



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

February 15, 2013

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$1,568,764 for the year ended June 30, 2012. The receipts included \$71,648 in property tax, \$200,624 from charges for service, \$69,303 from operating grants, contributions and restricted interest, \$885,577 from capital grants and contributions, \$43,891 from local option sales tax, \$290,291 from revenue note proceeds, \$371 from unrestricted interest on investments and \$7,059 from other general receipts.

Disbursements for the year totaled \$1,902,176, and included \$917,256 for capital projects, \$52,033 for public safety and \$50,402 for culture and recreation. Also, disbursements for business type activities totaled \$782,716.

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/1222-0131-B00F.pdf>.

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CITY OF LEWIS
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	17
Notes to Financial Statements		18-24
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		26-27
Notes to Required Supplementary Information – Budgetary Reporting		28
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	30
Schedule of Indebtedness	2	32-33
Note Maturities	3	34
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		35-36
Schedule of Findings		37-42
Staff		43

City of Lewis

Officials

(Before January 2012)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Cohrs	Mayor	Jan 2012
Scott Anderson	Mayor Pro-Tem	Jan 2012
Jon Mosier	Council Member	Jan 2012
Traci Tyson-Steyer	Council Member	Jan 2012
Matt Klien	Council Member	Jan 2014
Marilyn Mundorf	Council Member	Jan 2014
Carrie Kirchhoff	Clerk	Indefinite
Daniel Feistner	Attorney	Indefinite

(After January 2012)

Don Cohrs	Mayor	Jan 2016
Scott Anderson	Mayor Pro-Tem	Jan 2016
Matt Klien	Council Member	Jan 2014
Marilyn Mundorf	Council Member	Jan 2014
Ryan Archibald	Council Member	Jan 2016
Bethany Nichols	Council Member	Jan 2016
Carrie Kirchhoff	Clerk	Indefinite
Daniel Feistner	Attorney	Indefinite

City of Lewis



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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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Lewis, Iowa, as of and for the year ended June 30, 2012, 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 Lewis'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, 2011.

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, 2011, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Lewis as of June 30, 2012, 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.


The City's General Fund unassigned deficit increased to \$102,395 at June 30, 2012, an increase of \$24,886 during the year ended June 30, 2012. The deficit is approximately 113% of the City's recurring General Fund receipts of \$90,843 during the year ended June 30, 2012. Also, the Special Revenue, Employee Benefits Fund unassigned deficit increased to \$7,279 and the Capital Projects Fund had an unassigned deficit of \$33,680 at June 30, 2012.

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2013 on our consideration of the City of Lewis' 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lewis' basic financial statements. The 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. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with U.S. generally accepted auditing standards. 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, 2011, as discussed in the third paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lewis' basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11 and 26 through 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Lewis 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, 2012. 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.

2012 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased 133.9%, or approximately \$346,000, during the year. The decrease was primarily due to capital projects completed during the current fiscal year.
- The cash basis net assets of the City's business type activities increased 5.4%, or approximately \$12,700, during the fiscal year, due primarily to an increase in water and sewer rates.

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.

Other Information further explains and supports the financial statements with a comparison to the City's budget for the year.

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, culture and recreation, community and economic development, general government and capital projects. Property tax finances most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects 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.

