



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

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Auditor of State

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NEWS RELEASE

FOR RELEASE

June 14, 2012

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$900,546 for the year ended June 30, 2011. The receipts included \$189,848 in property tax, \$55,320 from tax increment financing, \$284,871 from charges for service, \$144,620 from operating grants, contributions and restricted interest, \$42,507 from capital grants, contributions and restricted interest, \$125,725 from local option sales tax, \$3,749 from unrestricted interest on investments and \$53,906 from other general receipts.

Disbursements for the year totaled \$772,467, and included \$260,409 for public works, \$170,843 for public safety and \$97,231 for general government. Also, disbursements for business type activities totaled \$165,136.

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/1121-0446-B00F.pdf>.

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**CITY OF VICTOR**

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

**JUNE 30, 2011**

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**City of Victor**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Pawlak	Mayor	Jan 2012
Marla Faga	Mayor Pro tem	Jan 2012
Dan Cavin	Council Member	Jan 2012
Joan Robinson	Council Member	Jan 2012
James Weierman	Council Member	Jan 2012
Lynn DeNeve	Council Member	(Resigned)
Justin Smith (Appointed)	Council Member	Nov 2011
Fred Stiefel	City Clerk/Attorney	Indefinite

**City of Victor**



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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 Victor, Iowa, as of and for the year ended June 30, 2011, 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 Victor's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards 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, 2010.

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, 2010, 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 Victor as of June 30, 2011, 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.

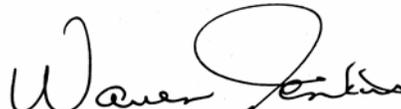
In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2012 on our consideration of the City of Victor's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Victor's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

May 23, 2012

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

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The City of Victor 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, 2011. 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.

### **2011 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased approximately \$94,500 during the fiscal year, primarily due to receipts exceeding disbursements in the General Fund and the Special Revenue, Tax Increment Financing KUBU Fund.
- The cash basis net assets of the City's business type activities increased approximately \$33,600 during the fiscal year, due primarily to receipts exceeding disbursements in the Enterprise, Water and Sewer Funds.

### **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 financial 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 to the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

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

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

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information 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 water and sewer systems. These activities are financed primarily by user fees.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Library, 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 two Enterprise Funds to provide separate information for water and sewer operations. The Water and Sewer Funds are considered to be major funds of the City.

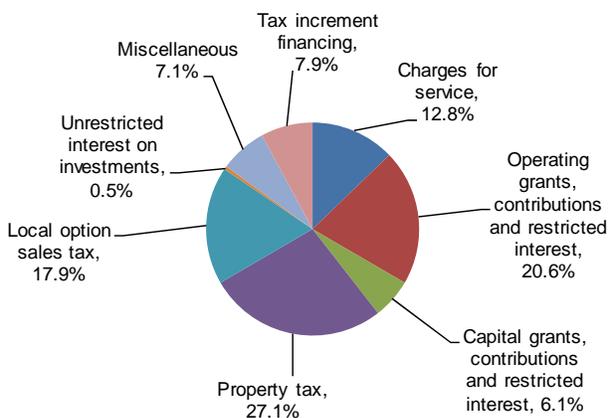
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

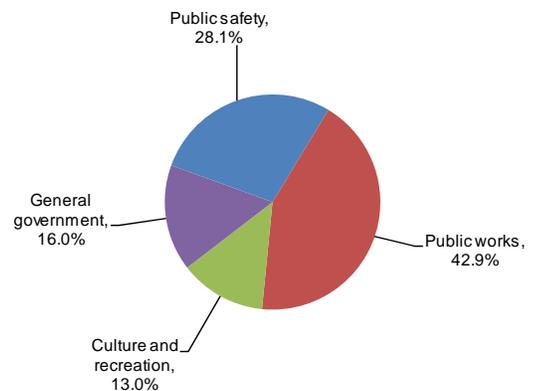
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$702,090 to \$796,580. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service	\$ 90,171
Operating grants, contributions and restricted interest	144,620
Capital grants, contributions and restricted interest	42,507
General receipts:	
Property tax	189,848
Tax increment financing	55,320
Local option sales tax	125,725
Unrestricted interest on investments	3,707
Miscellaneous	49,923
Total receipts	701,821
Disbursements:	
Public safety	170,843
Public works	260,409
Culture and recreation	78,848
General government	97,231
Total disbursements	607,331
Change in cash basis net assets	94,490
Cash basis net assets beginning of year	702,090
Cash basis net assets end of year	\$ 796,580

**Receipts by Source**



**Disbursements by Function**



The cash basis net assets of the City's governmental funds increased primarily due to an increase in local option sales tax and tax increment financing.

