



**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 Little Sioux, 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 \$156,634 for the year ended June 30, 2004. The receipts included \$30,661 in property tax, \$39,166 from charges for service, \$42,069 from operating grants, contributions and restricted interest, \$33,695 from capital grants, contributions and restricted interest, \$10,338 from local option sales tax, \$520 from unrestricted interest on investments and \$185 from other general receipts.

Disbursements for the year totaled \$144,130, and included \$30,599 for public safety, \$30,080 for culture and recreation and \$26,541 for general government. Also, disbursements for business type activities totaled \$32,736.

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

# # #

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

**JUNE 30, 2004**

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**City of Little Sioux**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
William Meyers	Mayor	Jan 2004
Karen Johnston	Council Member	Jan 2004
Wanda McColley	Council Member	Jan 2004
Chris Hussing (appointed)	Council Member	Nov 2004
Estal Edmunds	Council Member	Jan 2006
Short Grimes	Council Member	Jan 2006
<b>(After January 2004)</b>		
Vic Crowder	Mayor	Resigned Nov 2004
Dan Dawdy	Council Member	Jan 2006
Estal Edmunds	Council Member	Jan 2006
Short Grimes	Council Member	Jan 2006
Helen Carritt	Council Member	Jan 2008
Wanda McColley	Council Member	Jan 2008
Glenn Williams	Clerk/Treasurer	Resigned Aug 2004
Phil Caniglia	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Little Sioux, 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 Little Sioux'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 and each major fund of the City of Little Sioux 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 7, 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 16, 2005 on our consideration of the City of Little Sioux'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 Little Sioux'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, 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 16, 2005

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Little Sioux 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

- Receipts of the City's governmental activities increased 60%, or approximately \$48,000, from fiscal 2003 to fiscal 2004. A fire operations and firefighter safety grant of \$33,695 and road maintenance reimbursements from the Iowa Department of Transportation of \$9,309 were received in fiscal 2004.
- Disbursements decreased 15%, or approximately \$20,000, in fiscal 2004 from fiscal 2003. The City spent part of the fire operations and firefighter safety grant in fiscal 2003 and spent less on roads in fiscal 2004 due to an anticipated sewer project which would damage roads.
- The City's total cash basis net assets increased 10%, or approximately \$12,500, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$17,400 and the assets of the business type activities decreased by approximately \$4,900.

### 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 indebtedness of the City.

## **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 includes the waterworks. 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, Road Use Tax Fund. 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) The proprietary fund accounts for the City's Enterprise Fund. The Enterprise Fund is used to report business type activities. The City maintains one Enterprise Fund to provide information for the water fund, considered to be a major fund of the City.

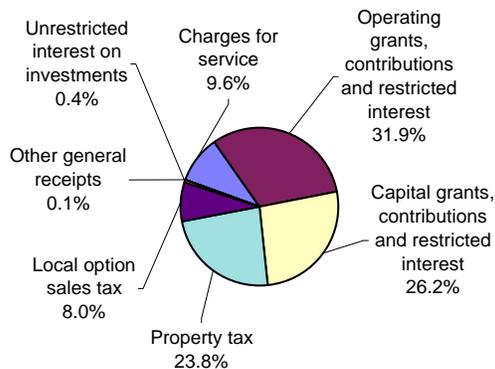
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

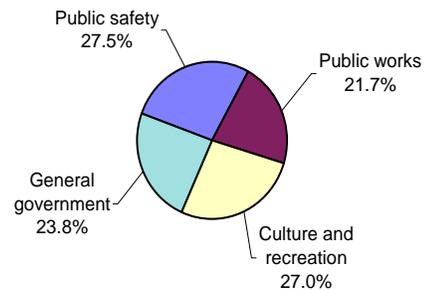
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased approximately \$17,400 from a year ago, increasing from \$56,549 to \$73,940. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service	\$ 12,346
Operating grants, contributions and restricted interest	41,040
Capital grants, contributions and restricted interest	33,695
General receipts:	
Property tax	30,661
Local option sales tax	10,338
Unrestricted interest on investments	520
Other general receipts	185
Total receipts	<u>128,785</u>
Disbursements:	
Public safety	30,599
Public works	24,174
Culture and recreation	30,080
General government	26,541
Total disbursements	<u>111,394</u>
Increase in cash basis net assets	17,391
Cash basis net assets beginning of year	<u>56,549</u>
Cash basis net assets end of year	<u>\$ 73,940</u>

