



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

David A. Vaudt, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE

June 19, 2006

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 has implemented new reporting standards for the year ended June 30, 2005, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$806,232 for the year ended June 30, 2005. The receipts included \$203,844 in property tax, \$285,189 from charges for service, \$224,310 from operating grants, contributions and restricted interest, \$1,420 from capital grants, contributions and restricted interest, \$63,373 from local option sales tax, \$21,084 from unrestricted interest on investments and \$7,012 from other general receipts.

Disbursements for the year totaled \$749,520, and included \$262,775 for public safety, \$101,571 for culture and recreation and \$85,729 for public works. Also, disbursements for business type activities totaled \$203,215.

A copy of the 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, 2005**

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**City of Mechanicsville**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David L. Furry (Appointed)	Mayor	Nov 2005
Tim Miller	Mayor Pro Tem	Resigned
Bryan Lovell	Mayor Pro Tem	Jan 2008
Pam Logue-Newcomb (Appointed)	Council Member	Nov 2005
Martin Meyer	Council Member	Jan 2006
Christine Yancey	Council Member	Jan 2006
Larry Beck	Council Member	Jan 2008
Linda K. Coppess	City Clerk	Indefinite
John Kuehnle, Jr.	Treasurer	Indefinite
Lowell Dendinger	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Mechanicsville, Iowa, as of and for the year ended June 30, 2005, 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, 2004.

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, 2004, 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, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

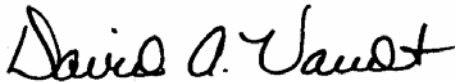
As described in Note 10, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2006 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 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We 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 and 3 are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 1, 2006

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

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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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2005 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities decreased by approximately \$1,400, due primarily to an overall increase in General Fund and Road Use Tax Fund disbursements.
- The cash basis net assets of the City's business type activities increased by approximately \$58,000, primarily due to a reduction in expenditures during FY2005.

### **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 City's nonmajor governmental funds and the City's bonded indebtedness.



## **BASIS OF ACCOUNTING**

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

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

### *Government-wide Financial Statement*

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

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

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

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

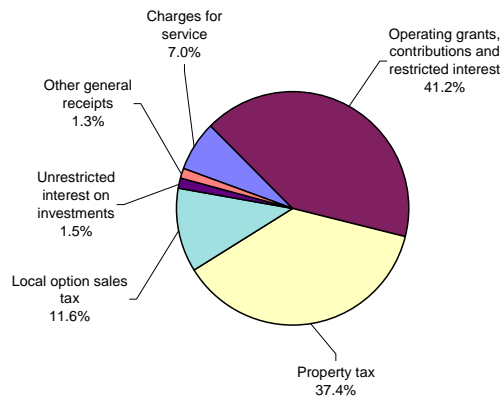
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

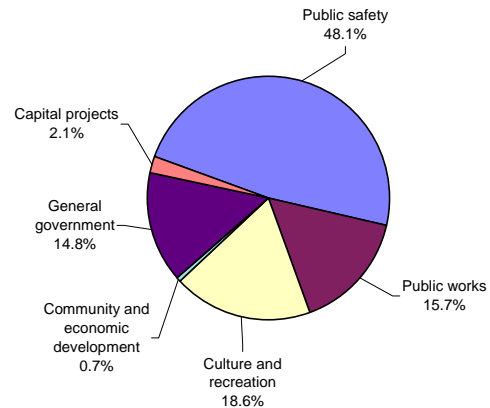
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$694,179 to \$692,767. The analysis that follows focuses on the changes in cash balances of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service	\$ 38,290
Operating grants, contributions and restricted interest	224,310
General receipts:	
Property tax	203,844
Local option sales tax	63,373
Unrestricted interest on investments	8,064
Other general receipts	7,012
Total receipts	<u>544,893</u>
Disbursements:	
Public safety	262,775
Public works	85,729
Culture and recreation	101,571
Community and economic development	3,677
General government	80,893
Capital projects	11,660
Total disbursements	<u>546,305</u>
Decrease in cash basis net assets	(1,412)
Cash basis net assets beginning of year	<u>694,179</u>
Cash basis net assets end of year	<u>\$ 692,767</u>