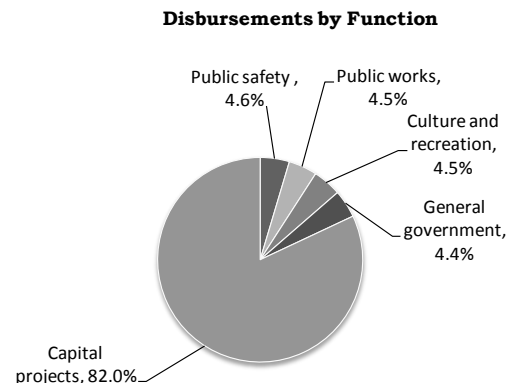
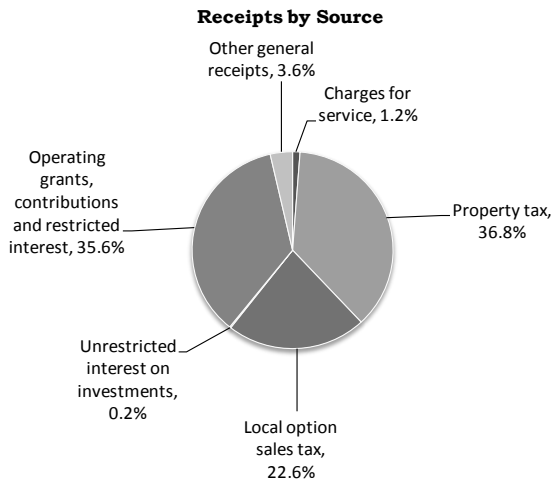
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$258,529 to (\$87,575). 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, 2012
Receipts:	
Program receipts:	
Charges for service	\$ 2,314
Operating grants, contributions and restricted interest	69,303
Capital grants, contributions and restricted interest	576,857
General receipts:	
Property tax	71,648
Local option sales tax	43,891
Unrestricted interest on investments	364
Other general receipts	7,059
Total receipts	<u>771,436</u>
Disbursements:	
Public safety	52,033
Public works	50,361
Culture and recreation	50,402
Community and economic development	235
General government	49,173
Capital projects	917,256
Total disbursements	<u>1,119,460</u>
Change in cash basis net assets before transfers	(348,024)
Transfers, net	<u>1,920</u>
Change in cash basis net assets	(346,104)
Cash basis net assets beginning of year	<u>258,529</u>
Cash basis net assets end of year	<u>\$ (87,575)</u>



Total business type activities cash basis net assets increased approximately \$13,000 from a year ago, increasing from \$234,893 to \$247,585, primarily due to the City increasing water and sewer rates.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2012</u>
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 131,551
Water	66,759
General receipts:	
Note proceeds	290,291
Grant proceeds	308,720
Unrestricted interest on investments	7
Total receipts	<u>797,328</u>
Disbursements:	
Sewer	482,404
Water	300,312
Total disbursements	<u>782,716</u>
Change in cash basis net assets before transfers	14,612
Transfers, net	<u>(1,920)</u>
Change in cash basis net assets	12,692
Cash basis net assets beginning of year	<u>234,893</u>
Cash basis net assets end of year	<u>\$ 247,585</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Lewis completed the year, its governmental funds reported a combined fund balance of (\$87,575), a decrease of \$346,104 from last year's total of \$258,529. 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 \$24,886 from the prior year to a year-end balance of (\$102,395), primarily due to increases in public safety disbursements for a new truck and pump testing.
- The Special Revenue, Road Use Tax Fund cash balance increased \$25,452 over the prior year to a year-end balance of \$54,279. The increase was due primarily to no street projects being completed during the current fiscal year.
- The Special Revenue, Local Option Sales Tax Fund cash balance remained constant. The activity in the fund consisted of a transfer of receipts to the General Fund.
- The Capital Projects Fund cash balance decreased \$329,688 from the prior year to a year-end balance of (\$33,680). The decrease was primarily due to more projects being completed during the current fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$11,264 over the prior year to a year-end balance of \$128,185, primarily due to increased water rates in fiscal year 2012.
- The Enterprise, Sewer Fund cash balance increased \$1,428 from the prior year to a year-end balance of \$119,400, primarily due to increased sewer rates in fiscal year 2012.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 9, 2012 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$1,722,979 on various capital projects involving the sewer and water improvements, new fire station and new library. The amendment also resulted in an increase in budgeted receipts of \$1,226,636, primarily due to intergovernmental receipts for capital projects.

The City's receipts were \$294,170 less than budgeted. This was primarily due to the City receiving less in intergovernmental receipts than anticipated after the amendment.

Actual disbursements were \$157,416 less than budgeted. This was primarily due to the City budgeting for a street project which did not get completed during the year.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$756,000 of revenue notes outstanding, compared to approximately \$736,000 last year.

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 has no outstanding general obligation debt as of June 30, 2012. The City's constitutional debt limit is approximately \$469,000. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Lewis' elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. The City's fiscal year 2013 taxable valuation has increased approximately \$536,000 from fiscal year 2012.

