



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 24, 2005

Contact: Andy Nielsen
515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$343,807 for the year ended June 30, 2004. The receipts included \$96,030 in property tax, \$127,695 from charges for service, \$81,936 from operating grants, contributions and restricted interest, \$30,757 from local option sales tax, \$1,752 from unrestricted interest on investments and \$5,637 from other general receipts.

Disbursements for the year totaled \$326,073, and included \$78,578 for public works, \$67,602 for culture and recreation and \$40,872 for public safety. Also, disbursements for business type activities totaled \$105,145.

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

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CITY OF UNION

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

JUNE 30, 2004

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City of Union

Officials

Before January 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jerry Rogers	Mayor	Jan 2006
Candy Wait	Mayor Pro Tem	Jan 2006
George Butler	Council Member	Jan 2004
Cory Clemons	Council Member	Jan 2004
Don Ferhle	Council Member	Jan 2004
Eldon Veld	Council Member	Jan 2004

After January 2004

Jerry Rogers	Mayor	Jan 2006
Candy Wait	Mayor Pro Tem	Jan 2006
Phyllis Harris	Council Member	Resigned Aug 2004
Cindy Clemons (Appointed)	Council Member	Nov 2005
Judy Clark	Council Member	Resigned Feb 2005
Jeremiah Andrews (Appointed)	Council Member	Nov 2005
Jim Donaldson	Council Member	Jan 2008
Eldon Veld	Council Member	Jan 2008
Donna Bays	Clerk	Resigned Jun 2004
Tara Gaunt	Clerk	Indefinite
Mike Smith	Attorney	Indefinite

City of Union



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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 Union, Iowa, as of and for the year ended June 30, 2004, 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 Union's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2003.

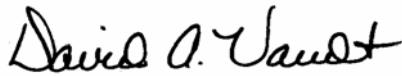
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the financial statements referred to above present 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 Union as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 6, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated March 2, 2005 on our consideration of the City of Union's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Union's basic financial statements. Other supplementary information included in Schedule 1 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, 2003, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Union 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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2004 FINANCIAL HIGHLIGHTS

- The cash basis net assets for the City's governmental funds increased \$24,109, primarily due to the City receiving local option sales tax of \$30,757 and reporting \$6,088 in allowable disbursements from the fund.
- The cash basis net assets for the City's business type activities decreased \$6,375, primarily due to the purchase and installation of new water meters.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer, landfill and garbage systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

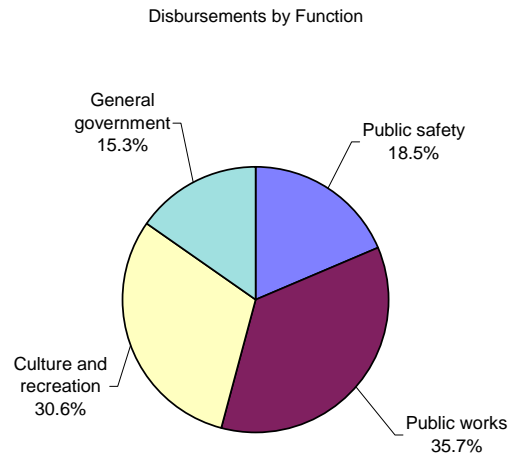
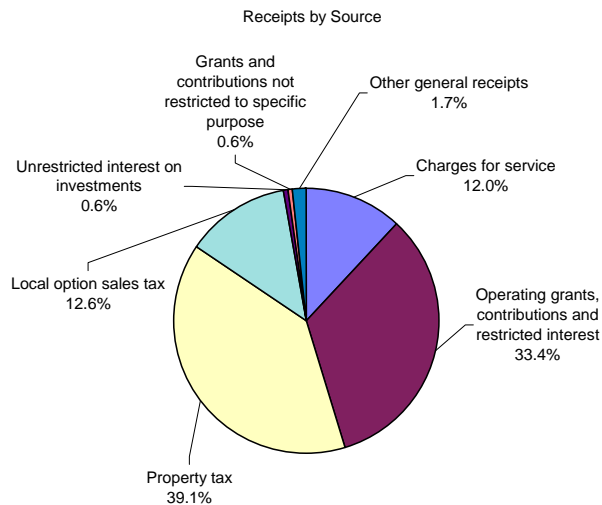
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