**Receipts by Source**



**Disbursements by Function**



The cash basis net assets decreased by approximately \$1,412, due primarily to an overall increase in disbursements.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 95,894
Sewer	65,472
Solid waste	85,533
General receipts:	
Intergovernmental	1,420
Unrestricted interest on investments	13,020
Total receipts	<u>261,339</u>
Disbursements:	
Water	73,592
Sewer	60,470
Solid waste	69,153
Total disbursements	<u>203,215</u>
Increase in cash balance net assets	58,124
Cash basis net assets beginning of year	<u>686,158</u>
Cash basis net assets end of year	<u><u>\$ 744,282</u></u>

### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Mechanicsville completed the year, its governmental funds reported a combined fund balance of \$692,767, a decrease of approximately \$1,400 from the June 30, 2004 balance of \$694,179. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$31,061 from the prior year to \$120,292. The decrease was due in part to public safety equipment purchases, the hiring of a full time police officer, the purchase of office equipment and library improvements.
- The Road Use Tax Fund cash balance increased by \$24,478 to \$230,442 during the fiscal year and was due in part to the completion of street projects in FY2004.
- The Local Option Sales Tax Fund cash balance did not change as collections received were used for the Cedar County Jail.
- The Ambulance Trust Fund received and disbursed \$53,650 and \$40,194, respectively. The cash balance increased by \$13,456 to \$172,204.
- The Cemetery Perpetual Care Fund balance increased from \$86,097 to \$88,054.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$28,615 to \$355,778, which was due primarily to projects completed in FY2004.
- The Sewer Fund cash balance increased by \$12,032 to \$323,918.
- The Solid Waste Fund cash balance increased by \$17,477 to \$64,586.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on December 13, 2004 and resulted in an increase in operating disbursements of \$53,160 related primarily to public safety and culture and recreation functions.

Even with this budget amendment, the City exceeded the budget in the public safety function due to an oversight. It was believed the fire and ambulance volunteers had achieved their status as a separate legal entity by filing the appropriate documents with the Secretary of State. Since they did not meet that goal, the City was required to bring their financial activity into the City's accounting system, resulting in the budget deficit.

## **DEBT ADMINISTRATION**

At June 30, 2005, the City had \$308,000 in revenue bonds outstanding, compared to \$324,000 at the end of last year.

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

The fiscal year 2004-2005 tax levy of \$9.85805 decreased to \$9.65466 per \$1,000 of taxable valuation for fiscal year 2005-2006 due to a reduction in the amount necessary for employee benefits. Property tax valuations were steady. However, with the elimination of the bank franchise tax and the consolidated payment from previous years, the General Fund carry over balance continues to decrease at a rapid pace.

A review of the one time projects included in the budget for 2004-2005 also shows the City has utilized grants to supplement its other revenue in order to improve the quality of life within the community, as follows:

- Installation of street signs from a grant received from the IDOT that was applied for in 2001 but was not awarded until 2004-2005.
- Applied for a Region 10 planning grant for assistance in upgrading the sidewalks along South Street and Elm Street. The grant application was denied, but the City Council proceeded with sending notices to property owners requesting necessary maintenance on the sidewalks be done at property owner's expense along South Street. The remaining walks will be identified in 2005-2006.
- Park improvements included a new fall zone being installed at Pleasant Hill and the equipment re-installed, including a new merry-go-round which was purchased the previous year. The City was also fortunate to have the local Lions Club work with a student from North Cedar High School in making a 9-Hole Frisbee Golf Course at Kruse Park. The student furnished the labor and the Lions Club provided the materials. The City purchased the cement for the installation. There was also a volunteer park clean up day. The basketball court was resurfaced at a cost of \$3,050 and new backboards were installed.

- Applied for a CDBG Housing Rehabilitation Grant in the amount of \$329,990 and will be working with ECIA in administering the program during 2005-2006, which will most likely carry over into the 2006-2007 fiscal year.
- Installed drainage tile in the south portion of the cemetery to eliminate standing water.
- Cost shared with Cedar County in having X-40 resurfaced from the county line into the city limits at a cost of \$22,488, a storm sewer was installed at the intersection of 4th street and the west side ditch was partially filled in, all in anticipation of the building of the new elementary school at the intersection of X-40 and 125th street. The school bond issue passed in March 2005.
- Continued to work towards getting the construction permit from the IDNR for lagoon improvements. The CDBG project was originally extended until September 30, 2005 and the bids were opened in June 2005. Due to the delay in getting the construction permit, construction costs came in higher than originally projected and the City went back to IDED to request an additional \$75,000, amending the grant award from \$250,000 to \$325,000, with \$260,265 being provided in local funds for a total project cost of \$585,265. The 150 day construction contract was awarded to Jim Schroeder Construction in September and puts the anticipated completion date in March/April of 2006, subject to winter construction delays.
- A fire truck was replaced in July 2004 at a total cost of \$18,000 by purchasing a used truck from Hiawatha.
- Updated the maps for the cemetery, water, sewer and zoning.
- Library back wall, roof and front of building underwent some repair, an additional bay was added to the City shed and the roof on the original portion was painted, a 7 foot rotary cutter was purchased for \$2,475, a mower was purchased for \$13,471 and a copy machine was also purchased.
- Spent considerable time and energy in addressing nuisances and nuisance abatements. The City has invested time in removing the trees in the fence line behind the City shed, spraying weeds along the railroad tracks and the removal of the pile of pipe. The old water tower received a facelift by painting it and the retainer wall on Crestview Drive was eliminated by reshaping the hillside.
- Applied for and received a Pre-Disaster Mitigation Planning Grant.

