,322</u> | <u>35,102</u> | <u>16,077</u> | <u>477,501</u> |
| Deficiency of receipts under disbursements | <u>(45,280)</u> | <u>(9,970)</u> | <u>(7,833)</u> | <u>(63,083)</u> |

City of Mount Ayr
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

| | General | Library | Fire Department | Total |
|--|------------|---------|--------------------|----------|
| Other financing sources (uses): | | | | |
| Operating transfers in (out): | | | | |
| General: | | | | |
| General | - | 16,900 | 2,580 | 19,480 |
| Library | (16,900) | - | - | (16,900) |
| Fire Department | (2,580) | - | - | (2,580) |
| Total other financing sources (uses) | (19,480) | 16,900 | 2,580 | - |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (64,760) | 6,930 | (5,253) | (63,083) |
| Balance beginning of year | 222,398 | 20,440 | 12,819 | 255,657 |
| Balance end of year | \$ 157,638 | 27,370 | 7,566 | 192,574 |

See accompanying independent auditor's report.

City of Mount Ayr
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

| | Road Use Tax | Employee Benefits and Insurance | Downtown Renovation |
|-------------------------------------|--------------------|--|------------------------|
| Receipts: | | | |
| Property tax | \$ - | 50,064 | - |
| Tax increment financing collections | - | - | - |
| Other city tax: | | | |
| Mobile home tax | - | 17 | - |
| Utility tax replacement excise tax | - | 4,043 | - |
| | - | 4,060 | - |
| Use of money and property: | | | |
| Interest on investments | - | - | 120 |
| Intergovernmental: | | | |
| Road use tax allocation | 148,335 | - | - |
| Cultural affairs grant | - | - | - |
| Rural economic development grant | - | - | 40,000 |
| | 148,335 | - | 40,000 |
| Miscellaneous | - | - | 2,666 |
| Total receipts | 148,335 | 54,124 | 42,786 |
| Disbursements: | | | |
| Public works: | | | |
| Roads, bridges and sidewalks: | | | |
| Personal services | - | 15,069 | - |
| Services and commodities | 144,270 | 11,856 | - |
| | 144,270 | 26,925 | - |
| Culture and recreation: | | | |
| Other recreation and culture: | | | |
| Services and commodities | - | - | - |
| Parks: | | | |
| Personal services | - | 486 | - |
| Services and commodities | - | 11 | - |
| | - | 497 | - |
| Swimming pool: | | | |
| Personal services | - | 2,035 | - |
| Services and commodities | - | 715 | - |
| | - | 2,750 | - |
| | - | 3,247 | - |

| Cultural Affairs | Tax Increment Financing | Total |
|---------------------|-------------------------------|---------|
| - | - | 50,064 |
| - | 47,140 | 47,140 |
| - | - | 17 |
| - | - | 4,043 |
| - | - | 4,060 |
| - | - | 120 |
| - | - | 148,335 |
| 6,487 | - | 6,487 |
| - | - | 40,000 |
| 6,487 | - | 194,822 |
| - | - | 2,666 |
| 6,487 | 47,140 | 298,872 |
| - | - | 15,069 |
| - | - | 156,126 |
| - | - | 171,195 |
| 6,487 | - | 6,487 |
| - | - | 486 |
| - | - | 11 |
| - | - | 497 |
| - | - | 2,035 |
| - | - | 715 |
| - | - | 2,750 |
| 6,487 | - | 9,734 |

City of Mount Ayr
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

| | Road Use Tax | Employee Benefits and Insurance | Downtown Renovation |
|---|--------------------|--|------------------------|
| Disbursements (continued): | | | |
| Community and economic development: | | | |
| Services and commodities | - | - | 90,223 |
| General government: | | | |
| Clerk and treasurer: | | | |
| Personal services | - | 16,063 | - |
| City hall and general buildings: | | | |
| Services and commodities | - | 32,024 | - |
| Debt service: | | | |
| Principal redeemed | - | - | - |
| Interest paid | - | - | - |
| Total disbursements | 144,270 | 78,259 | 90,223 |
| Excess (deficiency) of receipts over (under) disbursements | 4,065 | (24,135) | (47,437) |
| Balance beginning of year | 38,362 | 55,471 | 80,240 |
| Balance end of year | \$ 42,427 | 31,336 | 32,803 |

See accompanying independent auditor's report.