- The fiscal year 2013 budget contains total receipts of \$441,231 and disbursements of \$436,941. This budget is lower than the fiscal year 2012 amended budget which contained total receipts of \$1,572,643 and disbursements of \$2,059,592.
- The fiscal year 2013 levy is \$8.10000 per \$1,000 of taxable valuation.
- If these estimates are realized, the City's cash balance is expected to increase \$4,290 by the close of fiscal year 2013.

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 Carrie Kirchhoff, City Clerk, P.O Box 66, Lewis, IA 51544.

City of Lewis

Basic Financial Statements

City of Lewis

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government				
Governmental activities:				
Public safety	\$ 52,033	356	10,452	-
Public works	50,361	1,661	36,664	-
Culture and recreation	50,402	297	15,087	-
Community and economic development	235	-	3,500	-
General government	49,173	-	3,600	-
Capital projects	917,256	-	-	576,857
Total governmental activities	1,119,460	2,314	69,303	576,857
Business type activities:				
Water	482,404	131,551	-	72,148
Sewer	300,312	66,759	-	236,572
Total business type activities	782,716	198,310	-	308,720
Total Primary Government	\$ 1,902,176	200,624	69,303	885,577
Component Unit				
First Responders and Fire Fighters Association	\$ 62,510	-	59,670	-
General Receipts and Transfers:				
Property and other city tax levied for general purposes				
Local option sales tax				
Unrestricted interest on investments				
Water revenue note proceeds				
Sewer revenue note proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
First Responders and Fire Fighters Association				
Streets				
Debt service				
Unrestricted				
Total cash basis net assets				
See notes to financial statements.				

Net (Disbursements) Receipts and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	First Responders and Fire Fighters Association
(41,225)	-	(41,225)	
(12,036)	-	(12,036)	
(35,018)	-	(35,018)	
3,265	-	3,265	
(45,573)	-	(45,573)	
(340,399)	-	(340,399)	
(470,986)	-	(470,986)	
-	(278,705)	(278,705)	
-	3,019	3,019	
-	(275,686)	(275,686)	
(470,986)	(275,686)	(746,672)	
			(2,840)
71,648	-	71,648	-
43,891	-	43,891	-
364	7	371	-
-	405	405	-
-	289,886	289,886	-
7,059	-	7,059	-
1,920	(1,920)	-	-
124,882	288,378	413,260	-
(346,104)	12,692	(333,412)	(2,840)
258,529	234,893	493,422	32,262
\$ (87,575)	247,585	160,010	29,422
\$ -	-	-	29,422
54,279	-	54,279	-
-	61,445	61,445	-
(141,854)	186,140	44,286	-
\$ (87,575)	247,585	160,010	29,422

