



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 1, 2009

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$1,049,228 for the year ended June 30, 2008. The receipts included \$216,223 in property tax, \$367,363 from charges for service, \$212,441 from operating grants, contributions and restricted interest, \$37,329 from capital grants, contributions and restricted interest, \$90,548 from local option sales tax, \$44,921 from unrestricted interest on investments, \$68,000 from loan proceeds and \$12,403 from other general receipts.

Disbursements for the year totaled \$957,591, and included \$395,229 for public safety, \$104,197 for public works and \$95,838 for culture and recreation. Also, disbursements for business type activities totaled \$244,720.

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

JUNE 30, 2008

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	16-17
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	18-19
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	21
Notes to Financial Statements		22-27
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		30-31
Notes to Required Supplementary Information – Budgetary Reporting		32
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	34-35
Schedule of Indebtedness	2	36-37
Bond and Note Maturities	3	38
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Mechanicsville Action Committee Funds	4	39
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 <u>Government Auditing Standards</u>		41-42
Schedule of Findings		43-47
Staff		48

City of Mechanicsville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
David Furry	Mayor	Jan 2010
Larry Beck	Mayor Pro tem	Jan 2008
Thomas Hall	Council Member	Jan 2008
Karrie Johnson	Council Member	(Resigned Aug 2007)
Bryan Lovell (Appointed)	Council Member	Nov 2007
Jeff Christianson	Council Member	Jan 2010
Pamela Logue-Newcomb	Council Member	Jan 2010
Linda K. Coppess	City Clerk	Indefinite
John Kuehnle Jr.	Treasurer	Indefinite
Lowell Dendinger	Attorney	Indefinite
(After January 2008)		
David Furry	Mayor	Jan 2010
Larry Beck	Mayor Pro tem	Jan 2012
Jeff Christianson	Council Member	Jan 2010
Pamela Logue-Newcomb	Council Member	(Resigned Jan 2008)
Bryan Lovell (Appointed)	Council Member	Jan 2010
Carla Barnhart	Council Member	Jan 2012
Lester Gene Brown	Council Member	Jan 2012
Linda K. Coppess	City Clerk	Indefinite
John Kuehnle Jr.	Treasurer	Indefinite
Lowell Dendinger	Attorney	Indefinite

City of Mechanicsville



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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 Mechanicsville, Iowa, as of and for the year ended June 30, 2008, 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 Mechanicsville'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.

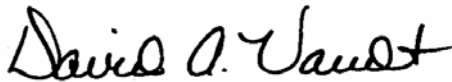
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not 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, 2007.

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, 2007, 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 Mechanicsville as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

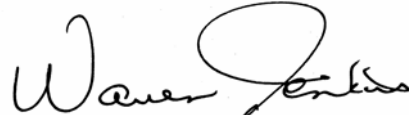
In accordance with Government Auditing Standards, we have also issued our report dated April 17, 2009 on our consideration of the City of Mechanicsville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 13 and 30 through 32 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 Mechanicsville's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Except for information for the years ended June 30, 2005 through June 30, 2007 included in Schedule 4, 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, 2007, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information for the years ended June 30, 2005 through June 30, 2007 included in Schedule 4 and, accordingly, we express no opinion on it.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 17, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Mechanicsville 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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2008 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 8.4%, or approximately \$64,000, due primarily to fewer disbursements during fiscal year 2008 for projects than during fiscal year 2007 and an overall decrease in disbursements.
- The cash basis net assets of the City's business type activities increased 4.7%, or approximately \$27,000, due primarily to the purchase of new radio read water meters and repair work done to the waste water facility during fiscal year 2007.

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 debt.

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 and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and solid waste systems. 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, Local Option Sales Tax, Fire Trust and Ambulance Trust, and 3) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

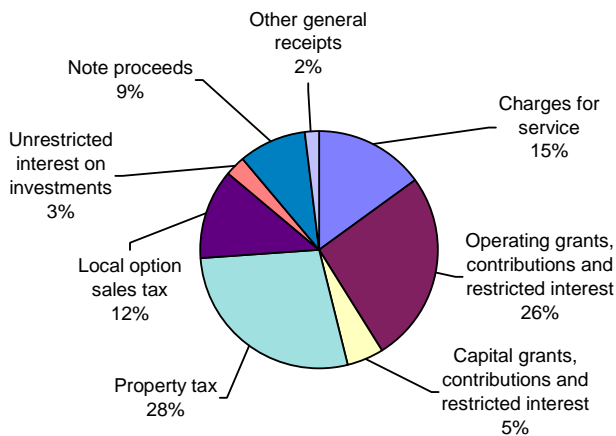
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