## **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 430, W. Main Street, Mechanicsville, Iowa 50142-0430.

## **Basic Financial Statements**

City of Mechanicsville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 262,775	1,781	115,349	-
Public works	85,729	-	97,672	-
Culture and recreation	101,571	35,794	11,289	-
Community and economic development	3,677	-	-	-
General government	80,893	715	-	-
Capital projects	11,660	-	-	-
Total governmental activities	546,305	38,290	224,310	-
Business type activities:				
Water	73,592	95,894	-	-
Sewer	60,470	65,472	-	1,420
Solid waste	69,153	85,533	-	-
Total business type activities	203,215	246,899	-	1,420
Total	\$ 749,520	285,189	224,310	1,420

**General Receipts:**

Property tax levied for general purposes  
 Local option sales tax  
 Unrestricted interest on investments  
 Bank franchise tax  
 Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:

Streets  
 Ambulance  
 Permanent fund  
 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
(145,645)	-	(145,645)
11,943	-	11,943
(54,488)	-	(54,488)
(3,677)	-	(3,677)
(80,178)	-	(80,178)
(11,660)	-	(11,660)
(283,705)	-	(283,705)
-	22,302	22,302
-	6,422	6,422
-	16,380	16,380
-	45,104	45,104
(283,705)	45,104	(238,601)
203,844	-	203,844
63,373	-	63,373
8,064	13,020	21,084
698	-	698
6,314	-	6,314
282,293	13,020	295,313
(1,412)	58,124	56,712
694,179	686,158	1,380,337
\$ 692,767	744,282	1,437,049
\$ 230,442	-	230,442
172,204	-	172,204
88,054	-	88,054
81,775	-	81,775
120,292	744,282	864,574
\$ 692,767	744,282	1,437,049



City of Mechanicsville

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

As of and for the year ended June 30, 2005

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Ambulance Trust
Receipts:				
Property tax	\$ 167,999	-	-	-
Other city tax	-	-	63,373	-
Licenses and permits	1,017	-	-	-
Use of money and property	25,564	-	-	2,713
Intergovernmental	40,329	97,530	-	-
Charges for service	6,955	-	-	50,937
Miscellaneous	19,160	-	-	-
Total receipts	261,024	97,530	63,373	53,650
Disbursements:				
Operating:				
Public safety	95,943	-	63,373	40,194
Public works	7,684	73,052	-	-
Culture and recreation	92,934	-	-	-
Community and economic development	3,610	-	-	-
General government	70,254	-	-	-
Capital projects	11,660	-	-	-
Total disbursements	282,085	73,052	63,373	40,194
Excess (deficiency) of receipts over (under) disbursements	(21,061)	24,478	-	13,456
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(10,000)	-	-	-
Total other financing sources (uses)	(10,000)	-	-	-
Net change in cash balances	(31,061)	24,478	-	13,456
Cash balances beginning of year	151,353	205,964	-	158,748
Cash balances end of year	\$ 120,292	230,442	-	172,204
<b>Cash Basis Fund Balances</b>				
Unreserved:				
General fund	\$ 120,292	-	-	-
Special revenue funds	-	230,442	-	172,204
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 120,292	230,442	-	172,204

See notes to financial statements.