Exhibit B

City of Lewis

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

As of and for the year ended June 30, 2012

	Special Revenue					Total
	General	Road Use Tax	Local Option Sales Tax	Capital Projects	Nonmajor	
Receipts:						
Property tax	\$ 57,678	-	-	-	13,970	71,648
Local option sales tax	-	-	43,891	-	-	43,891
Licenses and permits	243	-	-	-	-	243
Use of money and property	7,214	-	-	30	-	7,244
Intergovernmental	19,677	36,664	-	460,986	3,500	520,827
Charges for service	595	-	-	-	-	595
Miscellaneous	5,436	-	-	121,552	-	126,988
Total receipts	<u>90,843</u>	<u>36,664</u>	<u>43,891</u>	<u>582,568</u>	<u>17,470</u>	<u>771,436</u>
Disbursements:						
Operating:						
Public safety	50,560	-	-	-	1,473	52,033
Public works	30,345	10,212	-	-	9,804	50,361
Culture and recreation	33,467	-	-	-	16,935	50,402
Community and economic development	235	-	-	-	-	235
General government	45,013	-	-	-	4,160	49,173
Capital projects	-	-	-	917,256	-	917,256
Total disbursements	<u>159,620</u>	<u>10,212</u>	<u>-</u>	<u>917,256</u>	<u>32,372</u>	<u>1,119,460</u>
Excess (deficiency) of receipts over (under) disbursements	(68,777)	26,452	43,891	(334,688)	(14,902)	(348,024)
Other financing sources (uses):						
Operating transfers in	45,891	-	-	5,000	-	50,891
Operating transfers out	(2,000)	(1,000)	(43,891)	-	(2,080)	(48,971)
Total other financing sources (uses)	<u>43,891</u>	<u>(1,000)</u>	<u>(43,891)</u>	<u>5,000</u>	<u>(2,080)</u>	<u>1,920</u>
Net change in cash balances	(24,886)	25,452	-	(329,688)	(16,982)	(346,104)
Cash balances beginning of year	(77,509)	28,827	-	296,008	11,203	258,529
Cash balances end of year	<u>\$ (102,395)</u>	<u>54,279</u>	<u>-</u>	<u>(33,680)</u>	<u>(5,779)</u>	<u>(87,575)</u>
Cash Basis Fund Balances						
Restricted for:						
Streets	\$ -	54,279	-	-	-	54,279
Other purposes	-	-	-	-	1,500	1,500
Unassigned	(102,395)	-	-	(33,680)	(7,279)	(143,354)
Total cash basis fund balances	<u>\$ (102,395)</u>	<u>54,279</u>	<u>-</u>	<u>(33,680)</u>	<u>(5,779)</u>	<u>(87,575)</u>

See notes to financial statements.

City of Lewis

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

As of and for the year ended June 30, 2012

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 131,551	66,759	198,310
Operating disbursements:			
Business type activities	84,400	35,671	120,071
Excess of operating receipts over operating disbursements	47,151	31,088	78,239
Non-operating receipts:			
Interest on investments	3	4	7
Revenue note proceeds	289,886	405	290,291
IJOBS grant proceeds	72,148	-	72,148
FEMA grant proceeds	-	199,476	199,476
Community development block grant	-	37,096	37,096
Capital outlays	(362,168)	-	(362,168)
Debt service	(35,836)	(264,641)	(300,477)
Net non-operating receipts (disbursements)	(35,967)	(27,660)	(63,627)
Excess of receipts over disbursements	11,184	3,428	14,612
Other financing sources (uses):			
Operating transfers in	2,080	-	2,080
Operating transfers out	(2,000)	(2,000)	(4,000)
Total other financing sources (uses)	80	(2,000)	(1,920)
Net change in cash balances	11,264	1,428	12,692
Cash balances beginning of year	116,921	117,972	234,893
Cash balances end of year	\$ 128,185	\$ 119,400	\$ 247,585
Cash Basis Fund Balances			
Restricted for debt service	\$ 36,135	25,310	61,445
Unrestricted	92,050	94,090	186,140
Total cash basis fund balances	\$ 128,185	\$ 119,400	\$ 247,585

See notes to financial statements.

City of Lewis

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Lewis is a political subdivision of the State of Iowa located in Cass County. It was first incorporated in 1874 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides sewer and water utilities for its citizens.

A. Reporting Entity

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

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

Discretely Presented Component Unit

The Lewis First Responders Fire Fighters Association (Association) was established pursuant to Chapter 504A of the Code of Iowa to receive donations for the benefit of the Lewis Fire Department. The donations are to be used to purchase items not included in the City's budget. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be discretely presented.

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: Cass County Assessor's Conference Board, Cass County Emergency Management Commission, Cass County Landfill Board and Cass 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 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 the following categories/components:

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 category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 Local Option Sales Tax Fund is used to account for the collection of the local option sales tax which is to be used for the improvement of streets, sidewalks, storm sewers, sanitary sewer systems and parks.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

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 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:

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 classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements during the year ended June 30, 2012 exceed the amount budgeted in the business type activities function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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 investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$110,423 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Notes Payable

Annual debt service requirements to maturity for water and sewer revenue notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 38,000	23,445	61,445
2014	39,000	22,170	61,170
2015	41,000	20,850	61,850
2016	42,000	19,470	61,470
2017	44,000	18,045	62,045
2018 - 2022	178,000	72,480	250,480
2023 - 2027	207,000	44,070	251,070
2028 - 2031	167,000	11,640	178,640
Total	\$ 756,000	232,170	988,170