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 \$156,626 to \$180,735. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30, 2004</u>
Receipts:	
Program receipts:	
Charges for service	\$ 29,321
Operating grants, contributions and restricted interest	81,936
General receipts:	
Property tax	96,030
Local option sales tax	30,757
Grants and contributions not restricted to specific purpose	1,382
Unrestricted interest on investments	1,356
Other general receipts	4,255
Total receipts	<u>245,037</u>
Disbursements:	
Public safety	40,872
Public works	78,578
Culture and recreation	67,602
General government	33,876
Total disbursements	<u>220,928</u>
 Increase in cash basis net assets	 24,109
Cash basis net assets beginning of year	<u>156,626</u>
Cash basis net assets end of year	<u>\$ 180,735</u>



The cash basis net assets for the City's governmental funds increased due to the receipt of local option sales tax of \$30,757 and reporting \$6,088 in allowable disbursements from the fund.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 37,044
Sewer	32,954
Landfill	18,420
Garbage	9,956
General receipts:	
Unrestricted interest on investments	396
Total receipts	<u>98,770</u>
Disbursements:	
Water	61,067
Sewer	19,171
Landfill	15,406
Garbage	9,501
Total disbursements	<u>105,145</u>
Decrease in cash basis net assets	(6,375)
Cash basis net assets beginning of year	<u>73,654</u>
Cash basis net assets end of year	<u>\$ 67,279</u>

The cash basis net assets for the City's business type activities decreased by \$6,375 from the prior year, primarily due to the purchase and installation of new water meters.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Union completed the year, its governmental funds reported a combined fund balance of \$180,735, an increase of \$24,109 above last year's total of \$156,626. 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 \$10,304 from the prior year to \$49,751. Approximately \$5,700 of the cash balance decrease was due to a general increase in public safety disbursements. Approximately \$3,100 of the cash balance decrease was due to a general increase in general government disbursements.
- The Road Use Tax Fund cash balance decreased by \$772 to \$11,929 during the fiscal year.
- The Local Option Sales Tax Fund cash balance increased by \$24,669 to \$40,932 during the fiscal year. This increase is attributable to a reduction in disbursements of approximately \$34,400.
- The Union Emergency Services cash balance increased by \$6,896 to \$55,332 during the fiscal year.
- The Union Public Library cash balance decreased by \$9,483 to \$3,739 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$24,023 to \$6,796, due primarily to the purchase and installation of new water meters throughout the City.
- The Sewer Fund cash balance increased by \$13,981 to \$40,104 due to a decrease in disbursements. In the prior year, the payroll related to the maintenance worker was charged to the Sewer Fund. In FY04, the payroll was allocated to several funds.
- The Landfill Fund cash balance increased by \$3,133 to \$14,525 which is not a significant increase.

BUDGETARY HIGHLIGHTS

The City did not amend its budget in 2004. The budget was overspent in the public safety and culture and recreation functions due to the inclusion of the Union Public Library, Union Fire Department and Union Emergency Services which should have been, but were not, included in the budget by the City.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Union's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees charged for various City activities. The City's fiscal year 2005 assessed property values decreased from \$8,155,412 in FY04 to \$7,311,979 in FY05. The levied tax rate increased from \$11.95 to \$12.78 for the same time period.

The proposed fiscal year 2005 budget contains total receipts of \$294,231 and disbursements of \$293,104. If these estimates are realized, the City's budgeted cash balance is expected to increase \$1,127 by the close of FY 2005.

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 Tara Gaunt, City Clerk, 101 Main Street, Union, Iowa 50258-9998.

City of Union

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 40,872	26,646	4,868
Public works	78,578	-	36,306
Culture and recreation	67,602	2,181	39,982
General government	33,876	494	780
Total governmental activities	220,928	29,321	81,936
Business type activities:			
Water	61,067	37,044	-
Sewer	19,171	32,954	-
Landfill	15,406	18,420	-
Garbage	9,501	9,956	-
Total business type activities	105,145	98,374	-
Total	\$ 326,073	127,695	81,936
General Receipts:			
Property tax levied for general purposes			
Local option sales tax			
Grants and contributions not restricted to specific purpose			
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:			
Streets			
Local option sales tax			
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
(9,358)	-	(9,358)
(42,272)	-	(42,272)
(25,439)	-	(25,439)
(32,602)	-	(32,602)
(109,671)	-	(109,671)
-	(24,023)	(24,023)
-	13,783	13,783
-	3,014	3,014
-	455	455
-	(6,771)	(6,771)
(109,671)	(6,771)	(116,442)
96,030	-	96,030
30,757	-	30,757
1,382	-	1,382
1,356	396	1,752
4,255	-	4,255
133,780	396	134,176
24,109	(6,375)	17,734
156,626	73,654	230,280
\$ 180,735	67,279	248,014
\$ 11,929	-	11,929
40,932	-	40,932
127,874	67,279	195,153
\$ 180,735	67,279	248,014