<u>Permanent</u>		
<u>Cemetery</u>		
<u>Perpetual</u>		
Care	Nonmajor	Total
-	35,845	203,844
-	-	63,373
-	-	1,017
-	1,463	29,740
-	-	137,859
-	-	57,892
1,957	30,051	51,168
1,957	67,359	544,893
-	63,265	262,775
-	4,993	85,729
-	8,637	101,571
-	67	3,677
-	10,639	80,893
-	-	11,660
-	87,601	546,305
1,957	(20,242)	(1,412)
-	10,000	10,000
-	-	(10,000)
-	10,000	-
1,957	(10,242)	(1,412)
86,097	92,017	694,179
88,054	81,775	692,767
-	-	120,292
-	81,775	484,421
88,054	-	88,054
88,054	81,775	692,767

**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, 2005

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 95,894	65,472	85,533	246,899
Operating disbursements:				
Business type activities	45,993	60,470	69,153	175,616
Excess of operating receipts over operating disbursements	49,901	5,002	16,380	71,283
Non-operating receipts (disbursements):				
Intergovernmental	-	1,420	-	1,420
Interest on investments	6,313	5,610	1,097	13,020
Debt service	(27,599)	-	-	(27,599)
Total non-operating receipts (disbursements)	(21,286)	7,030	1,097	(13,159)
Net change in cash balances	28,615	12,032	17,477	58,124
Cash balances beginning of year	327,163	311,886	47,109	686,158
Cash balances end of year	\$ 355,778	323,918	64,586	744,282
<b>Cash Basis Fund Balances</b>				
Unreserved	\$ 355,778	323,918	64,586	744,282

See notes to financial statements.

City of Mechanicsville

Notes to Financial Statements

June 30, 2005

**(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 1867 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. 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: Cedar County Assessor's Conference Board, Cedar County Emergency Management Commission, Cedar County Joint E911 Service Board and Johnson County Refuse, Inc.

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 funds are aggregated and reported as nonmajor 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 Ambulance Trust Fund is used to account for ambulance collections, donations, 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 waste water 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 terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipt. Thus, when program disbursements are incurred, there are both restricted and unrestricted cash 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, 2005, disbursements exceeded the amount budgeted in the public safety function.

**(2) Cash and Pooled Investments**

The City's bank deposits at June 30, 2005 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 Payable**

Annual debt service requirements to maturity for the water revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 16,000	10,872	26,872
2007	17,000	10,308	27,308
2008	17,000	9,707	26,707
2009	18,000	9,107	27,107
2010	18,000	8,472	26,472
2011 - 2015	103,000	32,158	135,158
2016 - 2020	119,000	12,779	131,779
Total	\$ 308,000	93,403	401,403

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.

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual 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, 2005 was \$10,429, equal to the required contribution for the year.



**(5) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:		
Fire Trust	General	<u>\$ 10,000</u>

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

**(6) 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 the past fiscal year.

**(7) 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, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 5,000
Compensatory time	<u>4,400</u>
Total	<u>\$ 9,400</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

**(8) Subsequent Event**

On July 11, 2005, the City accepted a low bid of \$460,200 for sewer lagoon improvements. The project will be funded with Community Development Block Grant funds and local sources once the project gets under way.

**(9) Recycling Agreement**

On May 12, 2003, the City entered into a recycling contract with Johnson County Refuse, Incorporated. The contract term is from July 1, 2003 through June 30, 2006. The City agreed to pay \$4.45 per residence per month for the services. During the year ended June 30, 2005, the City paid \$25,098 on this contract.

**(10) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

**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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 203,844	-	-
Other city tax	63,373	-	-
Licenses and permits	1,017	-	-
Use of money and property	29,740	13,020	-
Intergovernmental	137,859	1,420	-
Charges for service	57,892	246,899	-
Miscellaneous	51,168	-	1,957
Total receipts	544,893	261,339	1,957
Disbursements:			
Public safety	262,775	-	-
Public works	85,729	-	-
Culture and recreation	101,571	-	-
Community and economic development	3,677	-	-
General government	80,893	-	-
Capital projects	11,660	-	-
Business type activities	-	203,215	-
Total disbursements	546,305	203,215	-
Excess (deficiency) of receipts over (under) disbursements	(1,412)	58,124	1,957
Balances beginning of year	694,179	686,158	86,097
Balances end of year	\$ 692,767	744,282	88,054