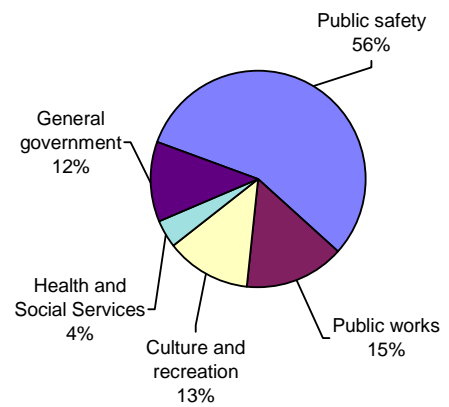
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$764,522 at June 30, 2007 to \$828,785 at June 30, 2008. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2008
Receipts:		
Program receipts:		
Charges for service	\$	117
Operating grants, contributions and restricted interest		212
Capital grants, contributions and restricted interest		37
General receipts:		
Property tax		216
Local option sales tax		91
Unrestricted interest on investments		22
Note proceeds		68
Other general receipts		12
Total receipts		<u>775</u>
Disbursements:		
Public safety		395
Public works		104
Culture and recreation		96
Community and economic development		32
General government		86
Total disbursements		<u>713</u>
Increase in cash basis net assets before transfers		62
Transfers, net		<u>2</u>
Change in cash basis net assets		64
Cash basis net assets beginning of year		<u>765</u>
Cash basis net assets end of year	\$	<u><u>829</u></u>

Receipts by Source



Disbursements by Function



The cash basis net assets increased approximately \$64,000, due primarily to a decrease in disbursements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		Year ended June 30, 2008
Receipts:		
Program receipts:		
Charges for service:		
Water		\$ 97
Sewer		63
Solid waste		91
General receipts:		
Unrestricted interest on investments		23
Total receipts		<u>274</u>
Disbursements:		
Water		94
Sewer		73
Solid waste		78
Total disbursements		<u>245</u>
Increase in cash basis net assets before transfers		29
Transfers, net		<u>(2)</u>
Change in cash basis net assets		27
Cash basis net assets beginning of year		<u>585</u>
Cash basis net assets end of year		<u>\$ 612</u>

Total business type activities cash balance increased 4.7%, or approximately \$27,000, increasing from \$584,543 at June 30, 2007 to \$611,917 at June 30, 2008. The increase is due to a reduction in disbursements during fiscal year 2008.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Mechanicsville completed the year, its governmental funds reported a combined fund balance of \$828,785, an increase of more than \$64,000 above last year's total of \$764,522. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$45,410 from the prior year to \$247,688. The increase is primarily due to a reduction in disbursements from the prior year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$2,543 to \$226,289 during the fiscal year.
- The Special Revenue, Local Option Sales Tax Fund increased \$50,548 to \$57,593 during the fiscal year. The increase was due to the completion of the Cedar County Jail and the County returning \$20,763 of the tax back to the City. Additionally, the amount of tax collected increased due to the increase in the costs of goods and services.
- The Special Revenue, Fire Trust Fund received \$65,927, including note proceeds of \$63,000, and disbursed \$207,684. The cash balance decreased \$78,922 to \$417 at June 30, 2008. The decrease was due to the purchase of a new fire truck during fiscal year 2008.

- The Special Revenue, Ambulance Trust Fund received \$89,481 and disbursed \$53,323. The cash balance increased \$36,158 to \$159,592 at June 30, 2008. The increase was due to an increase in the ambulance rates beginning on July 1, 2007 and an increase in the number of runs made by the ambulance.
- The Permanent, Cemetery Perpetual Care Fund balance increased \$900 to \$89,831 at June 30, 2008.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$16,729 to \$357,587, due primarily to the purchase of radio read water meters in fiscal 2007.
- The Sewer Fund cash balance decreased \$5,893 to \$142,133, due primarily to the start of a sewer extension project.
- The Solid Waste Fund cash balance increased \$16,538 to \$112,197.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on March 10, 2008 and resulted in an increase in operating disbursements of \$28,404 related primarily to public safety, culture and recreation and the general government functions.