The cost of all governmental activities this year was \$607,331. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$330,033 because some of the cost was paid by those directly benefited from the programs (\$90,171) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$187,127).

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2011</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 64,500
Sewer	130,200
Miscellaneous	3,983
General receipts:	
Unrestricted interest on investments	42
Total receipts	<u>198,725</u>
Disbursements :	
Water	62,301
Sewer	102,835
Total disbursements	<u>165,136</u>
Change in cash basis net assets	33,589
Cash basis net assets beginning of year	<u>210,448</u>
Cash basis net assets end of year	<u><u>\$ 244,037</u></u>

Total business type activities cash basis net assets increased approximately \$33,600 from a year ago, from \$210,448 to \$244,037. The overall increase is a result of lower costs in the sewer utility.

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

As the City of Victor completed the year, its governmental funds reported a combined fund balance of \$796,580, an increase of \$94,490 above last year's total of \$702,090. 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 \$66,065 over the prior year to a year-end balance of \$230,372. This increase is due to receiving more local option sales tax during fiscal year 2011 than fiscal year 2010 and a reduction in disbursements during fiscal year 2011 compared to fiscal year 2010.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$30,589 due to disbursements exceeding receipts for the fiscal year.
- The Special Revenue, Library Fund cash balance increased \$2,841 to \$106,753 during the fiscal year.
- The Special Revenue, Fire Department Fund cash balance increased \$3,027, from \$42,889 to \$45,916.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$6,224 to a year-end balance of \$238,044.
- The Enterprise, Sewer Fund cash balance increased \$27,365 to a year-end balance of \$5,993, primarily due to fewer disbursements during fiscal year 2011.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City did not amend its budget.

The City’s receipts were \$50,109 more than budgeted. This was primarily due to the City receiving more local option sales tax and tax increment financing receipts than was budgeted.

Total disbursements were \$189,533 less than budgeted. This was primarily due to the City budgeting \$250,000 for business type activities and disbursing only \$165,136.

**DEBT ADMINISTRATION**

At June 30, 2011, the City had \$803,000 in general obligation capital loan notes outstanding, as shown below:

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation capital loan notes	\$ 803,000	845,000

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 is \$803,000, which is significantly below its constitutional debt limit of approximately \$1,703,000.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES**

Water rates have remained the same since 1985 and sewer rates have increased to pay for the new sewer plant which cost in excess of \$1 million. Garbage rates have increased as necessary to pay the contractor’s increase in charges to the City. Active recycling has reduced garbage hauling costs and have kept rates lower.

With the exception of the Special Revenue, Tax Increment Financing KUBU Fund the City’s cash balances are positive and healthy. Tax increment financing collections in the Special Revenue, Tax Increment Financing KUBU Fund will bring the fund to a positive balance.

The Janet Wilkens Trust gifted a 160 acre farm to the City library. Rents from the farm help fund library operations.

With the exception of the debt for the new sewer plant, the City has been able to provide services with available tax receipts and state and federal grants, including paving of all streets with curbs and gutters. Also, the City is able to adequately equip the QRS emergency medical services.

Overall, the City is in strong financial shape as a result of the City Council’s desire to keep taxes and fees reasonable and expenses low.

The City of Victor's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The fiscal year 2012 budget contains total receipts of \$869,563 and disbursements of \$998,000. This budget is slightly more than the fiscal year 2011 budget which contained total receipts of \$850,437 and total disbursements of \$962,000.