**Receipts by Source**



**Disbursements by Function**



The increase in cash basis net assets is due to a reduction in disbursements from the Road Use Tax Fund for road maintenance, a reduction in fiscal 2004 disbursements for the fire operations and firefighter safety grant, an increase in receipts for roadway maintenance and receipt of the fire operations and firefighter safety grant.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 26,820
Operating grants, contributions and restricted interest	1,029
Total receipts	<u>27,849</u>
Disbursements:	
Water	26,786
Debt service	5,950
Total disbursements	<u>32,736</u>
Decrease in cash balance	(4,887)
Cash basis net assets beginning of year	<u>69,283</u>
Cash basis net assets end of year	<u><u>\$ 64,396</u></u>

Total business type activities receipts for the fiscal year were \$27,849 compared to \$30,178 last year. There was no significant change. The cash balance decreased by approximately \$4,900 from the prior year. Total disbursements for the fiscal year increased from \$29,800 to a total of \$32,736 which was not a significant increase.

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

As the City of Little Sioux completed the year, its governmental funds reported a combined fund balance of \$73,940, an increase of more than \$17,000 above last year's total of \$56,549. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$7,650 from the prior year to \$27,617. The increase is attributable to a general reduction in expenses of \$6,579.
- The Road Use Tax Fund cash balance increased by \$9,741 to \$46,323 during the fiscal year. This increase was attributable to a reduction of approximately \$13,500 in roadway disbursements in fiscal 2004. The City intends to use this money to upgrade the condition of all City roads after the proposed sewer project is completed.

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

The Water Fund cash balance decreased by \$4,887 to a year end balance of \$64,396 with no significant changes from the prior year.

## **BUDGETARY HIGHLIGHTS**

The City did not amend its budget in 2004. The budget was overspent in the public safety function during the fiscal year ended June 30, 2004.

## **DEBT ADMINISTRATION**

At June 30, 2004, the City had \$35,000 in outstanding revenue bonded indebtedness, compared to \$39,000 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's constitutional debt limit is \$105,000. The City has no outstanding general obligation debt.

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

The City of Little Sioux'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 value increased \$36,526 from the FY 2004 level. As a result, the City was able to reduce the levy rate by \$1.08333 per \$1,000 of taxable valuation.

The proposed FY 2005 budget includes total revenues of \$175,705 and expenditures of \$129,370. If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$46,335 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 Edie Ball, City Clerk, 407 1st Street, Little Sioux, Iowa 51545.

**City of Little Sioux**

## **Basic Financial Statements**

City of Little Sioux

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
<b>Functions / Programs</b>				
Governmental activities:				
Public safety	\$ 30,599	-	11,933	33,695
Public works	24,174	12,246	27,382	-
Culture and recreation	30,080	-	1,725	-
General government	26,541	100	-	-
Total governmental activities	111,394	12,346	41,040	33,695
Business type activities:				
Water	32,736	26,820	1,029	-
Total	\$ 144,130	39,166	42,069	33,695

**General Receipts:**

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

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:

    Streets

    Debt service

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
15,029	-	15,029
15,454	-	15,454
(28,355)	-	(28,355)
(26,441)	-	(26,441)
(24,313)	-	(24,313)
-	(4,887)	(4,887)
(24,313)	(4,887)	(29,200)
30,661	-	30,661
10,338	-	10,338
520	-	520
185	-	185
41,704	-	41,704
17,391	(4,887)	12,504
56,549	69,283	125,832
\$ 73,940	64,396	138,336
\$ 46,323	-	46,323
-	14,570	14,570
27,617	49,826	77,443
\$ 73,940	64,396	138,336