The City’s receipts were \$106,145 more than budgeted. This was primarily due to the City receiving a refund of local option sales tax money from the County totaling \$20,763 when the Cedar County Jail was complete. Additionally, the City received more in business type activities receipts than was budgeted.

Total disbursements were \$205,417 less than the amended budget. The actual disbursements for the public works function and business type activities were \$89,282, and \$73,124, respectively, less than the amended budget. This was primarily due to the City delaying the widening of First Street and the City budgeted extra to cover any water main breaks or other emergencies that may occur.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$326,000 in bond and note debt outstanding, compared to \$275,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2008	2007
Fire truck note	\$ 68	-
Revenue bonds	258	275
Total	\$ 326	275

Debt increased as a result of issuing a general obligation fire truck note for the purchase of a new fire truck.

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 \$68,000 is significantly below its constitutional debt limit of approximately \$2 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Mechanicsville's elected and appointed officials and citizens considered many factors when setting the City's 2009 and 2010 budgets. One of the major factors is the economy. The Consumer Price Index (CPI), one of the most widely used measures of inflation, is also believed to be an indicator of the effectiveness of government policy. In addition, business executives, labor leaders and other private citizens use the index as a guide in making economic decisions.

The basis for the 2009 City budget was tied to the CPI-U for the 12-month period that ended in July 2007, which was 2.4% as provided by the Iowa League of Cities Special Report. The budget also gave consideration to the availability of funds for making principal and interest payments for the fire truck that was purchased in May of 2008, acquiring tax increment financing funds to be used to repay the funds needed to extend the water and sewer mains to the new elementary school (August 2007) and for principal and interest payments on the 2000 Water Tower project.

The City continues to benefit from the implementation of the local option sales tax (LOST) providing relief from property tax rates. During fiscal year 2007, the LOST funds provided funding for installing replacement windows and painting the Memorial Building, removing the old restroom in the park, installing insulation in all City buildings, a furnace in the shop, ceiling tiles and carpeting for the library for a total of \$49,268. During fiscal year 2008, \$40,000 was used towards the purchase of the fire truck. In fiscal year 2009, \$90,000 will be used towards the purchase of a garbage truck. The funds have allowed for purchases of one time capital disbursements without having to increase property tax or service rates.

The solid waste service charges were adjusted to equalize the costs incurred due to the volume of trash being delivered to the landfill. The flat fee for residential garbage pick up was changed to reflect the volume of trash being set out by each resident. The more trash one has the more one will be charged. This was also thought to help promote more recycling within the community.

The City of Mechanicsville was scheduled as a pass through town for the July 25, 2008 RAGBRAI event. With a creative logo and hundreds of volunteers pulling together to promote the slogan "The Bike Stops Here", the City was able to increase its population for the day to well over 10,000. The event featured Cajun shrimp direct from Louisiana, a beverage tent, music by local talent, several food stands featuring local chefs and lots of work by many volunteers. The net proceeds of the Committee's overhead account were split between improvements to the tennis court and the sidewalk to school project. Each individual organization also reaped benefits for the effort they put in during the day.

The City of Mechanicsville applied for a Safe Route to School grant in October 2008. The \$241,205 project was approved for funding by the Iowa Department of Transportation and is being planned for construction during the fiscal year 2010 budget.

The City of Mechanicsville is also looking to the future for replacing the dump truck and snow plow, plans to upgrade the gravel surface on 125th Street to a hard surface road, complete some maintenance work on the Memorial Building, Parks and City Hall, as well as pre-paying principal on the Water Tower debt. The City hopes to develop an asset replacement schedule which would include vehicles as well as water and sewer main upgrades.

Also ahead in the fiscal year 2010 budget, the Council reviewed the Iowa League of Cities published CPI-U at 4.9% for the month ending September 2008, of which the Council has determined 3.5% should be used initially in computing wage increases and estimating other overhead expenses. The January 2008 taxable valuations increased approximately \$1.1 million over January 2007, resulting in an increase of 4.6%, which would allow for property tax to remain steady with the new projects being funded by the grants and LOST funds.

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 Linda K. Coppess, City Clerk, P.O. Box 339, 100 E. First Street, Mechanicsville, Iowa 52306.