City of Union

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

As of and for the year ended June 30, 2004

	Special		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 71,588	-	-
Other city tax	3,103	-	30,757
Licenses and permits	832	-	-
Use of money and property	671	-	-
Intergovernmental	7,030	36,007	-
Charges for service	4,365	-	-
Miscellaneous	721	-	-
Total receipts	88,310	36,007	30,757
Disbursements:			
Operating:			
Public safety	18,715	-	-
Public works	32,036	36,779	5,558
Culture and recreation	935	-	-
General government	31,028	-	530
Total disbursements	82,714	36,779	6,088
Excess (deficiency) of receipts over (under) disbursements	5,596	(772)	24,669
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(15,900)	-	-
Total other financing sources (uses)	(15,900)	-	-
Net change in cash balances	(10,304)	(772)	24,669
Cash balances beginning of year	60,055	12,701	16,263
Cash balances end of year	\$ 49,751	11,929	40,932
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 49,751	-	-
Special revenue funds	-	11,929	40,932
Total cash basis fund balances	\$ 49,751	11,929	40,932

See notes to financial statements.

Revenue			
Union Emergency Services	Union Public Library	Nonmajor	Total
-	-	20,446	92,034
-	-	893	34,753
-	-	-	832
661	21	3	1,356
-	23,320	-	66,357
21,943	2,181	-	28,489
-	16,662	3,833	21,216
22,604	42,184	25,175	245,037
15,708	-	6,449	40,872
-	-	4,205	78,578
-	66,667	-	67,602
-	-	2,318	33,876
15,708	66,667	12,972	220,928
6,896	(24,483)	12,203	24,109
-	15,000	900	15,900
-	-	-	(15,900)
-	15,000	900	-
6,896	(9,483)	13,103	24,109
48,436	13,222	5,949	156,626
55,332	3,739	19,052	180,735
-	-	-	49,751
55,332	3,739	19,052	130,984
55,332	3,739	19,052	180,735

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

As of and for the year ended June 30, 2004

	Enterprise	
	Water	Sewer
Operating receipts:		
Charges for service	\$ 36,044	32,954
Miscellaneous	1,000	-
Total operating receipts	<u>37,044</u>	<u>32,954</u>
Operating disbursements:		
Business type activities	<u>61,067</u>	<u>19,171</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(24,023)	13,783
Non-operating receipts:		
Interest on investments	-	<u>198</u>
Net change in cash balances	(24,023)	13,981
Cash balances beginning of year	<u>30,819</u>	<u>26,123</u>
Cash balances end of year	<u>\$ 6,796</u>	<u>40,104</u>
Cash Basis Fund Balances		
Unreserved	<u>\$ 6,796</u>	<u>40,104</u>

See notes to financial statements.

Funds		
Landfill	<u>Nonmajor</u> Garbage	Total
18,233	9,956	97,187
187	-	1,187
18,420	9,956	98,374
15,406	9,501	105,145
3,014	455	(6,771)
119	79	396
3,133	534	(6,375)
11,392	5,320	73,654
14,525	5,854	67,279
14,525	5,854	67,279

City of Union

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Union is a political subdivision of the State of Iowa located in Hardin County. 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, culture and recreation and general government services. The City also provides water, sewer, landfill and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Union 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: Hardin County Assessor's Conference Board, Hardin County Emergency Management Commission, Hardin County E911 Service Board and Hardin County Community Development Council.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for capital improvement and capital projects financed by local option sales tax.

The Union Emergency Services Fund is used to account for ambulance and emergency services.

The Union Public Library Fund is used to account of the use of the library by the residents of the City and County.