**Exhibit B**

## City of Little Sioux

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

As of and for the year ended June 30, 2004

	General	Special Revenue Road Use Tax	Total
Receipts:			
Property tax	\$ 27,440	-	27,440
Other city tax	13,659	-	13,659
Use of money and property	985	-	985
Intergovernmental	53,060	18,073	71,133
Charges for service	12,246	-	12,246
Miscellaneous	3,322	-	3,322
Total receipts	110,712	18,073	128,785
Disbursements:			
Operating:			
Public safety	30,599	-	30,599
Public works	15,842	8,332	24,174
Culture and recreation	30,080	-	30,080
General government	26,541	-	26,541
Total disbursements	103,062	8,332	111,394
Net change in cash balances	7,650	9,741	17,391
Cash balances beginning of year	19,967	36,582	56,549
Cash balances end of year	\$ 27,617	46,323	73,940
<b>Cash Basis Fund Balances</b>			
Unreserved:			
General fund	\$ 27,617	-	27,617
Special revenue funds	-	46,323	46,323
Total cash basis fund balances	\$ 27,617	46,323	73,940

See notes to financial statements.

City of Little Sioux

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

As of and for the year ended June 30, 2004

	Enterprise Fund
	Water
Operating receipts:	
Charges for service	\$ 26,820
Miscellaneous	60
Total operating receipts	26,880
Operating disbursements:	
Business type activities	26,786
Excess of operating receipts over operating disbursements	94
Non-operating receipts (disbursements):	
Interest on investments	969
Debt service	(5,950)
Net non-operating disbursements	(4,981)
Net change in cash balances	(4,887)
Cash balances beginning of year	69,283
Cash balances end of year	\$ 64,396
<b>Cash Basis Fund Balances</b>	
Reserved for debt service	\$ 14,570
Unreserved	49,826
Total cash basis fund balances	\$ 64,396

See notes to financial statements

City of Little Sioux

Notes to Financial Statements

June 30, 2004

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

The City of Little Sioux is a political subdivision of the State of Iowa located in Harrison County. It was first incorporated in 1883 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 utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Little Sioux 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: Harrison County Assessor's Conference Board, Harrison Landfill Commission and Harrison 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 two categories:

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

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

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

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

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.

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

The City reports the following major proprietary fund:

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

#### C. Measurement Focus and Basis of Accounting

The City of Little Sioux 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 amount budgeted in the public safety function.

**(2) Cash**

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) Bonds Payable**

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

Year Ending June 30,	Revenue Bond		
	Principal	Interest	Total
2005	\$ 3,000	1,750	4,750
2006	4,000	1,600	5,600
2007	4,000	1,400	5,400
2008	4,000	1,200	5,200
2009	5,000	1,000	6,000
2010 - 2012	15,000	1,500	16,500
Total	\$ 35,000	8,450	43,450

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

- (a) The bond will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account within the Enterprise Fund for the purpose of making the bond principal and interest payments when due.

- (c) Additional monthly transfers of \$45 to a water reserve account within the Enterprise Fund shall be made until \$5,400 has been accumulated. This account are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

The City has not established the water revenue bond sinking account.

#### **(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.

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 for the year ended June 30, 2004. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$819, equal to the required contribution for the year.

#### **(5) Risk Management**

The City 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. 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 \$6,328.

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 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) Litigation**

The City has been notified a civil rights case has been filed with the Iowa Civil Rights Commission. The probability of loss, if any, is undeterminable.

**(7) 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.

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

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Fund Actual
Receipts:		
Property tax	\$ 27,440	-
Other city tax	13,659	-
Licenses and permits	-	-
Use of money and property	985	969
Intergovernmental	71,133	-
Charges for service	12,246	26,820
Special assessments	-	-
Miscellaneous	3,322	60
Total receipts	128,785	27,849
Disbursements:		
Public safety	30,599	-
Public works	24,174	-
Health and social services	-	-
Culture and recreation	30,080	-
Community and economic development	-	-
General government	26,541	-
Business type activities	-	32,736
Total disbursements	111,394	32,736
Excess (deficiency) of receipts over (under) disbursements	17,391	(4,887)
Balances beginning of year	56,549	69,283
Balances end of year	\$ 73,940	64,396

See accompanying independent auditor's report.