City of Mechanicsville

Basic Financial Statements

City of Mechanicsville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 395,229	87,300	85,081	-
Public works	104,197	-	100,494	8,455
Culture and recreation	95,838	27,631	18,111	-
Community and economic development	32,301	-	-	28,874
General government	85,306	1,792	8,755	-
Total governmental activities	712,871	116,723	212,441	37,329
Business type activities:				
Water	94,288	97,185	-	-
Sewer	72,799	63,144	-	-
Solid waste	77,633	90,311	-	-
Total business type activities	244,720	250,640	-	-
Total	\$ 957,591	367,363	212,441	37,329

General Receipts:

Property and other city tax levied for general purposes
 Local option sales tax
 Unrestricted interest on investments
 Note proceeds
 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
 Debt service
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(222,848)	-	(222,848)
4,752	-	4,752
(50,096)	-	(50,096)
(3,427)	-	(3,427)
(74,759)	-	(74,759)
(346,378)	-	(346,378)
-	2,897	2,897
-	(9,655)	(9,655)
-	12,678	12,678
-	5,920	5,920
(346,378)	5,920	(340,458)
216,223	-	216,223
90,548	-	90,548
21,783	23,138	44,921
68,000	-	68,000
12,403	-	12,403
1,684	(1,684)	-
410,641	21,454	432,095
64,263	27,374	91,637
764,522	584,543	1,349,065
\$ 828,785	611,917	1,440,702
\$ 226,289	-	226,289
-	3,016	3,016
354,808	-	354,808
247,688	608,901	856,589
\$ 828,785	611,917	1,440,702

City of Mechanicsville

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

As of and for the year ended June 30, 2008

	General	Road Use Tax	Special Local Option Sales Tax
Receipts:			
Property tax	\$ 182,171	-	-
Other city tax	-	-	90,548
Licenses and permits	1,540	-	-
Use of money and property	38,673	-	-
Intergovernmental	90,198	100,494	-
Charges for service	8,866	-	-
Miscellaneous	28,289	-	-
Total receipts	349,737	100,494	90,548
Disbursements:			
Operating:			
Public safety	84,146	-	-
Public works	6,246	97,951	-
Culture and recreation	91,251	-	-
Community and economic development	32,301	-	-
General government	74,232	-	-
Total disbursements	288,176	97,951	-
Excess (deficiency) of receipts over (under) disbursements	61,561	2,543	90,548
Other financing sources (uses):			
Note proceeds	5,000	-	-
Operating transfers in	1,684	-	-
Operating transfers out	(22,835)	-	(40,000)
Total other financing sources (uses)	(16,151)	-	(40,000)
Net change in cash balances	45,410	2,543	50,548
Cash balances beginning of year	202,278	223,746	7,045
Cash balances end of year	\$ 247,688	226,289	57,593
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 247,688	-	-
Special revenue funds	-	226,289	57,593
Permanent fund	-	-	-
Total cash basis fund balances	\$ 247,688	226,289	57,593

See notes to financial statements.

Revenue		Permanent		
Fire Trust	Ambulance Trust	Cemetery Prepetual Care	Nonmajor	Total
-	-	-	34,052	216,223
-	-	-	-	90,548
-	-	-	-	1,540
2,927	5,293	-	960	47,853
-	-	-	-	190,692
-	84,038	-	-	92,904
-	150	900	38,351	67,690
2,927	89,481	900	73,363	707,450
207,684	53,323	-	50,076	395,229
-	-	-	-	104,197
-	-	-	4,587	95,838
-	-	-	-	32,301
-	-	-	11,074	85,306
207,684	53,323	-	65,737	712,871
(204,757)	36,158	900	7,626	(5,421)
63,000	-	-	-	68,000
62,835	-	-	-	64,519
-	-	-	-	(62,835)
125,835	-	-	-	69,684
(78,922)	36,158	900	7,626	64,263
79,339	123,434	88,931	39,749	764,522
417	159,592	89,831	47,375	828,785
-	-	-	-	247,688
417	159,592	-	47,375	491,266
-	-	89,831	-	89,831
417	159,592	89,831	47,375	828,785