| Cultural Affairs | Tax Increment Financing | Total |
|---------------------|-------------------------------|----------|
| - | - | 90,223 |
| - | - | 16,063 |
| - | - | 32,024 |
| - | - | 48,087 |
| - | 26,648 | 26,648 |
| - | 12,029 | 12,029 |
| - | 38,677 | 38,677 |
| 6,487 | 38,677 | 357,916 |
| - | 8,463 | (59,044) |
| - | 49,867 | 223,940 |
| - | 58,330 | 164,896 |

Schedule 3

City of Mount Ayr
Combining Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2003

| | General Obligation Notes | Special Assessment Notes | Total |
|---|--------------------------------|--------------------------------|---------|
| Receipts: | | | |
| Property tax | \$ 82,671 | - | 82,671 |
| Other city tax: | | | |
| Mobile home tax | 29 | - | 29 |
| Utility tax replacement excise tax | 6,704 | - | 6,704 |
| | 6,733 | - | 6,733 |
| Special assessments | - | 39,229 | 39,229 |
| Total receipts | 89,404 | 39,229 | 128,633 |
| Disbursements: | | | |
| Debt service: | | | |
| Principal redeemed | 55,549 | 10,000 | 65,549 |
| Interest paid | 38,381 | 4,500 | 42,881 |
| Total disbursements | 93,930 | 14,500 | 108,430 |
| Excess (deficiency) of receipts over (under) disbursements | (4,526) | 24,729 | 20,203 |
| Other financing sources: | | | |
| Operating transfers in: | | | |
| Capital Projects: | | | |
| Sewer Improvement | 14,495 | - | 14,495 |
| Excess of receipts and other financing sources over disbursements | 9,969 | 24,729 | 34,698 |
| Balance beginning of year | (13,273) | 32,861 | 19,588 |
| Balance end of year | \$ (3,304) | 57,590 | 54,286 |

See accompanying independent auditor's report.

City of Mount Ayr
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2003

| | CDBG Sewer Project | Sewer Improvement | Total |
|--|-----------------------|----------------------|-----------|
| Receipts: | | | |
| Intergovernmental: | | | |
| Community Development Block Grants/State's Program | \$ 30,164 | - | 30,164 |
| Disbursements: | | | |
| Debt service: | | | |
| Interest paid | - | 7,267 | 7,267 |
| Capital projects: | | | |
| Services and commodities | 224,276 | 5,276 | 229,552 |
| Total disbursements | 224,276 | 12,543 | 236,819 |
| Deficiency of receipts under disbursements | (194,112) | (12,543) | (206,655) |
| Other financing sources (uses): | | | |
| General obligation loan agreement anticipation project note proceeds (net of \$5,000 discount) | 495,000 | - | 495,000 |
| Operating transfers in (out): | | | |
| Debt Service: | | | |
| General Obligation Notes | - | (14,495) | (14,495) |
| Capital Projects: | | | |
| CDBG Sewer Project | - | 300,888 | 300,888 |
| Sewer Improvement | (300,888) | - | (300,888) |
| Enterprise: | | | |
| Sewer Rental | - | 1,815 | 1,815 |
| Total other financing sources (uses) | 194,112 | 288,208 | 482,320 |
| Excess of receipts and other financing sources over (under) disbursements and other financing uses | - | 275,665 | 275,665 |
| Balance beginning of year | - | 24,924 | 24,924 |
| Balance end of year | \$ - | 300,589 | 300,589 |

See accompanying independent auditor's report.

City of Mount Ayr
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

| | Water | USDA, Rural Development Water Sinking | USDA, Rural Development Water Reserve | Sewer Rental |
|---|-----------------|--|--|-----------------|
| Receipts: | | | | |
| Charges for service: | | | | |
| Sale of water | \$ 299,567 | - | - | - |
| Intallations and connections | - | - | - | 3,718 |
| Sewer rental fees | - | - | - | 247,294 |
| Garbage collections | - | - | - | - |
| Miscellaneous | 3,126 | - | - | 20 |
| | <u>302,693</u> | <u>-</u> | <u>-</u> | <u>251,032</u> |
| Miscellaneous: | | | | |
| Reimbursements | - | - | - | 20,261 |
| Sales tax collected | 12,929 | - | - | 2,291 |
| Customer deposits | - | - | - | - |
| | <u>12,929</u> | <u>-</u> | <u>-</u> | <u>22,552</u> |
| Total receipts | <u>315,622</u> | <u>-</u> | <u>-</u> | <u>273,584</u> |
| Disbursements: | | | | |
| Business type activities: | | | | |
| Personal services | 104,842 | - | - | 194,835 |
| Services and commodities | 221,082 | - | - | 35,511 |
| Capital outlay | 13,433 | - | - | 35,295 |
| Debt service: | | | | |
| Principal redeemed | - | 6,841 | - | - |
| Interest paid | - | 26,839 | - | - |
| Total disbursements | <u>339,357</u> | <u>33,680</u> | <u>-</u> | <u>265,641</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>(23,735)</u> | <u>(33,680)</u> | <u>-</u> | <u>7,943</u> |