Water Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$516,000 of water revenue notes issued in May 2008 and May 2011 with interest at 4.50% and 3.00% per annum. The City is also required to annually pay a .25% servicing fee on the outstanding principal balance of the 2011 notes. The notes were issued pursuant to the provisions of Chapter 384.83 of the Code of Iowa to provide financing for the construction of water main extensions. The notes are payable solely from water customer net receipts and are payable through 2031. Annual principal and interest payments on the notes are expected to require approximately 74% of net receipts. The total principal and interest remaining to be paid on the notes is \$558,680. For the current year, principal and interest paid and total customer net receipts were \$34,859 and \$47,151, respectively.

The resolutions providing for the issuance of the water revenue notes includes the following provisions:

- (1) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to a water revenue sinking account for the purpose of making the note principal and interest payments when due.
- (3) The City shall establish, impose, adjust and provide for the collection of rates to be charged to customers of the Utility, including the City, to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the Utility, which shall include salaries, wages, cost of maintenance and operations, materials, supplies, insurance and all other items normally included under recognized accounting practices and to leave a balance of net receipts at least sufficient to pay the principal and interest on the note.

Sewer Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$610,000 of sewer revenue notes issued in November 2010 with interest at 3.00% per annum,. 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 384.83 of the Code of Iowa to provide financing for the construction of sewer extensions. The notes are payable solely from sewer customer net receipts and are payable through 2030. Annual principal and interest payments on the notes are expected to require approximately 83% of net receipts. The total principal and interest remaining to be paid on the notes is \$429,490. For the current year, principal and interest paid and total customer net receipts were \$262,270 and \$31,088, respectively.

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

- (1) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to a separate sewer revenue sinking account for the purpose of making the note principal and interest payments when due.
- (3) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

The City has not complied with the provision of the revenue note resolutions requiring the monthly transfer to the water and sewer revenue sinking accounts.

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012 was \$7,104, equal to the required contribution for the year.

(5) 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.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 2 active members and no retired members in the plan. Retired participants must be age 55 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 - There are no contribution requirements for plan members as the City pays the entire premium for each member. Both employees are on single plans. The active member monthly premiums for the single coverage for the City plan members are \$566 and \$738. For the year ended June 30, 2012, the City contributed \$15,178 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2012, primarily relating to the General Fund, is \$3,000.

This liability has been computed based on rates of pay in effect at June 30, 2012.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 43,891
	Enterprise:	
	Water	1,000
	Sewer	1,000
		<u>45,891</u>
Capital Projects	General	2,000
	Special Revenue:	
	Road Use Tax	1,000
	Enterprise:	
	Water	1,000
	Sewer	1,000
		<u>5,000</u>
Enterprise:		
Water	Debt Service	<u>2,080</u>
Total		<u>\$ 52,971</u>

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

(9) Deficit Balances

The General, Special Revenue, Employee Benefits and Capital Projects Funds had deficit balances of \$102,395, \$7,279 and \$33,680, respectively, at June 30, 2012.

Other Information

City of Lewis
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 71,648	-
Local option sales tax	43,891	-
Licenses and permits	243	-
Use of money and property	7,244	7
Intergovernmental	520,827	308,720
Charges for service	595	198,310
Miscellaneous	126,988	
Total receipts	<u>771,436</u>	<u>507,037</u>
Disbursements:		
Public safety	52,033	-
Public works	50,361	-
Health and social services	50,402	-
Culture and recreation	235	-
General government	49,173	-
Capital projects	917,256	-
Business type activities	-	782,716
Total disbursements	<u>1,119,460</u>	<u>782,716</u>
Excess of receipts over disbursements	(348,024)	(275,679)
Other financing sources, net	1,920	288,371
Balances beginning of year	258,529	234,893
Balances end of year	<u>\$ (87,575)</u>	<u>247,585</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
71,648	66,984	66,984	4,664
43,891	43,421	49,421	(5,530)
243	250	250	(7)
7,251	5,000	5,800	1,451
829,547	57,152	1,095,348	(265,801)
198,905	169,700	184,300	14,605
126,988	3,500	170,540	(43,552)
1,278,473	346,007	1,572,643	(294,170)
52,033	25,790	58,490	6,457
50,361	77,455	80,980	30,619
50,402	39,175	68,550	18,148
235	2,000	2,000	1,765
49,173	56,540	66,050	16,877
917,256		1,569,490	652,234
782,716	135,653	214,032	(568,684)
1,902,176	336,613	2,059,592	157,416
(623,703)	9,394	(486,949)	(136,754)
290,291	-	-	290,291
493,422	267,947	492,217	1,205
160,010	277,341	5,268	154,742