City of Mechanicsville

City of Mechanicsville

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

As of and for the year ended June 30, 2008

	Enterprise			Total
	Water	Sewer	Solid Waste	
Operating receipts:				
Charges for service	\$ 97,185	63,144	90,311	250,640
Operating disbursements:				
Business type activities	67,443	72,799	77,633	217,875
Excess (deficiency) of operating receipts over (under) operating disbursements	29,742	(9,655)	12,678	32,765
Non-operating receipts (disbursements):				
Interest on investments	14,016	5,262	3,860	23,138
Debt service	(26,845)	-	-	(26,845)
Net non-operating receipts (disbursements)	(12,829)	5,262	3,860	(3,707)
Excess (deficiency) of receipts over (under) disbursements	16,913	(4,393)	16,538	29,058
Other financing sources (uses):				
Operating transfers in	1,316	-	-	1,316
Operating transfers out	(1,500)	(1,500)	-	(3,000)
Total other financing sources (uses)	(184)	(1,500)	-	(1,684)
Net change in cash balances	16,729	(5,893)	16,538	27,374
Cash balances beginning of year	340,858	148,026	95,659	584,543
Cash balances end of year	\$ 357,587	142,133	112,197	611,917
Cash Basis Fund Balances				
Reserved for debt service	\$ 3,016	-	-	3,016
Unreserved	354,571	142,133	112,197	608,901
Total cash basis fund balances	\$ 357,587	142,133	112,197	611,917

See notes to financial statements.

City of Mechanicsville

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The City of Mechanicsville is a political subdivision of the State of Iowa located in Cedar County. It was first incorporated in 1855 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 and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Mechanicsville 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 Mechanicsville (the primary government) and its 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 – Mechanicsville Fire and Ambulance is an entity which is legally separate from the City but so intertwined with the City it is, in substance, the same as the City. The financial transactions have been reported 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: Cedar County Assessor's Conference Board, Cedar County Emergency Management Commission, Cedar County Joint E911 Service Board and Cedar County Solid Waste 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 Road Use Tax Fund is used to account for road construction and maintenance.

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

The Fire Trust Fund is used to account for fire department operations and maintenance.

The Ambulance Trust Fund is used to account for ambulance collections, operations and maintenance.

The Permanent, Cemetery Perpetual Care Fund is used to account for resources legally restricted so only earnings, and not principal, may be used for purposes of maintaining the City's cemetery. The fund is created as a result of Chapter 566.1 of the Code of Iowa.

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 wastewater treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

C. Measurement Focus and Basis of Accounting

The City of Mechanicsville 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, 2008, disbursements did not exceed the amounts budgeted by function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation		Revenue Bonds		Total	
	Notes		Principal	Interest	Principal	Interest
	Principal	Interest				
2009	\$ 12,000	2,735	18,000	9,107	30,000	11,842
2010	13,000	2,240	18,000	8,472	31,000	10,712
2011	14,000	1,720	19,000	7,837	33,000	9,557
2012	14,000	1,160	20,000	7,166	34,000	8,326
2013	15,000	600	21,000	6,460	36,000	7,060
2014 - 2018	-	-	113,000	20,862	113,000	20,862
2019 - 2020	-	-	49,000	2,612	49,000	2,612
Total	\$ 68,000	8,455	258,000	62,516	326,000	70,971

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$595,000 in water revenue bonds issued in June 1999. Proceeds from the bonds provided financing for the construction of a water tower. The bonds are payable solely from water customer net receipts and are payable through 2020. Annual principal and interest payments on the bonds are expected to require less than 62 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$320,516. For the current year, principal and interest paid and total customer net receipts were \$26,708 and \$43,758, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

General Obligation Notes

On June 1, 2008, the City issued general obligation notes for \$68,000 to purchase a fire truck. The agreement requires five annual payments, with the first due on June 1, 2009, including interest at 4.0% per annum, with the final payment due June 1, 2013. The principal balance at June 30, 2008 was \$68,000.

(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 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008 was \$12,465, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time 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 compensatory time payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 6,700
Compensatory time	<u>5,500</u>
Total	<u>\$ 12,200</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise:	
	Water	\$ 1,500
	Sewer	184
		<u>1,684</u>
Special Revenue:		
Fire Trust	General	22,835
	Special Revenue:	
	Local Option Sales Tax	40,000
		<u>62,835</u>
Enterprise:	Enterprise:	
Water	Sewer	<u>1,316</u>
Total		<u>\$ 65,835</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 fiscal year.