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

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

C. Measurement Focus and Basis of Accounting

The City of Union 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.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety and culture and recreation functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$2,740, equal to the required contribution for the year.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Union Public Library	General	\$ 15,000
Union Fire Department	General	900
Total		<u>\$ 15,900</u>

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

(5) Risk Management

The City of Union is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2004 were \$7,888.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

Required Supplementary Information

City of Union
 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, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 92,034	-
Other city tax	34,753	-
Licenses and permits	832	-
Use of money and property	1,356	396
Intergovernmental	66,357	-
Charges for service	28,489	97,187
Miscellaneous	21,216	1,187
Total receipts	245,037	98,770
Disbursements:		
Public safety	40,872	-
Public works	78,578	-
Culture and recreation	67,602	-
General government	33,876	-
Business type activities	-	105,145
Total disbursements	220,928	105,145
Excess (deficiency) of receipts over (under) disbursements	24,109	(6,375)
Balances beginning of year	156,626	73,654
Balances end of year	\$ 180,735	67,279

See accompanying independent auditor's report.

Net	Original and Final Budgeted Amounts	Final to Net Variance
92,034	92,863	(829)
34,753	37,092	(2,339)
832	1,700	(868)
1,752	8,215	(6,463)
66,357	43,595	22,762
125,676	112,986	12,690
22,403	500	21,903
<u>343,807</u>	<u>296,951</u>	<u>46,856</u>
40,872	16,193	(24,679)
78,578	97,074	18,496
67,602	16,115	(51,487)
33,876	54,563	20,687
105,145	112,986	7,841
<u>326,073</u>	<u>296,931</u>	<u>(29,142)</u>
17,734	20	17,714
<u>230,280</u>	<u>142,587</u>	<u>87,693</u>
<u><u>248,014</u></u>	<u><u>142,607</u></u>	<u><u>105,407</u></u>

City of Union

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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

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

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety and culture and recreation functions.

Other Supplementary Information

Schedule 1

City of Union

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

As of and for the year ended June 30, 2004

	Employee Benefits	Emergency	Union Fire Department	Total
Receipts:				
Property tax	\$ 18,377	2,069	-	20,446
Other city tax	803	90	-	893
Use of money and property	-	-	3	3
Miscellaneous	-	-	3,833	3,833
Total receipts	19,180	2,159	3,836	25,175
Disbursements:				
Operating:				
Public safety	-	-	6,449	6,449
Public works	4,205	-	-	4,205
General government	2,318	-	-	2,318
Total disbursements	6,523	-	6,449	12,972
Excess (deficiency) of receipts over (under) disbursements	12,657	2,159	(2,613)	12,203
Other financing sources:				
Operating transfers in	-	-	900	900
Net change in cash balances	12,657	2,159	(1,713)	13,103
Cash balances beginning of year	2,951	187	2,811	5,949
Cash balances end of year	\$ 15,608	2,346	1,098	19,052
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 15,608	2,346	1,098	19,052

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 Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Union, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated March 2, 2005. 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, 2003.

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

Compliance

As part of obtaining reasonable assurance about whether the City of Union's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 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.

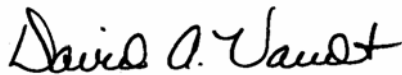
Internal Control Over Financial Reporting

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

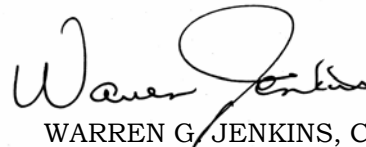
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected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

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 Union and other parties to whom the City of Union may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Union during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 2, 2005

City of Union
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. For the City, one person had control over the following areas:

- (1) Accounting system – general accounting, general ledger, journal entry, custody and control.
- (2) Cash – custody, recording and reconciling.
- (3) Investments – investing, recording, reconciling and custody.
- (4) Receipts – collecting, depositing, journalizing and posting.
- (5) Disbursements – purchasing, disbursement preparation, recording, check writing, signing and reconciling.
- (6) Payroll – entering and testing of rates, preparation and distribution.

For the Union Public Library, one individual has control over the approval of hours worked by library employees, preparation and signing of payroll checks and the distribution of the payroll checks.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances.