City of Lewis

Notes to Other Information – Budgetary Reporting

June 30, 2012

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,722,979. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the business type activities function.

Supplementary Information

Schedule 1

City of Lewis

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

Year ended June 30, 2012

	Employee Benefits	Bandstand	Debt Service	Total
Receipts:				
Property tax	\$ 13,970	-	-	13,970
Intergovernmental	-	3,500	-	3,500
Total receipts	13,970	3,500	-	17,470
Disbursements:				
Operating:				
Public safety	1,473	-	-	1,473
Public works	9,804	-	-	9,804
Culture and recreation	4,935	12,000	-	16,935
General government	4,160	-	-	4,160
Total disbursements	20,372	12,000	-	32,372
Excess (deficiency) of receipts over (under) disbursements	(6,402)	(8,500)	-	(14,902)
Other financing uses:				
Operating transfers out	-	-	(2,080)	(2,080)
Net change in cash balances	(6,402)	(8,500)	(2,080)	(16,982)
Cash balances beginning of year	(877)	10,000	2,080	11,203
Cash balances end of year	\$ (7,279)	1,500	-	(5,779)
Cash Basis Fund Balances				
Restricted for other purposes	\$ -	1,500	-	1,500
Unassigned	(7,279)	-	-	(7,279)
Total cash basis fund balances	\$ (7,279)	1,500	-	(5,779)

See accompanying independent auditor's report.

City of Lewis

City of Lewis
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes:			
Water	May 28, 2008	4.50%	\$ 90,000
Water	May 13, 2011 *	3.00%	426,000
Sewer	Nov 17, 2010 *	3.00%	610,000
Total			

* The agreement also requires the City to annually pay a .25% servicing fee on outstanding principal.

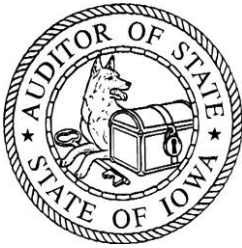
See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
60,000	-	9,000	51,000	2,700
101,114	289,886	14,000	377,000	9,159
574,691	405	247,096	328,000	15,174
<u>\$ 735,805</u>	<u>290,291</u>	<u>270,096</u>	<u>756,000</u>	<u>27,033</u>

Schedule 3City of Lewis
Note Maturities
June 30, 2012

Year Ending June 30,	Water Revenue Notes Issued May 28, 2008		Water Revenue Notes Issued May 13, 2011		Sewer Revenue Notes Issued November 17, 2011		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2013	4.50%	\$ 9,000	3.00%	\$ 15,000	3.00%	\$ 14,000	38,000
2014	4.50	10,000	3.00	15,000	3.00	14,000	39,000
2015	4.50	10,000	3.00	16,000	3.00	15,000	41,000
2016	4.50	11,000	3.00	16,000	3.00	15,000	42,000
2017	4.50	11,000	3.00	17,000	3.00	16,000	44,000
2018			3.00	17,000	3.00	16,000	33,000
2019		-	3.00	18,000	3.00	17,000	35,000
2020		-	3.00	18,000	3.00	17,000	35,000
2021		-	3.00	19,000	3.00	18,000	37,000
2022		-	3.00	20,000	3.00	18,000	38,000
2023		-	3.00	20,000	3.00	19,000	39,000
2024		-	3.00	21,000	3.00	19,000	40,000
2025		-	3.00	21,000	3.00	20,000	41,000
2026		-	3.00	22,000	3.00	21,000	43,000
2027		-	3.00	23,000	3.00	21,000	44,000
2028		-	3.00	24,000	3.00	22,000	46,000
2029		-	3.00	24,000	3.00	23,000	47,000
2030		-	3.00	25,000	3.00	23,000	48,000
2031		-	3.00	26,000	3.00	-	26,000
Total		<u>\$ 51,000</u>		<u>\$ 377,000</u>		<u>\$ 328,000</u>	<u>756,000</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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Lewis, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 8, 2013. 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, 2011. 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 Lewis is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Lewis' 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 City of Lewis' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lewis' 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 Lewis' 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) through (E) 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 (F) and (G) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lewis' 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.