(8) Recycling Agreement

On January 4, 2007, the City entered into a recycling contract with Johnson County Refuse, Incorporated. The contract term is from July 1, 2006 through June 30, 2009. The City agreed to pay \$4.75 per residence per month for the services. During the year ended June 30, 2008, the City paid \$26,790 on this contract.

(9) Mechanicsville Action Committee

The Mechanicsville Action Committee (MAC) was initially created as the Sesquicentennial Committee to organize the Sesquicentennial celebration for the City during the year ended June 30, 2005. At the end of the celebration, the Committee continued to offer services to the City to plan functions for the benefit of the citizens of Mechanicsville, renaming the Committee as the Mechanicsville Action Committee. The funding for the Committee has been from the net profits from the Sesquicentennial celebration as well as various fund raisers held during subsequent years. Planned activities of the Mechanicsville Action Committee include, but are not limited to, soup suppers, Belgian waffle breakfasts and various merchandise sales. These fund raising activities have allowed the Committee to purchase items for the benefit of the City, including a chair lift for the Memorial Hall building and a play set for the park. The records of the MAC funds are maintained by the City on excel spread sheets and are reported within the General Fund. The financial activity of the Mechanicsville Action Committee since inception is summarized as follows:

Year Ended June 30,		Beginning Balance	Receipts	Disbursements	Ending Balance
2005 (Unaudited)	\$	-	8,635	6,680	1,955
2006 (Unaudited)		1,955	18,414	11,702	8,667
2007 (Unaudited)		8,667	6,507	7,675	7,499
2008		7,499	8,132	9,759	5,872
Total			\$ 41,688	35,816	

City of Mechanicsville

Required Supplementary Information

City of Mechanicsville
 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, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 216,223	-	-
Other city tax	90,548	-	-
Licenses and permits	1,540	-	-
Use of money and property	47,853	23,138	411
Intergovernmental	190,692	-	-
Charges for service	92,904	250,640	-
Miscellaneous	67,690	-	37,471
Total receipts	<u>707,450</u>	<u>273,778</u>	<u>37,882</u>
Disbursements:			
Public safety	395,229	-	35,464
Public works	104,197	-	-
Culture and recreation	95,838	-	-
Community and economic development	32,301	-	-
General government	85,306	-	-
Business type activities	-	244,720	-
Total disbursements	<u>712,871</u>	<u>244,720</u>	<u>35,464</u>
Excess (deficiency) of receipts over (under) disbursements	(5,421)	29,058	2,418
Other financing sources, net	69,684	(1,684)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	64,263	27,374	2,418
Balances beginning of year	764,522	584,543	19,764
Balances end of year	<u>\$ 828,785</u>	<u>611,917</u>	<u>22,182</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
216,223	211,305	211,305	4,918
90,548	64,280	64,280	26,268
1,540	1,000	1,000	540
70,580	32,000	52,000	18,580
190,692	176,616	181,616	9,076
343,544	309,500	309,500	34,044
30,219	7,000	17,500	12,719
943,346	801,701	837,201	106,145
359,765	359,047	367,326	7,561
104,197	188,479	193,479	89,282
95,838	107,271	114,771	18,933
32,301	36,167	36,167	3,866
85,306	90,332	97,957	12,651
244,720	317,844	317,844	73,124
922,127	1,099,140	1,127,544	205,417
21,219	(297,439)	(290,343)	311,562
68,000	145,000	145,000	(77,000)
89,219	(152,439)	(145,343)	234,562
1,329,301	995,664	995,664	333,637
1,418,520	843,225	850,321	568,199

City of Mechanicsville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Permanent Fund and the Enterprise 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 \$28,404. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements did not exceed the amounts budgeted by function.

Other Supplementary Information

City of Mechanicsville

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

As of and for the year ended June 30, 2008

	Library Trust	Employee Benefits	Special Tree Trust
Receipts:			
Property tax	\$ -	34,052	-
Use of money and property	107	-	394
Miscellaneous	880	-	-
Total receipts	987	34,052	394
Disbursements:			
Operating:			
Public safety	-	14,612	-
Culture and recreation	500	4,005	-
General government	-	11,074	-
Total disbursements	500	29,691	-
Net change in cash balances	487	4,361	394
Cash balances beginning of year	2,821	4,856	10,330
Cash balances end of year	\$ 3,308	9,217	10,724
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 3,308	9,217	10,724

See accompanying independent auditor's report.