The fiscal year 2012 property tax levy is \$9.47573 per \$1,000 of taxable valuation, a decrease from \$9.48507 per \$1,000 of taxable valuation for fiscal year 2011. The tax rate has stayed consistent for approximately 20 years and is below the average for other cities in Iowa and Poweshiek Counties. Also, the City's 1% local option sales tax is targeted for property tax relief.

These parameters were taken into account when adopting the budget for fiscal year 2012. The future needs and outlook of the City include maintaining a high standard of living, maintaining good streets, ensuring adequate water plant maintenance/replacement, keeping the sewer plant compliant and maintaining high quality fire fighting and emergency medical service.

### **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 Fred Stiefel, City Clerk, 220 Washington St., Victor, Iowa 52347.

## **Basic Financial Statements**

City of Victor

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	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	\$ 170,843	59	34,019	42,507
Public works	260,409	62,300	95,028	-
Culture and recreation	78,848	26,342	15,573	-
General government	97,231	1,470	-	-
Total governmental activities	607,331	90,171	144,620	42,507
Business type activities:				
Water	62,301	64,500	-	-
Sewer	102,835	130,200	-	-
Total business type activities	165,136	194,700	-	-
Total	\$ 772,467	284,871	144,620	42,507

**General Receipts:**

Property and other city tax levied for general purposes  
 Tax increment financing  
 Local option sales tax  
 Unrestricted interest on investments  
 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:  
     Nonexpendable:  
         Cemetery perpetual care  
     Expendable:  
         Streets  
         Library  
         Fire  
         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
(94,258)	-	(94,258)
(103,081)	-	(103,081)
(36,933)	-	(36,933)
(95,761)	-	(95,761)
(330,033)	-	(330,033)
-	2,199	2,199
-	27,365	27,365
-	29,564	29,564
(330,033)	29,564	(300,469)
189,848	-	189,848
55,320	-	55,320
125,725	-	125,725
3,707	42	3,749
49,923	3,983	53,906
424,523	4,025	428,548
94,490	33,589	128,079
702,090	210,448	912,538
\$ 796,580	244,037	1,040,617
\$ 63,828	-	63,828
330,598	-	330,598
106,753	-	106,753
45,916	-	45,916
-	5,591	5,591
32,808	-	32,808
216,677	238,446	455,123
\$ 796,580	244,037	1,040,617

**Exhibit B**

## City of Victor

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

As of and for the year ended June 30, 2011

	Special Revenue					Total
	General	Road Use Tax	Library	Fire Department	Nonmajor	
<b>Receipts:</b>						
Property tax	\$189,848	-	-	-	-	189,848
Tax increment financing	-	-	-	-	55,320	55,320
Other city tax	125,725	-	-	-	-	125,725
Licenses and permits	1,470	-	-	-	-	1,470
Use of money and property	4,690	-	25,040	37	282	30,049
Intergovernmental	21,943	94,913	-	44,445	-	161,301
Charges for service	62,300	-	-	-	-	62,300
Miscellaneous	26,902	-	18,159	20,609	10,138	75,808
<b>Total receipts</b>	<b>432,878</b>	<b>94,913</b>	<b>43,199</b>	<b>65,091</b>	<b>65,740</b>	<b>701,821</b>
<b>Disbursements:</b>						
<b>Operating:</b>						
Public safety	96,185	-	-	62,064	12,594	170,843
Public works	134,907	125,502	-	-	-	260,409
Culture and recreation	46,030	-	32,818	-	-	78,848
General government	97,231	-	-	-	-	97,231
<b>Total disbursements</b>	<b>374,353</b>	<b>125,502</b>	<b>32,818</b>	<b>62,064</b>	<b>12,594</b>	<b>607,331</b>
Excess (deficiency) of receipts over (under) disbursements	58,525	(30,589)	10,381	3,027	53,146	94,490
<b>Other financing sources (uses):</b>						
Operating transfers in	7,540	-	-	-	-	7,540
Operating transfers out	-	-	(7,540)	-	-	(7,540)
<b>Total other financing sources (uses)</b>	<b>7,540</b>	<b>-</b>	<b>(7,540)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in cash balances	66,065	(30,589)	2,841	3,027	53,146	94,490
Cash balances beginning of year	164,307	361,187	103,912	42,889	29,795	702,090
Cash balances end of year	\$230,372	330,598	106,753	45,916	82,941	796,580
<b>Cash Basis Fund Balances</b>						
Nonspendable - Cemetary prepetual care	\$ -	-	-	-	63,828	63,828
Restricted for:						
Streets	-	330,598	-	-	-	330,598
Library	-	-	106,753	-	-	106,753
Fire	-	-	-	45,916	-	45,916
Other purposes	-	-	-	-	32,808	32,808
Unassigned	230,372	-	-	-	(13,695)	216,677
<b>Total cash basis fund balances</b>	<b>\$230,372</b>	<b>330,598</b>	<b>106,753</b>	<b>45,916</b>	<b>82,941</b>	<b>796,580</b>