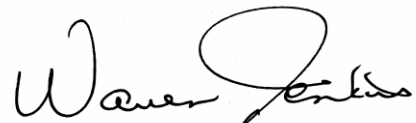
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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 Lewis' 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 Lewis' 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 Lewis and other parties to whom the City of Lewis 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 Lewis during the course of our audit. Should you have any questions concerning any of the above matters, we shall be


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 8, 2013

City of Lewis

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

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

- (1) Petty cash – Depositing, reconciling and recording receipts is done by the custodian of the change fund. The petty cash fund is not kept on an imprest basis.
- (2) Bank accounts were not reconciled by an individual who does not sign checks, handle or record cash. Bank reconciliations were not reviewed periodically by an independent person for propriety.
- (3) Receipts – opening mail, collecting, recording, depositing, maintaining receivable records, reconciling and posting. An initial listing of mail receipts is not prepared.
- (4) Disbursements – purchasing, check writing, signing, mailing, reconciling and recording.
- (5) Payroll – preparation, posting and distribution.
- (6) Journal entries – preparing and journalizing with no independent review.

For the Lewis First Responders and Fire Fighters Association, one individual has control over each of the following areas:

- (1) Receipts – Collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Bank reconciliations for the First Responders and Fire Fighters Association are not reviewed and approved by an independent person for propriety.

For the Lewis 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) Bank reconciliations are not reviewed and approved by an independent person for propriety.

City of Lewis

Schedule of Findings

Year ended June 30, 2012

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City, the Lewis First Responders and Fire Fighters Association and the Lewis Library should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including elected officials. Independent reviews of reconciliations prepared should be performed. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

Response - The City staff will confer with the City Council and implement procedures to maximize internal controls for the above items for the City. Financials will be required from Lewis Library and the Lewis First Responders and Firefighters Association at the regular City Council meetings.

Conclusion - Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - There was no evidence utility billings, collections and delinquent accounts were reconciled throughout the year and reviewed by an independent reviewer. Also, the City does not maintain a monthly listing of delinquent accounts. There are no written procedures for write-offs of uncollectable accounts and documentation is not maintained of written off accounts.

Recommendation - Procedures should be established to reconcile utility billing collections and delinquent accounts for each billing period. An independent person should review the reconciliation and monitor delinquent accounts. Procedures should also be established for writing off uncollectable accounts and documentation should be maintained.

Response - The City has conferred with Data Technologies and will implement interfacing the Utility Billing to the General Ledger which will make it much easier for the Auditor to see what can be reconciled back to the utility system. The City will also monitor delinquent accounts more closely and will implement a policy for writing off uncollectable accounts to maintain.

Conclusion - Response accepted.

- (C) Computer Systems - During our review of internal control, the existing control activities in the City's computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding compliance with applicable laws and regulations.

The City does not have written policies for:

- Requiring staff to log off unattended computers.
- Requiring password privacy and confidentiality.
- Requiring passwords be changed at least every 60-90 days.

City of Lewis

Schedule of Findings

Year ended June 30, 2012

- Requiring password length of a minimum of 8 characters, including special characters.
- Requiring a lockout function for incorrectly entered passwords.
- Requiring backups be stored at an offsite location.
- Proper disposal of sensitive media.
- Installing software from a vendor and ensuring only software licensed to the City is installed on computers.
- Running an anti-virus program on computers.
- Usage of the internet.
- Personal use of computer equipment and software.
- Disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s controls over its computer systems. A written disaster recovery plan should be developed.