Response – In an effort to cut payroll disbursements, the City Treasurer was let go and the position was combined with the City Clerk. The City Council holds the responsibility of reviewing financial statements each month along with financial activity and will be asked to approve the financial statements. The City and the Union Public Library are currently discussing the City providing the payroll and accounting functions for the Library.

Conclusion – Response accepted.

(B) Utility Rates, Billings, Collections and Delinquencies – Utility rates are not entered, reviewed and approved by an independent person. Results of testing the new rates is not maintained. Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. In addition, late fees were not consistently applied to delinquent accounts. The City did not retain utility billing stubs returned by customers.

City of Union

Schedule of Findings

Year ended June 30, 2004

Recommendation – Utility rates should be entered, reviewed and approved by an independent person. Results of testing the new rates should be maintained. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and also to reconcile collections to deposits. Late fees should be consistently applied to delinquent accounts and a listing of delinquent accounts should be prepared periodically. The Council or a Council-designated independent person should review the reconciliation and monitor delinquencies. The City should retain utility billing stubs returned by customers to support the amount recorded and deposited.

Response – The City implemented new utility billing software in August 2004 which is tied to the fund accounting. This new software allows for better user tracking, receipt reporting and separate reconciliations. Penalty calculations are done more efficiently. The City Clerk will keep a monthly delinquent report and all billing stubs and other utility receipt stubs. If the rates are changed by the City Council, the changes will be approved by an independent person.

Conclusion – Response accepted.

- (C) Investments – A detailed record of investment transactions was not maintained. Interest earned and reinvested in the investment was not receipted or posted to the accounting records. Authorized signers on certificates of deposit are not current City employees.

Recommendation – A detailed record of investment transactions by fund should be kept current. This record should include investment number, purchase date, redemption date, interest rate and amount of principal and interest. All interest earned should be recorded in the accounting records. Authorized signers on certificates of deposit should be current City employees.

Response – The City Clerk will make sure all records are current and will keep a detailed recording of investments and activity. The City will ensure the authorized signers are current City employees.

Conclusion – Response accepted.

- (D) Imprest Cash – The petty cash fund on hand at City Hall was not maintained on an imprest basis. Petty cash vouchers were not used to record each disbursement from the fund. Checks issued to replenish the petty cash fund were not made payable to “Petty Cash.”

Recommendation – The petty cash at City Hall should be maintained on an imprest basis. Petty cash vouchers should be used to record each disbursement from the fund. Petty cash should be replenished periodically by check after filing a claim with the petty cash vouchers or receipts attached. Checks issued to replenish the petty cash fund should be made payable to “Petty Cash”.

Response – The City Clerk has learned how to manage a petty cash fund. Checks are written to petty cash and receipts are kept for any disbursements from the fund.

Conclusion – Response accepted.

City of Union

Schedule of Findings

Year ended June 30, 2004

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

The City does not have written policies for:

- logging off unattended computers.
- time out or screen saver passwords for unattended computers.
- password privacy and confidentiality.
- requiring passwords to be a set length and use all characters on the keyboard.
- requiring passwords are changed every 60-90 days.
- requiring the use of anti-virus program on computers.
- ensuring only software licensed to the City is installed on computers.
- usage of the internet.
- maintaining security upon termination of employees.

Also, the City does not have a written disaster recovery plan.

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

Response – The City will develop the necessary policies and procedures over the next fiscal year.

Conclusion – Response accepted.

- (F) Restrictive Endorsement – A restrictive endorsement was not placed on checks received until deposits were prepared.

Recommendation – A restrictive endorsement should be placed on all checks when received to provide protection in case of theft or loss.

Response – The City Clerk will stamp each check with a restrictive endorsement as the check is received.

Conclusion – Response accepted.

- (G) Records of Accounts – The Union Emergency Services, Union Public Library and Union Fire Department maintain separate accounting records pertaining to their operations. The financial transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports.

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

City of Union

Schedule of Findings

Year ended June 30, 2004

Response – The City will work with Union Emergency Services, Union Public Library and Union Fire Department to include all funds in the monthly reporting.

Conclusion – Response accepted.

- (H) Authorized Signers – The list of authorized signers on the Union Pubic Library and Union Fire Department accounts include individuals who are not current library trustees or current fire department members.

Recommendation – The list of authorized signers should be reviewed to determine that all authorized signers are current library trustees or fire department members.

Response – The City will ensure all records are current.