| Sewer Revenue Note Sinking | Sewer Revenue Note Reserve | Garbage | Customer Deposits | Total |
|-------------------------------------|----------------------------------|---------|----------------------|----------|
| - | - | - | - | 299,567 |
| - | - | - | - | 3,718 |
| - | - | - | - | 247,294 |
| - | - | 105,898 | - | 105,898 |
| - | - | - | - | 3,146 |
| - | - | 105,898 | - | 659,623 |
| - | - | - | - | 20,261 |
| - | - | - | - | 15,220 |
| - | - | - | 5,058 | 5,058 |
| - | - | - | 5,058 | 40,539 |
| - | - | 105,898 | 5,058 | 700,162 |
| - | - | 1,415 | - | 301,092 |
| - | - | 105,320 | 3,452 | 365,365 |
| - | - | - | - | 48,728 |
| 20,000 | - | - | - | 26,841 |
| 3,545 | - | - | - | 30,384 |
| 23,545 | - | 106,735 | 3,452 | 772,410 |
| (23,545) | - | (837) | 1,606 | (72,248) |

City of Mount Ayr
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

| | Water | USDA, Rural Development Water Sinking | USDA, Rural Development Water Reserve | Sewer Rental |
|---|------------|--|--|-----------------|
| Other financing sources (uses): | | | | |
| Operating transfers in (out): | | | | |
| Capital Projects: | | | | |
| Sewer Improvement | - | - | - | (1,815) |
| Enterprise: | | | | |
| Water | - | 33,684 | - | - |
| USDA Rural Development Water Sinking | (33,684) | - | - | - |
| Sewer Rental | - | - | - | - |
| Sewer Revenue Note Sinking | - | - | - | (22,954) |
| Customer Deposits | 17,696 | - | - | - |
| Total other financing sources (uses) | (15,988) | 33,684 | - | (24,769) |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (39,723) | 4 | - | (16,826) |
| Balance beginning of year | 151,841 | 30,049 | 33,680 | 162,644 |
| Balance end of year | \$ 112,118 | 30,053 | 33,680 | 145,818 |

See accompanying independent auditor's report.

| Sewer Revenue Note Sinking | Sewer Revenue Note Reserve | Garbage | Customer Deposits | Total |
|-------------------------------------|----------------------------------|---------|----------------------|----------|
| - | - | - | - | (1,815) |
| - | - | - | (17,696) | 15,988 |
| - | - | - | - | (33,684) |
| 22,954 | - | - | - | 22,954 |
| - | - | - | - | (22,954) |
| - | - | - | - | 17,696 |
| 22,954 | - | - | (17,696) | (1,815) |
| (591) | - | (837) | (16,090) | (74,063) |
| 26,794 | 15,000 | 36,739 | 16,090 | 472,837 |
| 26,203 | 15,000 | 35,902 | - | 398,774 |

City of Mount Ayr

City of Mount Ayr
Bond and Note Maturities

June 30, 2003

| Year Ending June 30, | General Obligation Notes | | | | | | | Total |
|----------------------------|--------------------------------------|------------------|--------------------|-------------------|--------------------|-------------------|-------------------|-------|
| | Municipal Parking Lot Improvement | | Fire Truck | | Corporate Purpose | | | |
| | Issued Jan 1, 1996 | | Issued Apr 1, 2000 | | Issued Aug 1, 2001 | | | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | | |
| 2004 | 5.05% | \$ 10,000 | 5.30% | \$ 15,000 | 4.20% | \$ 35,000 | \$ 60,000 | |
| 2005 | 5.15 | 10,000 | 5.35 | 15,000 | 4.30 | 35,000 | 60,000 | |
| 2006 | 5.25 | 15,000 | 5.40 | 15,000 | 4.40 | 35,000 | 65,000 | |
| 2007 | 5.35 | 20,000 | 5.45 | 15,000 | 4.50 | 35,000 | 70,000 | |
| 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>\$ 75,000</u> | | <u>\$ 135,000</u> | | <u>\$ 565,000</u> | <u>\$ 775,000</u> | |