See notes to financial statements.

City of Victor

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

As of and for the year ended June 30, 2011

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 64,500	130,200	194,700
Miscellaneous	3,983	-	3,983
	<u>68,483</u>	<u>130,200</u>	<u>198,683</u>
Operating disbursements:			
Business type activities	62,301	33,372	95,673
Excess of operating receipts over operating disbursements	<u>6,182</u>	<u>96,828</u>	<u>103,010</u>
Non-operating receipts (disbursements):			
Interest on investments	42	-	42
Debt service	-	(69,463)	(69,463)
Total non-operating receipts (disbursements)	<u>42</u>	<u>(69,463)</u>	<u>(69,421)</u>
Net change in cash balances	6,224	27,365	33,589
Cash balances beginning of year	231,820	(21,372)	210,448
Cash balances end of year	<u>\$ 238,044</u>	<u>5,993</u>	<u>244,037</u>
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ -	5,591	5,591
Unrestricted	238,044	402	238,446
Total cash basis fund balances	<u>\$ 238,044</u>	<u>5,993</u>	<u>244,037</u>

See notes to financial statements.

City of Victor

Notes to Financial Statements

June 30, 2011

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

The City of Victor is a political subdivision of the State of Iowa located in Iowa and Poweshiek Counties. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Victor 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: Iowa County Assessor's Conference Board, Iowa and Poweshiek County Emergency Management Commissions and Iowa County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, 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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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 categories. 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 from general and emergency levies 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Library Fund is used to account for grants and donations for library activity.

The Fire Department Fund is used to account for grants and donations for Fire Department activity.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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 and ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the public safety function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2011, the City had the following investments:

Investment	Carrying Amount	Fair Value
Common stock	\$ 9,602	15,788

In October 2001, Principal Mutual Life demutualized and converted policy holder memberships to common stock.

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

**(3) Long-Term Debt**

Annual debt service requirements to maturity for general obligation capital loan notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 43,000	26,098	69,098
2013	44,000	24,700	68,700
2014	46,000	23,270	69,270
2015	47,000	21,775	68,775
2016	49,000	20,248	69,248
2017-2021	266,000	76,473	342,473
2022-2026	308,000	30,583	338,583
Total	\$ 803,000	223,147	1,026,147

On June 8, 2006, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$1,000,000 of general obligation capital loan notes with an interest rate of 3.00% per annum. A 1% loan initiation fee was also charged on the total amount borrowed. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 455B of the Code of Iowa to construct improvements and extensions to a municipal wastewater treatment system.

**(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 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011 was \$10,582, equal to the required contribution for the year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are two active and no retired members in the plan. Ten part-time employees are not covered under the City's health benefit plan. Retired participants must be age 65 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the City and plan member is \$1,537 for family coverage. There are no active members with single coverage. The same monthly premium would apply to retirees. For the year ended June 30, 2011, the City contributed 100% of premiums, or \$40,538, to the plan.

**(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 any of the past three fiscal years.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Library	\$ 7,540

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

**(8) Deficit Balances**

The Special Revenue, Tax Increment Financing KUBU Fund had a deficit balance of \$13,695, at June 30, 2011. The deficit is expected to be eliminated with the collection of tax increment financing in fiscal year 2012.

**(9) Janet Wilkens Library Endowment**

The City received a gift of a 160-acre farm from the Estate of Janet Wilkens. The Library leases the farm and uses the proceeds for repairs or additions to the library building, equipment, books, magazines, publications and other library disbursements, including operating expenses.