Conclusion – Response accepted.

- (I) Receipts – Receipts were not issued for collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

Response – The City Clerk began using a pre-numbered receipt book in March 2005.

Conclusion – Response accepted.

- (J) Payroll – Time cards were not reviewed, approved and initialed by the employee's supervisor or other responsible official.

Recommendation – All time cards should be approved and initialed by the employee's supervisor or by an independent official who is not involved with payroll.

Response – The City Council is given a report each month that includes payroll hours and disbursements. It is their responsibility to review and question anything they feel is out-of-order. The City Clerk will present time cards to the City Council at each monthly meeting.

Conclusion – Response accepted.

- (K) Monthly Bank Reconciliations – Monthly bank reconciliations were prepared. However, they included only the checking accounts and not investments and other reconciling items necessary to reconcile with the monthly financial reports. In addition, there is no evidence the bank reconciliations were reviewed and approved by an independent official.

Recommendation – To provide better control over financial transactions and overall accountability, monthly bank reconciliations should be prepared to include the checking accounts, investments and reconciling items. The reconciliations should agree with the fund and account balances on the clerk/treasurer's monthly financial report. Bank reconciliations should be reviewed and approved by an independent official and evidence of this review should be documented.

City of Union

Schedule of Findings

Year ended June 30, 2004

Response – The City Council is given the financial reports, including reconciliation reports, and will now be asked to approve them. The City Clerk will report investment activity with regular monthly activity and will keep accurate accounting records of these reconciliations.

Conclusion – Response accepted.

- (L) Separate Funds – The City has established separate Special Revenue Funds for various property tax receipts. However, the City posted several property tax receipts to incorrect funds. The City also accounted for transfer of jurisdiction funds in the General Fund instead of the Road Use Tax Fund.

Recommendation – The City should verify property tax receipts and transfer of jurisdiction funds are posted to the proper fund in order to provide better accountability of receipts, disbursements and corresponding balances.

Response – The City will verify that each receipt is posted correctly and will include descriptions of these receipts and disbursements.

Conclusion – Response accepted.

- (M) Journal Entries – All journal entries, including error corrections, should be reviewed and approved by an independent official. The journal entries should be supported by adequate descriptions and documentation.

Recommendation – The City should implement procedures to ensure all journal entries, including error corrections, are reviewed and approved by an independent official. All journal entries should be adequately supported with complete descriptions and documentations.

Response – The City will implement the necessary procedures to ensure journal entries are made correctly and adequately supported.

Conclusion – Response accepted.

City of Union

Schedule of Findings

Year ended June 30, 2004

Other Findings Related to Statutory Reporting:

- (1) 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.

Response – The City will adopt the necessary resolutions.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public safety and culture and recreation functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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 make necessary amendments when needed.

Conclusion – Response accepted.

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

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Eldora Flowers and Gift	Flower arrangement	\$ 35
Candyace Wait	Reimbursement for retirement party supplies, cake and retirement plaque	92

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

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

Response – The flower arrangement was for the funeral of a council person’s family member. The retirement party was for the previous City Clerk. Both were approved or requested by the City Council. These types of payments are not made without City Council’s approval. Better documentation will be made of such disbursements in the future.

Conclusion – Response accepted.

City of Union

Schedule of Findings

Year ended June 30, 2004

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Max Smallwood, Maintenance worker	Purchase of a welder	\$ 380

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction does not appear to represent a conflict of interest since the amount was less than \$2,500 during the fiscal year.

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

Although minutes of Council proceedings were published, the City did not publish annual gross salaries in accordance with an Attorney General’s opinion dated April 12, 1978 and Chapter 372.13 of the Code of Iowa.

Recommendation – The City should comply with the Attorney General’s opinion dated April 12, 1978 and Chapter 372.13 of the Code of Iowa.

Response – City Clerk is aware that salaries must be published and will comply each year.

Conclusion – Response accepted.

- (8) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, the interest rate on the time certificates of deposit held by Union Emergency Services did not meet the minimum rate of interest set by the State Rate Setting Committee. Public fund time certificates of deposit, when renewed, shall be renewed at a rate of interest which conforms with current rates for public funds on date of renewal.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. In addition, Union Emergency Services should be aware of the current allowable rates to ensure at least the minimum allowable rate is received for all investments.