| Year Ending June 30, | Special Assessment Notes | | Revenue Notes | |
|----------------------------|----------------------------|-------------------|--------------------|------------------|
| | Sanitary Sewer Improvement | | Sewer | |
| | Issued Aug 1, 2001 | | Issued Aug 1, 1989 | |
| Interest Rates | Amount | Interest Rates | Amount | |
| 2004 | 4.70% | \$ 10,000 | 7.10% | \$ 20,000 |
| 2005 | 4.80 | 10,000 | 7.10 | 20,000 |
| 2006 | 4.90 | 10,000 | - | - |
| 2007 | 5.00 | 10,000 | - | - |
| 2008 | 5.10 | 10,000 | - | - |
| 2009 | 5.20 | 10,000 | - | - |
| 2010 | 5.30 | 10,000 | - | - |
| 2011 | 5.40 | 10,000 | - | - |
| 2012 | - | - | - | - |
| 2013 | - | - | - | - |
| 2014 | - | - | - | - |
| 2015 | - | - | - | - |
| 2016 | - | - | - | - |
| Total | | <u>\$ 80,000</u> | | <u>\$ 40,000</u> |

See accompanying independent auditor's report.

City of Mount Ayr



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Mount Ayr, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 3, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 and contracts, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance 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, 2003 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. Prior audit statutory comments have been resolved except for (11).

Internal Control Over Financial Reporting

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

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

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. 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

October 3, 2003

City of Mount Ayr
Schedule of Findings
Year ended June 30, 2003

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

- (1) Receipts - collecting, depositing, journalizing, posting and reconciling.

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

- (1) Receipts - mail opening, collecting, depositing, posting and reconciling.
- (2) Disbursements - posting, reconciling and check writing.
- (3) Payroll - preparation and distribution.
- (4) Investing - recordkeeping and investing.

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, check writing and signing.

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

Response -

City - We will take these recommendations under advisement and work to obtain the most segregation of duties possible at City Hall.

City of Mount Ayr
Schedule of Findings
Year ended June 30, 2003

Library -

1. All Library staff will be equally responsible for the collecting and posting of receipts. The counting and depositing of said receipts will be handled by the Library Director and the Assistant Library Director. Both will review and check receipts as they are deposited and they will be taken to the bank by both.
2. The check writing is supervised by the Board of Trustees of the Mount Ayr Public Library.
3. The Librarian is the only person available to prepare and distribute payroll, but all payroll is reviewed and approved by the Library Board of Trustees.
4. Investments are handled by the Library Director on the advice of Library Board Member Karen Bender who is an officer of the bank.

Fire Department - We have a financial report each month of money coming in and money paid out. Quarterly we have a complete financial report. No bills are paid without a receipt and we have our cancelled checks. The officers have access to the record at anytime. We will add an officers signature to the checking account as you have recommended.

Conclusion -

City - Response accepted.

Library - Response acknowledged. However, the Library Board of Trustees should also review the supporting documentation for disbursements, payroll and investments.

Fire Department - Response acknowledged. However, at a minimum, a Fire Department Officer should perform procedures to review supporting documentation for receipts and disbursements.

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

The City does not have written policies for:

- password privacy and confidentiality.
- requiring password changes because software does not require the user to change log-ins/passwords periodically.

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2003

- ownership of in-house developed software and data.
- logging off when a terminal is unattended and no automatic log off exists.
- requiring backups be performed daily rather than just 3 times a week, monthly and yearly.
- ensuring that only software licensed to the City is installed on computers and monitoring software licensing requirements to ensure the City is in compliance.
- usage of the internet.

Also, the City does not have a written disaster recovery plan and does not require back up tapes to be stored off site daily or have adequate fire protection.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer based systems. A written disaster recovery plan should also be developed along with requiring off-site storage of backup tapes and obtaining adequate fire protection.

Response – We will take these recommendations under advisement and work to develop written policies addressing the above items.

Conclusion – Response accepted.

- (C) 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 delinquent accounts. The Council or a Council-designated independent person should review the reconciliations and document their review.

Response – We will take the above recommendations under advisement. The established utility procedures will be followed and a monthly reconciliation will be prepared and reviewed.

Conclusion – Response accepted.

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2003

Other Findings Related to Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.