Lease receipts are credited to the General Fund, Library Account. The City received \$23,942 from the gift during the year ended June 30, 2011 to be used for the Library.

**City of Victor**

**Required Supplementary Information**

City of Victor  
 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, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 189,848	-
Tax increment financing	55,320	-
Other city tax	125,725	-
Licenses and permits	1,470	-
Use of money and property	30,049	42
Intergovernmental	159,363	-
Charges for service	62,300	194,700
Miscellaneous	77,746	3,983
Total receipts	<u>701,821</u>	<u>198,725</u>
Disbursements:		
Public safety	170,843	-
Public works	260,409	-
Culture and recreation	78,848	-
General government	97,231	-
Business type activities	-	165,136
Total disbursements	<u>607,331</u>	<u>165,136</u>
Excess (deficiency) of receipts over (under) disbursements	94,490	33,589
Balances beginning of year	<u>702,090</u>	<u>210,448</u>
Balances end of year	<u>\$ 796,580</u>	<u>244,037</u>

See accompanying independent auditor's report.

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Total	Budgeted Amounts Original/Final	Final to Total Variance
189,848	183,508	6,340
55,320	40,000	15,320
125,725	106,929	18,796
1,470	1,000	470
30,091	3,000	27,091
159,363	178,000	(18,637)
257,000	255,000	2,000
81,729	83,000	(1,271)
900,546	850,437	50,109
170,843	140,000	(30,843)
260,409	338,000	77,591
78,848	86,000	7,152
97,231	148,000	50,769
165,136	250,000	84,864
772,467	962,000	189,533
128,079	(111,563)	239,642
912,538	511,028	401,510
1,040,617	399,465	641,152

City of Victor

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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 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. The City did not amend its budget during the year.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the public safety function.

**Other Supplementary Information**

**City of Victor**

## City of Victor

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

As of and for the year ended June 30, 2011

	Special Revenue		Permanent	Total
	Tax Increment Financing KUBU	QRS First Responders	Perpetual Care Cemetery	
Receipts:				
Tax increment financing	\$ 55,320	-	-	55,320
Use of money and property	-	282	-	282
Miscellaneous	-	10,138	-	10,138
Total receipts	55,320	10,420	-	65,740
Disbursements:				
Operating:				
Public safety	-	12,594	-	12,594
Net change in cash balances	55,320	(2,174)	-	53,146
Cash balances beginning of year	(69,015)	34,982	63,828	29,795
Cash balances end of year	\$ (13,695)	32,808	63,828	82,941
<b>Cash Basis Fund Balances</b>				
Nonspendable:				
Cemetery perpetual care	\$ -	-	63,828	63,828
Restricted for other purposes	-	32,808	-	32,808
Unassigned	(13,695)	-	-	(13,695)
Total cash basis fund balances	\$ (13,695)	32,808	63,828	82,941

See accompanying independent auditor's report.

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City of Victor  
Schedule of Indebtedness  
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes: Sanitary sewer improvement	Jun 8, 2006	3.00% *	\$ 1,000,000

\* The City is required to annually pay a .25% service fee on the outstanding principal balance.  
See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
845,000	42,000	803,000	27,463

**Schedule 3**

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City of Victor  
Note Maturities  
June 30, 2011

Year Ending June 30,	General Obligation Capital Loan Notes	
	Issued June 8, 2006	
	Interest Rates	Amount
2012	3.00%	\$ 43,000
2013	3.00	44,000
2014	3.00	46,000
2015	3.00	47,000
2016	3.00	49,000
2017	3.00	50,000
2018	3.00	52,000
2019	3.00	53,000
2020	3.00	55,000
2021	3.00	56,000
2022	3.00	58,000
2023	3.00	60,000
2024	3.00	62,000
2025	3.00	63,000
2026	3.00	65,000
Total		<u>\$ 803,000</u>

See accompanying independent auditor's report.