Response – The City will work with the bank to ensure correct rates are used for Union Emergency Services.

Conclusion – Response accepted.

City of Union

Schedule of Findings

Year ended June 30, 2004

- (9) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City, Union Emergency Services, Union Public Library and Union Fire Department all retain cancelled checks through electronic image, but do not obtain an image of the back of each cancelled check as required.

Recommendation – The City, Union Emergency Services, Union Public Library and Union Fire Department should obtain and retain an image of the back of both front and back of each cancelled check as required.

Response – The City will work with the bank to obtain these images.

Conclusion – Response accepted.

- (10) Library Minutes – Although minutes of the Library Board of Trustees were maintained, minutes for eight of twelve meetings were not signed as required by Chapter 380.7 of the Code of Iowa. In addition, the minutes did not include the list of bills approved or approval of the Library's custodial staff pay rate.

Recommendation – The Library Board of Trustees should comply with Chapter 380.7 of the Code of Iowa by verifying all Board minutes are properly signed. The minutes should include the list of bills and approved pay rates as a matter of record of the Board's approval.

Response – The City will work with the Library Board to make sure all business and disbursements are included in the meeting minutes.

Conclusion – Response accepted.

- (11) Annual Financial Report – The City prepared the annual financial report for the fiscal year ended June 30, 2004. However, the report did not include all separately maintained records for the year as required by Chapter 384.22 of the Code of Iowa. In addition, the report did not accurately reflect the activity of the City.

Recommendation – The Annual Financial Report should be completed and filed as required by Chapter 384.22 of the Code of Iowa.

Response – The City will complete and file the Annual Financial Report in compliance with Code of Iowa.

Conclusion – Response accepted.

City of Union

Schedule of Findings

Year ended June 30, 2004

- (12) Sales Tax – Sales tax on sewer services provided to non-residential commercial operations was not collected and remitted.

Recommendation – The City should collect and remit sales tax on sewer services provided to non-residential commercial operations in accordance with section 701-26.72 of the Iowa Department of Revenue Administrative Rules and Regulations.

Response – The City was unaware of this exclusion and has since corrected it with the implementation of new billing software in August 2004.

Conclusion – Response accepted.

- (13) City Code – The City maintains a code of ordinances which was last updated in 2001. Chapter 380.8 of the Code of Iowa states in part when a city maintains a code of ordinances, “At least annually, the City shall add the new ordinances and amendments to ordinances to the code of ordinances itself.”

Recommendation – The City should add the new ordinances and amendments to ordinances to the City code of ordinances as required by the Code of Iowa.

Response – The City will update their code of ordinances within the next fiscal year.

Conclusion – Response accepted.

- (14) Solid Waste Fees – The City’s solid waste ordinance requires the City Council to approve yearly fees and post the established fee schedule in the office of the City Clerk. The Council did not follow these procedures.

Recommendation – The City should review and approve the City’s solid waste fees on a yearly basis. The established fee schedule should be posted in the office of the City Clerk.

Response – The City will review and approve the fees and have the City Clerk post all fees.

Conclusion – Response accepted.

- (15) Contract Labor – The City did not file a form 1099 with the Internal Revenue Service for contract labor paid in excess of \$600.

Recommendation – The City should insure all 1099 forms are properly completed and filed.

Response – The City has since filed the necessary 1099’s for 2004 and will continue to file each year.

Conclusion – Response accepted.

City of Union

Schedule of Findings

Year ended June 30, 2004

- (16) Local Option Sales Tax – The City’s local option sales tax measure provides for 100 percent of the collections to be allocated for capital improvements and capital equipment. For the year ended June 30, 2004, a portion of these funds were disbursed for headgear, water meter installation costs and other miscellaneous disbursements which are not in accordance with the City’s local option sales tax measure. Disbursements of \$19,405 were reclassified to the Water Fund.

Recommendation – The City should expend local option sales taxes in accordance with the local option sales tax measure.

Response – The City will be voting to change the current local option sales tax measure and will disburse all funds in the correct manner.

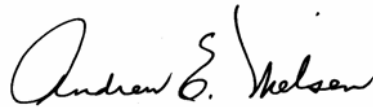
Conclusion – Response accepted.

City of Union

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Julie J. Lyon, CPA, Staff Auditor
Cynthia R. Ellingson, 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