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
203,844	199,033	199,033	4,811
63,373	74,839	74,839	(11,466)
1,017	1,500	1,500	(483)
42,760	29,000	29,000	13,760
139,279	120,977	140,977	(1,698)
304,791	289,000	289,000	15,791
49,211	-	5,000	44,211
<u>804,275</u>	<u>714,349</u>	<u>739,349</u>	<u>64,926</u>
262,775	209,185	249,185	(13,590)
85,729	125,373	125,373	39,644
101,571	107,396	118,896	17,325
3,677	5,936	5,936	2,259
80,893	99,346	99,346	18,453
11,660	10,000	11,660	-
203,215	445,854	445,854	242,639
<u>749,520</u>	<u>1,003,090</u>	<u>1,056,250</u>	<u>306,730</u>
54,755	(288,741)	(316,901)	371,656
<u>1,294,240</u>	<u>1,153,859</u>	<u>1,153,859</u>	<u>140,381</u>
<u>1,348,995</u>	<u>865,118</u>	<u>836,958</u>	<u>512,037</u>

City of Mechanicsville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$53,160. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the public safety function.

**Other Supplementary Information**



City of Mechanicsville

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

Year ended June 30, 2005

	Special		
	Fire Trust	Fire and Ambulance	Employee Benefits
Receipts:			
Property tax	\$ -	-	35,845
Use of money and property	883	199	-
Miscellaneous	-	30,051	-
Total receipts	<u>883</u>	<u>30,250</u>	<u>35,845</u>
Disbursements:			
Public safety	17,000	32,711	13,554
Public works	-	-	4,993
Culture and recreation	-	-	4,433
Community and economic development	-	-	67
General government	-	-	10,639
Total disbursements	<u>17,000</u>	<u>32,711</u>	<u>33,686</u>
Excess (deficiency) of receipts over (under) disbursements	(16,117)	(2,461)	2,159
Other financing sources:			
Operating transfer in	<u>10,000</u>	-	-
Net change in cash balances	(6,117)	(2,461)	2,159
Cash balances beginning of year	<u>55,114</u>	<u>18,890</u>	<u>-</u>
Cash balances end of year	<u>\$ 48,997</u>	<u>16,429</u>	<u>2,159</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	<u>\$ 48,997</u>	<u>16,429</u>	<u>2,159</u>

See accompanying independent auditor's report.

Revenue				
Library Trust	Park Trust	Gift Trust	Tree Trust	Total
-	-	-	-	35,845
59	-	37	285	1,463
-	-	-	-	30,051
59	-	37	285	67,359
-	-	-	-	63,265
-	-	-	-	4,993
4,120	-	84	-	8,637
-	-	-	-	67
-	-	-	-	10,639
4,120	-	84	-	87,601
(4,061)	-	(47)	285	(20,242)
-	-	-	-	10,000
(4,061)	-	(47)	285	(10,242)
5,663	18	2,046	10,286	92,017
1,602	18	1,999	10,571	81,775
1,602	18	1,999	10,571	81,775

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City of Mechanicsville  
Statement of Indebtedness  
Year ended June 30, 2005

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue bonds: Water	Jun 1, 1999	3.53%	\$ 397,000

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See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 324,000	-	16,000	308,000	11,437

**Schedule 3**

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City of Mechanicsville

Bond Maturities

June 30, 2005

Year Ending June 30,	Water Revenue Bonds	
	Interest Rates	Amount
2006	3.53%	\$ 16,000
2007	3.53	17,000
2008	3.53	17,000
2009	3.53	18,000
2010	3.53	18,000
2011	3.53	19,000
2012	3.53	20,000
2013	3.53	21,000
2014	3.53	21,000
2015	3.53	22,000
2016	3.53	23,000
2017	3.53	23,000
2018	3.53	24,000
2019	3.53	24,000
2020	3.53	25,000
Total		<u><u>\$308,000</u></u>

See accompanying independent auditor's report.



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

David A. Vaudt, CPA  
Auditor of State

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Des Moines, Iowa 50319-0004

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Mechanicsville, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 1, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Mechanicsville'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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses.

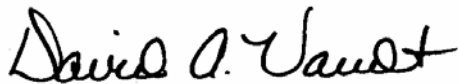
### Compliance and Other Matters

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, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

March 1, 2006

City of Mechanicsville  
Schedule of Findings  
Year ended June 30, 2005

**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. 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.



City of Mechanicsville

Schedule of Findings

Year ended June 30, 2005

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

Conclusion – Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled and certain reports and computer related printouts were not available.

Recommendation – Procedures should be established to reconcile monthly utility billings, collections and delinquencies. The City Council should review the reconciliation each month and monitor delinquencies. Also, all utility generated monthly printouts should be printed, retained and used in preparing the monthly reconciliation.

Response – The current procedures will be modified so the documentation reflecting the completion of these steps will be retained in the file for reference. The results of the monthly reconciliation will also be shared with the Council on a regular basis.