Revenue			
Park Trust	Gift Trust	Mechanicsville Fire and Ambulance	Total
-	-	-	34,052
-	48	411	960
-	-	37,471	38,351
-	48	37,882	73,363
-	-	35,464	50,076
18	64	-	4,587
-	-	-	11,074
18	64	35,464	65,737
(18)	(16)	2,418	7,626
18	1,960	19,764	39,749
-	1,944	22,182	47,375
-	1,944	22,182	47,375

City of Mechanicsville
Schedule of Indebtedness
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire truck	Jun 1, 2008	4.00%	\$ 68,000
Revenue bonds:			
Water	Jun 1, 1999	3.53%	\$ 595,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ -	68,000	-	68,000	-
275,000	-	17,000	258,000	9,708

Schedule 3

City of Mechanicsville
Bond and Note Maturities
June 30, 2008

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total
	Fire Truck		Water		
	Issued Jun 1, 2008		Issued May 1, 1999		
	Interest Rates	Amount	Interest Rates	Amount	
2009	4.00%	\$ 12,000	3.53%	\$ 18,000	30,000
2010	4.00	13,000	3.53	18,000	31,000
2011	4.00	14,000	3.53	19,000	33,000
2012	4.00	14,000	3.53	20,000	34,000
2013	4.00	15,000	3.53	21,000	36,000
2014		-	3.53	21,000	21,000
2015		-	3.53	22,000	22,000
2016		-	3.53	23,000	23,000
2017		-	3.53	23,000	23,000
2018		-	3.53	24,000	24,000
2019		-	3.53	24,000	24,000
2020		-	3.53	25,000	25,000
Total		<u>\$ 68,000</u>		<u>\$ 258,000</u>	<u>326,000</u>

See accompanying independent auditor's report.

City of Mechanicsville

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Mechanicsville Action Committee

As of and for the four years ended June 30, 2008

	Year ended June 30,			
	2008	2007	2006	2005
		(Unaudited)	(Unaudited)	(Unaudited)
Receipts:				
Sales and fundraising	\$ 7,632	4,062	17,339	8,433
Grant	-	2,350	-	-
Donations	500	95	1,075	202
Total receipts	<u>8,132</u>	<u>6,507</u>	<u>18,414</u>	<u>8,635</u>
Dibursements:				
Merchandise for resale	3,782	1,442	4,142	6,497
Celebration	-	-	4,313	-
Other city activities	1,240	1,602	1,023	-
Donation	1,975	-	-	-
Equipment	2,408	4,000	750	-
Supplies	160	115	1,004	-
Administrative	194	516	470	183
Total disbursements	<u>9,759</u>	<u>7,675</u>	<u>11,702</u>	<u>6,680</u>
Net change in cash balance	(1,627)	(1,168)	6,712	1,955
Cash balance beginning of year	<u>7,499</u>	<u>8,667</u>	<u>1,955</u>	<u>-</u>
Cash balance end of year	<u>\$ 5,872</u>	<u>7,499</u>	<u>8,667</u>	<u>\$ 1,955</u>

See accompanying independent auditor's report.

City of Mechanicsville



**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 Mechanicsville, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 17, 2009. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mechanicsville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Mechanicsville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mechanicsville'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 of Mechanicsville's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Mechanicsville's financial statements that is more than inconsequential will not be prevented or detected by the City of Mechanicsville'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 of Mechanicsville'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), (B) and (C) are material weaknesses.

Compliance and Other Matters

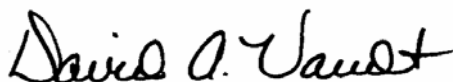
As part of obtaining reasonable assurance about whether the City of Mechanicsville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct 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, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

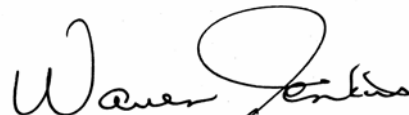
The City of Mechanicsville's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Mechanicsville's responses and, accordingly, we express no opinion on them.

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 Mechanicsville and other parties to whom the City of Mechanicsville 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 Mechanicsville 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

April 17, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(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. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check signing, recording and reconciling.
- (8) Payroll – preparing and distributing.
- (9) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting – preparing, reconciling and distributing.