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

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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 Victor, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 23, 2012. 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, 2010. 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

The management of the City of Victor is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Victor'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 an opinion on the effectiveness of the City of Victor's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Victor'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Victor's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (C) through (F) to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Victor'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 which 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, 2011 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 Victor's responses to the 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 Victor'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 Victor and other parties to whom the City of Victor may report and 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 Victor 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

May 23, 2012

City of Victor

Schedule of Findings

Year ended June 30, 2011

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

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

- (1) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – reconciliation and cash receipts.
- (3) Investments – investing, recording and custody.
- (4) Long-term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, posting and reconciling.
- (6) Disbursements – prepares, mailing, posting and reconciling.
- (7) Payroll – preparation, posting and distribution.

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

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

For the QRS First Responders, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

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

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

City of Victor

Schedule of Findings

Year ended June 30, 2011

For the Cemetery and Perpetual Care Cemetery, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

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 staff, including elected officials. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

Responses –

City, including Fire Department, Library, Cemetery and Perpetual Care Cemetery –

The City Council thoroughly reviews all City accounts including Fire Department, Library, Cemetery and Perpetual Care Cemetery in January each year during budget preparation. Bank statements and records are available at all times for Council review. Water, sewer and garbage receipts are reviewed by two people each month. We realize there is risk associated with limited segregation of duties. Your comments will be considered.

QRS First Responders – We will segregate duties to the best of our abilities with the staff available.

Conclusions –

City, including Fire Department, Library, Cemetery and Perpetual Care Cemetery –

Response acknowledged. Segregation of duties could be improved by utilizing current staff as well as elected officials to review financial transactions. Evidence of review of transactions and reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

QRS First Responders – Response accepted.

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

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

Response – The City will begin to do a utility reconciliation.

Conclusion – Response accepted.

City of Victor

Schedule of Findings

Year ended June 30, 2011

- (C) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- 1) Aid in training additional or replacement personnel.
- 2) Help achieve uniformity in accounting and in the application of policies and procedures.
- 3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Response – The City will develop a manual.

Conclusion – Response accepted.

- (D) Separately Maintained Records – The Fire Department, Library, QSR First Responders and the Cemetery maintain accounts separate from the City's accounting records. The transactions and resulting balances of these accounts were not recorded in the City Clerk's accounting records.

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

Response – We maintain accounts of all public money. The fire, library, and cemetery report to the City Council annually. The annual review is thorough, in writing and in person. Additionally, bank statements and supporting documentation is available for review on request. However, your comments are well taken that all money is public money and should be handled in a safe and careful manner.

Conclusion – Response acknowledged. 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, including budget reports.

- (E) Payroll - Timesheets were not prepared by salaried employees. Timesheets available for hourly employees were not approved and initialed by the employee's supervisor.

Social Security and Medicare payroll tax is not paid for City Council members.

There is no personnel policy for vacation, sick leave and compensated absences earned and used.

City of Victor

Schedule of Findings

Year ended June 30, 2011

Recommendation - Timesheets should be prepared for all City employees. Timesheets should be approved and initialed by the employee's supervisor or by an independent official who is not involved with payroll. Social Security and Medicare payroll tax should be paid for City Council members. Additionally, the City should develop a personnel policy for vacation, sick leave and compensated absences earned and used.

Response - Staff are expected to work 40 hours per week, and if they work more than 40, they take the appropriate amount of time off to compensate for the extra hours. Due to the expectation of a 40 hour schedule, timesheets would not add a benefit to what we are already doing.

The "supervisor" is the City Council. The City Council reviews payroll every month and approves the payroll.

We will withhold Social Security and Medicare tax on Council members' pay as required.

We will develop a vacation, sick leave and compensated absences policy and put it in writing.

Conclusion - Response acknowledged. Timesheets should be prepared for all City employees and be approved and initialed by the employee's supervisor or by an independent person.

(F) Countersignature of Checks - The City required only one signature for a check to be issued.

Recommendation - To strengthen internal control, each check should be prepared and signed by one person and then the supporting vouchers and invoices should be made available along with the check to the second or independent person for review and countersignature.

Response - The City will establish a maximum check amount requiring only one signature. Any amount above that will be signed by two individuals. The City Council reviews every invoice and bank statements are available for the City Council to review each month, if requested. A written financial report is presented to the City Council each month.