Net	Original and Final Budgeted Amounts	Final to Net Variance
27,440	27,236	204
13,659	11,233	2,426
-	500	(500)
1,954	4,050	(2,096)
71,133	58,800	12,333
39,066	49,500	(10,434)
-	600	(600)
3,382	9,000	(5,618)
156,634	160,919	(4,285)
30,599	11,170	(19,429)
24,174	38,000	13,826
-	3,200	3,200
30,080	33,500	3,420
-	500	500
26,541	31,700	5,159
32,736	59,350	26,614
144,130	177,420	33,290
12,504	(16,501)	29,005
125,832	167,767	(41,935)
138,336	151,266	(12,930)

City of Little Sioux

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, the Special Revenue Fund and the Proprietary Fund. 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 amount budgeted in the public safety function.

**Other Supplementary Information**

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City of Little Sioux  
Schedule of Indebtedness  
Year ended June 30, 2004

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Obligation	Date of Issue	Interest Rates
Revenue bond: Water	Dec 27, 1971	5.00%

See accompanying independent auditor's report.

Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 90,000	39,000	-	4,000	35,000	1,950

**City of Little Sioux**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Little Sioux, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated March 16, 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 Little Sioux'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 Little Sioux'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 Little Sioux'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), (B), (C) and (H) 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 Little Sioux and other parties to whom the City of Little Sioux 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 Little Sioux 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 16, 2005

**City of Little Sioux**

City of Little Sioux

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. The cash receipts listing, bank deposits, reconciling, recording receipts, disbursements, payroll, utility billing, collecting, posting to customer accounts and financial reporting are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. An independent reviewer should review accounting records and financial reports. As a part of this review, the item being reviewed should be initialed and dated to document the independent review.

Response – We will have someone review, initial and date monthly reports and records.

Conclusion – Response accepted.

- (B) Prenumbered Receipts – The City issued prenumbered receipts for some cash collections, but did not issue prenumbered receipts for all collections.

Recommendation – The City should issue prenumbered receipts for all collections received. This would enable an independent reviewer to determine all collections are properly recorded.

Response – We will begin using prenumbered receipts for all collections and account for all receipts and have an independent review.

Conclusion – Response accepted.

- (C) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits and penalties and shut offs were not always done according to procedures.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The utility billing stubs should be retained as receipts and grouped by deposit in order to prove the completeness of the deposit. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The City's penalty and shut off policy should be followed.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2004

Response – We will begin reconciling billings to collections and delinquents. Penalties and shut offs will be done. We will keep utility stubs to support deposits made.

Conclusion – Response accepted.

- (D) Separately Maintained Records – The Volunteer Fire Department maintains separate accounting records for its fundraising activities. The individual transaction activity is not included in the City’s accounting records.

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

Response – We will inform the Fire Department of this requirement.

Conclusion – Response accepted.

- (E) Timesheets – City employees do not submit timesheets.

Recommendation – Timesheets should be prepared by all personnel. The timesheets should be signed by the employee and should be reviewed and signed by the employee’s immediate supervisor prior to submission.

Response – We will require timesheets for all employees.

Conclusion – Response accepted.

- (F) Disbursements – Invoices were not marked paid, dated and cancelled to prevent reuse. In addition, dual signatures are not required on checks.

Recommendation – Invoices should be maintained for all bills paid and should be marked paid, initialed and dated to cancel. Dual signatures should be required on all checks.

Response – Invoices are now marked paid and cancelled. We also now require dual signatures on checks.

Conclusion – Response accepted.

- (G) Written City Policies – The City does not have written policies for business practices, conflicts of interest, code of conduct for employees, job descriptions or personnel policies.