Response – The City staff will work on implementing these policies and will submit to the City Council for approval.

Conclusion – Response accepted

- (D) 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:

- (a) Aid in training additional or replacement staff.
- (b) Help achieve uniformity in accounting and in the application of policies and procedures.
- (c) 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 staff will work on developing a policy and procedure manual.

Conclusion - Response accepted.

City of Lewis

Schedule of Findings

Year ended June 30, 2012

- (E) Financial Reporting - During the audit, we identified material amounts of receipts and disbursements for the City's sewer and water projects recorded incorrectly in the City's financial accounting records. The activity related to the City's sewer and water projects were funded with revenue debt, which requires the receipts and disbursements to be reported in the City's Enterprise Funds. The activity was previously recorded in the City's Capital Projects Fund. This was properly adjusted for reporting purposes.

Recommendation - The City should ensure all future water and sewer projects funded with revenue notes are recorded in the Enterprise, Water and Sewer Funds.

Response - All receipts and disbursements for fiscal year 2012 were balanced. It was noted our water and sewer projects should have been in the enterprise fund rather than in a capital project fund. This will be monitored more closely for future projects.

Conclusion - Response accepted.

- (F) Payroll - City employees are required to complete timesheets. Timesheets lack supervisory review and approval.

Recommendation - Timesheets should be signed by the employee and the employee's supervisor.

Response - Timesheets will be reviewed and initialed by the employee's supervisor.

Conclusion - Response accepted.

- (G) Petty Cash Policy - The City has several departments which utilize a petty cash fund. The City does not have a policy for the petty cash funds which specifies proper usage, including allowable and unallowable expenses, approvals and dollar amount maximum. In addition, one City department utilizes the petty cash fund rather than following established City procurement policies.

Recommendation - The City should formalize a petty cash fund policy establishing proper usage, amounts and procedures for all City departments. All City departments should follow the established procurement policies.

Response - The City will implement a formal petty cash fund policy. The policy will be reviewed by the Mayor and approved by the City Council.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Lewis

Schedule of Findings

Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety, culture and recreation and capital projects functions prior to the May 9, 2012 budget amendment. At June 30, 2012, disbursements exceeded the amount budgeted in the business type activities 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will diligently work on not exceeding the budget before amendments are made.

Conclusion – Response accepted.

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

Name, Title, and Business Connection	Transaction Description	Amount
Matt Klein, Council Member, owner of MK Computer Services	Computer work	\$ 2,161

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

- (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) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

City of Lewis

Schedule of Findings

Year ended June 30, 2012

Response – The City staff will work on a written investment policy to implement.

Conclusion – Response accepted.

- (8) Revenue Notes – Although the sewer sinking and water sinking accounts have been established as required by the revenue note resolutions, the City did not make the required monthly transfers to the sinking accounts during the fiscal year.

Recommendation – The City should ensure monthly transfers are made to the water and sewer sinking accounts as required.

Response – Transfers began in the sinking funds July 2012.

Conclusion – Response accepted.

- (9) Financial Condition – At June 30, 2012, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
General	\$ 102,395
Special Revenue:	
Employee Benefits	7,279
Capital Projects	33,680

Recommendation – The City should investigate alternatives to eliminate these deficits and to return the funds to a sound financial position.

Response – The City will work on eliminating these deficits to the best of its ability.

Conclusion – Response accepted.

- (10) Local Option Sales Tax – The ballot for the local option sales tax authorizes the City to collect the tax and to allocate 100% for community betterment. The City transferred from the Special Revenue, Local Option Sales Tax Fund to the General Fund for reimbursement of disbursements. However, the City does not document the purpose of these transfers for compliance with the local option sales tax ballot.

Recommendation – The City should establish procedures to document the purpose of local option sales tax transfers to other funds to demonstrate compliance with ballot requirements.

Response – The City will include in the transfer documentation specific project disbursements which qualify for ballot compliance.

Conclusion – Response accepted.

City of Lewis

Staff

This audit was performed by:

Deb Moser, CPA, Manager
Alison P. Herold, CPA, Senior Auditor
Laura M. Wernimont, 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