Conclusion - Response accepted.

City of Victor

Schedule of Findings

Year ended June 30, 2011

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Victor

Schedule of Findings

Year ended June 30, 2011

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 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 – We understand the importance of presenting an honest and accurate budget to the public, and of amending the budget if necessary.

Conclusion – Response accepted.

- (2) Questionable Disbursements - Certain disbursements 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 were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
<u>City</u>		
Victor's Market	Alcohol - Fire Department	\$ 37
<u>Fire Department</u>		
D & P Lounge	Alcohol	1,086

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

Recommendation - The City Council should thoroughly consider and document the public purpose and propriety of these disbursements or, if appropriate, request reimbursement. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Responses –

City – We realize the importance of careful spending of public money only for a public purpose. We will review this recommendation at a future City Council meeting.

Fire Department – We will document the public purpose or develop a policy establishing the appropriate use of donations.

Conclusions – Responses accepted.

City of Victor

Schedule of Findings

Year ended June 30, 2011

- (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>
Roger Pawlak, Mayor, owner of Pawlak's Management	Prepares utility billings	\$ 1,470
Fred Stiefel, City Clerk/Attorney, Owner of Stiefel Insurance	Insurance	27,307

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with the Mayor do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

The transactions with Stiefel Insurance may represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions exceeded \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – Since Mr. Stiefel is also the City Attorney, the City Council should consult with independent legal counsel.

Response – I, Fred Stiefel, am simply an agent for EMC Insurance. The City's insurance business is done with EMC, not me.

Conclusion – Response acknowledged. A potential conflict of interest appears to exist since the City Clerk/Attorney is also the insurance agent. The City should consult independent legal counsel to resolve this matter.

- (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 – Except as noted below, no transactions were found we believe should have been approved in the minutes but were not.

The City did not always publish minutes within fifteen days and the minutes did not contain a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should ensure the minutes and a summary of receipts are published as required.

Response – We will publish a receipts summary and try to make the fifteen day deadline.

Conclusion – Response acknowledged. The minutes should be published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

City of Victor

Schedule of Findings

Year ended June 30, 2011

- (7) Deposits and Investments – Except as noted below, 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.

The City owns common stock in Principal Financial Group. Principal Mutual Life converted from a mutual insurance company to a stock company in 2001. At that time, the City's mutual shares were converted to an equal amount of common stock. Chapter 12B of the Code of Iowa does not permit a City to hold common stock.

Recommendation – The City should comply with Chapter 12B of the Code of Iowa.

Response – We agree.

Conclusion – Response accepted.

- (8) Financial Condition - The Special Revenue, Tax Increment Financing KUBU Fund had a deficit balance at June 30, 2011 of \$13,695. The City expects collections totaling \$49,778 during fiscal year 2012, which will leave a balance of about \$36,083 at the end of the fiscal year.

Recommendation - The City should consult TIF legal counsel to determine the disposition of the deficit balance.

Response – We will consult our TIF counsel on what to do.

Conclusion – Response accepted.

- (9) Employee Benefits – The City accounted for the proceeds of the employee benefits levy in the General Fund rather than establishing a Special Revenue Fund as required by Chapter 384.6 of the Code of Iowa.

Recommendation – The City should establish a Special Revenue Fund to account for the employee benefit levy as required by Chapter 384.6 of the Code of Iowa.

Response – We will do this.

Conclusion – Response accepted.

- (10) Payment of General Obligation Notes - Certain general obligation notes were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation notes, and received from sources other than property taxes, must be deposited in the debt service fund."

Recommendation - The City should transfer from the Enterprise, Sewer Fund to the Debt Service Fund. Payments of the general obligation notes should then be disbursed from the Debt Service Fund.

Response – We agree.

Conclusion – Response accepted.

City of Victor

Schedule of Findings

Year ended June 30, 2011

- (11) Official Depositories - A resolution naming official depositories has not been adopted by the City Council.

Recommendation - A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required by Chapter 12C of the Code of Iowa.

Response - We agree.

Conclusion - Response accepted.

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City of Victor

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Daniel L. Grady, Senior Auditor  
William B. Corley, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State