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 utilizing currently available personnel. Evidence of various reviews should be indicated by initials of the independent reviewer.

Response – The City will continue to review operating procedures and implement any possible changes.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings and delinquent accounts were not reconciled.

Recommendation – Procedures should be established to reconcile monthly utility billings and delinquencies. The City Council should review the reconciliation each month and monitor delinquencies.

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2008

Response – The report showing the reconciliation of the collected amounts has been reviewed and monitored by the Council each month. The report also shows the total delinquent accounts and total amounts billed each month. The current reconciliation procedures can be reviewed to incorporate the additional reconciliations being requested.

Conclusion – Response accepted.

- (C) Mechanicsville Fire and Ambulance – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, the collecting, depositing, posting and bank reconciliations are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of volunteers. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Officials should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be evidenced by initials or signature of the reviewer and the date of the review.

Response – We will review the current procedures and attempt to implement any possible changes.

Conclusion – Response accepted.

- (D) Mechanicsville Action Committee – The Mechanicsville Action Committee (MAC) was initially created as the Sesquicentennial Committee by a committee of citizens to organize the City's Sesquicentennial celebration during the year ended June 30, 2005.

After the Sesquicentennial celebration, the Committee was renamed the Mechanicsville Action Committee. The Committee has provided various community services and activities to promote the community and provide fundraising activities for needed equipment for various City locations, including a play set for the park and a chair lift for the Memorial Building. The funding for the Mechanicsville Action Committee was initially provided from the remnants of the Sesquicentennial celebration and subsequent fundraising activities. The records of the MAC funds are maintained by the City on excel spread sheets and are reported in the General Fund. The computer system used by the City does not distinguish this activity from other General Fund activities.

Recommendation – For better accountability and control over the MAC funds, the City should create a separate Special Revenue, MAC Fund. A separate fund would enhance the City's ability to monitor and review MAC activities and financial status by providing this information in the City's monthly financial reports to the City Council.

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2008

Response – According to the Governmental Accounting Standards Board (GASB), the General Fund is the general operating fund “to account for all financial resources except those required to be reported in another fund.” The Chart of Accounts for Iowa cities adopted by the City Finance Committee provides the requirement is usually provided by law or regulation. There being no law or regulation requiring a special revenue fund be established, the activity was, therefore, accounted for and reported in the monthly financial reports to the City Council through the General Fund. The Council may give consideration to establishing a requirement to create a special revenue fund for this activity.

Conclusion – Response acknowledged. Although special revenue funds are not required, they enhance accountability and control of funds. A Special Revenue Fund would also enhance the City’s ability to monitor and review the sources and uses of the funds.

(E) Information System – The City does not have a written disaster recovery plan.

Recommendation – The City should develop a written disaster recovery plan and test it periodically.

Response – The City will request a sample plan to review and will work on developing one of its own.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2008

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2008 did not exceed the amounts budgeted.
- (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:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Linda Coppess, City Clerk, Husband is part owner of Odd Jobber	Tree service, per bid	\$ 5,080

In accordance with Chapter 5.07 of the City Code of Ordinances and Chapter 362.5(10) of the Code of Iowa, the above transaction does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

- (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 ensure 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.
- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Water Revenue Bonds – During the year ended June 30, 1999, the City issued water revenue bonds for the construction of a water tower under an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo, N.A. As part of the continuing disclosure requirements of the bond, the City agreed to have an annual audit performed during the term of the loan. The last audit of the City was for the year ended June 30, 2005.

Recommendation – The City should comply with the continuing disclosure requirements in the water revenue bond resolution and have an annual audit.

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2008

Response – The City will contact the Iowa Finance Authority to inquire about having the section in the agreement that requires the annual audit be amended to correspond with the timing of other required audits. An annual expenditure of nearly \$10,000 for an audit would be more beneficial if used paying down on the principal amount of the water revenue bond.

Conclusion – Response accepted.

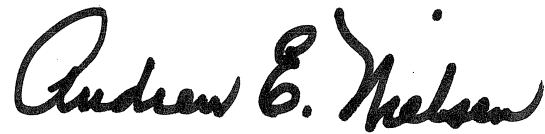
- (9) Petition Items – All items on the petition for audit have been investigated and any matters requiring disclosure are included in the above findings.

City of Mechanicsville

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Daniel L. Grady, Senior Auditor
Kurt D. Goldsmith, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State