Conclusion – Response accepted.

- (C) Separately Maintained Records – The Mechanicsville Fire and Ambulance volunteers maintain separate accounting records pertaining to their operation. The individual transaction activity is not included in the City’s accounting records.

Pre-numbered receipts were not issued for all collections, supporting documentation was not maintained for all disbursements and checks disbursed required only one signature to validate.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

To strengthen controls over receipts and disbursements, receipts should be issued for all collections when received, supporting documentation should be maintained for all disbursements and a countersignature should be required on all checks issued.

Response – The fire and ambulance volunteers plan to implement the use of pre-numbered receipts. Two signatures are now required on all checks issued.

The City Council had passed a resolution allowing the fire and ambulance volunteers to have separate private accounts and to receive money from donations and fund raisers under certain conditions. Therefore, the financial activity was not included in the City’s accounting records. It was also believed the proper legal documentation had been obtained by the volunteers to establish their non-profit status and thereby segregate their financial activities from the City’s. The

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2005

volunteers will proceed with obtaining the necessary legal documentation to establish their independence.

Conclusion – Response accepted.

- (D) Information Systems – The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality.
- Personal use of computer equipment and software.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems.

Response – The City will modify the employee handbook section on electronic tools to specifically address password privacy and confidentiality. The City will also attempt to prepare a written disaster recovery plan.

Conclusion – Response accepted.

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2005

**Findings Related to Required Statutory Reporting:**

- (1) Official Depositories – A resolution naming an official depository has been approved by the City. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amount budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The fire and ambulance volunteers were thought to have been organized as a separate legal entity, but instead we discovered they had not filed the proper forms with the Secretary of State. This resulted in having to be accountable for the volunteers’ financial activity and since it was not, this resulted in the budget deficit. Steps are being taken to see this is corrected.

Conclusion – Response accepted.

- (3) Questionable Disbursements – Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Caseys	Kegs of beer	\$ 744
Various vendors	New Years party and gifts	782
Various vendors	Anniversary celebration	755
Blooming Acres	Wreath	95
Doris’ Flower Shop	Rose and flag	15

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

Recommendation – The City Council and fire and ambulance volunteers should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City and volunteers should establish written policies and procedures, including the requirements for proper documentation.

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2005

Response – These disbursements originated from the separately maintained accounts by the fire and ambulance volunteers. Steps are being taken to see that this is corrected so the volunteers' financial activities are recognized as being independent of the City's records.

Conclusion – Response accepted.

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

Although minutes of Council proceedings were published, the listing of claims allowed did not include the purpose as required by Chapter 372.13(6) of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should publish minutes as required by Chapter 372.13(6) of the Code of Iowa.

Response – Procedures will be modified to include a description of what the claim was for in the minutes along with the amount and to whom it was paid.

Conclusion – Response accepted.

- (8) Deposits and Investments – Although the City has adopted an investment policy, Section 2 of the policy requires the City Clerk/Finance Officer and all employees authorized to place investments to be bonded in the amount of \$500,000. Also, Section 9 of the policy states the investment policy shall be reviewed every two years. The City Clerk is bonded to a maximum of \$30,000 and the investment policy adopted in 2002 has not been reviewed as required.

Recommendation – The City should review the investment policy and take appropriate actions to correct these matters.

Response – The investment policy will be reviewed and modified.

Conclusion – Response accepted.

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

City of Mechanicsville

Schedule of Findings

Year ended June 30, 2005

- (10) City Code of Ordinances – The City Code of Ordinances has not been recodified in the last five years as required.

Recommendation – Chapter 380.8(1) (c) of the Code of Iowa requires the City Code of Ordinances be recodified at least once every five years.

Response – The City Council approved proceeding with a complete codification and it should be completed during fiscal year 2006.

Conclusion – Response accepted.

- (11) Council Compensation – During the year ended June 30, 2005, one City Council member was paid an additional \$42 for driving the City's garbage truck since a special CDL is required. Chapter 372.13(8) of the Code of Iowa states City Council members shall not receive additional compensation other than the fees provided for in City ordinance for City Council member fees.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will consult legal counsel.

Conclusion – Response accepted.

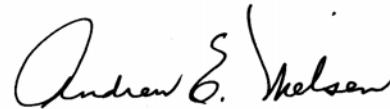
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City of Mechanicsville

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager  
John G. Vanis, CGFM, Senior Auditor  
Carmon K. Kutcher, 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