However, the City did not file a new depository resolution at the time that Citizens Bank became Great Western Bank and Mercantile Bank became Firststar Bank and then US Bank.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Council in a timely manner.

Response – A new resolution was adopted at the October 6, 2003 Council meeting.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the community and economic development, general government, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Although the Council approved the resolution to convert the City's records to the new chart of accounts, the conversion form was prepared using incorrect amounts, which resulted in an incorrect budget amendment.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The City should insure that future amendments are properly prepared to achieve the intended action.

Response – We will follow your recommendation. As the conversion form was a one time thing, the above should be no problem in the future.

Conclusion – Response accepted.

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

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2003

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, surety bond coverage, workers' compensation and general liability coverage did not exist for the Library.

Recommendation – The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations for the entire City.

Response – This has now been addressed. The Library was included with a rider on the City policy and we are now covered.

Conclusion – Response accepted.

- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not publish annual gross salaries, which included the Library salaries, in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should publish all annual individual salaries as required.

Response – Library salaries will be made available to the City for publication.

Conclusion – Response accepted.

- (8) Deposits and Investments – Except as noted in item (1), no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted. However, the current investment policy on file, as adopted by the Council, does not contain the correct references to the Code of Iowa.

Recommendation – An updated investment policy should be adopted by the Council with correct code references to Chapters 12B and 12C of the Code of Iowa.

Response – A new updated investment policy will be drafted for City Council approval.

Conclusion – Response accepted.

- (9) Revenue Bond and Notes – The City has established the sinking and reserve accounts required by the water revenue note and sewer revenue note resolutions.

- (10) Payment of General Obligation Notes – The general obligation notes for the municipal parking lot improvement were paid from the Special Revenue Fund, Tax Increment Financing Account. Chapter 384.4 of the Code of Iowa states in part that "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund."

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2003

Also, the Special Revenue Fund, Tax Increment Financing Account is being used to record property tax collections for two separate projects.

Recommendation - The City should transfer from the Special Revenue Fund, Tax Increment Financing Account to the Debt Service Fund for future funding contributions. Repayment of the general obligation notes should be made from the Debt Service Fund.

Also, consistent with Chapter 403.19 of the Code of Iowa, the City should establish separate Tax Increment Financing Accounts for the TIF collections applicable to each project.

Response - We will follow your recommendation on the above TIF collections.

Conclusion - Response accepted.

- (11) Financial Condition - The Debt Service Fund, General Obligation Bonds Account had a deficit balance at June 30, 2003 of \$3,304. This was caused by incorrectly posting the debt service levy taxes from the tax increment financing projects to the Special Revenue Fund, Tax Increment Financing Account rather than in the Debt Service Fund, General Obligation Notes Account.

Recommendation - The City should determine the amount and the Council should approve a corrective transfer to eliminate this deficit in order to return this account to a sound financial position.

Response - We have followed your recommendations and a corrective transfer will be made of all monies incorrectly posted. The transfer should correct the deficit when made.

Conclusion - Response accepted.

- (12) Utility Billings - The City Council approved giving free minimum water usage to the Chamber of Commerce at the December 2, 2002 meeting, which appears to violate Chapter 388.6 of the Code of Iowa.

Recommendation - The City should insure that billings are in accordance with Chapter 388.6 of the Code of Iowa.

Response - The City Council stated this policy would be discontinued immediately.

Conclusion - Response accepted.

- (13) Notice of Public Hearing for a Loan Agreement - The City did not publish a notice of public hearing to enter into a loan agreement for a truck.

Recommendation - Before entering into a loan agreement, the City should publish a notice of public hearing of at least four, but not more than twenty, days prior to the hearing as provided in Chapter 362.3 of the Code of Iowa.

City of Mount Ayr

Schedule of Findings

Year ended June 30, 2003

Response - The agenda is sent to radio stations and newspapers on Friday prior to council meeting on Monday night. This was on the agenda and discussed prior to entering into the loan agreement but not as a formal hearing notice. In the future, any loan agreements for vehicles will go through a public hearing notice.

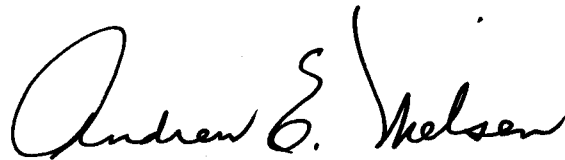
Conclusion - Response accepted.

City of Mount Ayr

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II
Sarah D. McFadden, 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