Recommendation – The City should adopt policies for the above items.

Response – We will consider this.

Conclusion – Response acknowledged.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2004

- (H) Deposits – Cash collections made by the City were not deposited intact. During April and May 2004, no cash was deposited. However, in April and May 2004, the former City Clerk deposited personal checks approximating the amount of cash received but not deposited. Utility billing records were not sufficient to determine the completeness and accuracy of receipts.

Recommendation – The City should deposit all collections intact. Utility billing records should contain adequate information to support each deposit.

Response – Collections are now deposited intact and properly supported with receipts for cash and a list of checks deposited.

Conclusion – Response accepted.

**Other Findings Related to Statutory Reporting:**

- (1) Official Depositories – A resolution naming official depositories has not been approved by the City.

Recommendation – The City should adopt a resolution naming official depositories and maximum amounts for each depository.

Response – We will adopt a resolution as soon as possible.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the public safety function. 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 – We will amend the budget in the future if necessary.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2004

- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
William Meyers, Mayor, grandson is David Meyers	Weed cutting	<u>\$ 225</u>

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction with the Mayor's grandson does not appear to represent a conflict of interest since the total transactions were 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.

The minutes of the Council were not signed by the Clerk or Mayor and proceedings were not published. Also, the wages of City employees were not published in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should publish minutes within 15 days and individual salaries annually as required. Minutes should also be signed.

Response – We will publish the minutes and salaries in the future.

Conclusion – Response acknowledged. Minutes should be signed.

- (8) Deposits and Investments – The City has not adopted an investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt an investment policy to comply with the Code of Iowa.

Response – We will adopt an investment policy to comply with Chapter 12B of the Code of Iowa.

Conclusion – Response accepted.

- (9) Revenue Bonds – Although the reserve account has been established, the City has not established the sinking account and has not made monthly transfers to it in order to make the principal and interest payments when due.

Recommendation – The City should establish a sinking account and make sufficient monthly transfers to and payments from the sinking account as required by the bond resolution.

Response – We will establish the required sinking account, make the transfer and pay debt from the sinking account.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2004

Conclusion – Response accepted.

- (10) Required Special Revenue Funds – The City did not maintain separate Special Revenue Funds to account for the emergency and employee benefits property tax levies as required by Chapters 384.8 and 384.6, respectively, of the Code of Iowa and the rules adopted by the City Finance Committee in accordance with Chapter 384.13 of the Code of Iowa. The City also did not establish a separate Special Revenue Fund to account for the collection of local option sales and services tax. This activity was accounted for in the General Fund.

Recommendation – The City should establish separate Special Revenue Funds for Emergency, Employee Benefits and Local Option Sales and Services Tax to properly account for special requirements of each of these sources of funds.

Response – We will establish these funds.

Conclusion – Response accepted.

- (11) 1099's and W-4's – The City did not issue 1099's for private contractors paid over \$600 annually. Also, W-4's were not on file for each employee.

Recommendation – The City should issue 1099's for all contractors paid over \$600 annually and should have W-4's on file for each employee.

Response – We will issue and maintain the tax forms.

Conclusion – Response accepted.

- (12) Uniform Chart of Accounts – The City's accounting system does not use the Uniform Chart of Accounts for City Governments in Iowa.

Recommendation – The City should establish an accounting system that uses the uniform chart of accounts to properly and efficiently identify transactions of the City for reporting and budgeting purposes.

Response – We will begin using the chart of accounts as soon as possible.

Conclusion – Response accepted.

- (13) Annual Financial Report – The City did not file the annual financial report for the fiscal year ended June 30, 2004. Chapter 384.22 of the Code of Iowa requires the report be filed with the Auditor of State not later than December 1 of each year.

Recommendation – The City should file the annual report as required by Chapter 384.22 of the Code of Iowa.

Response – We will be mailing the report.

Conclusion – Response accepted.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2004

- (14) 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 retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We plan to do this immediately.

Conclusion – Response accepted.

- (15) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

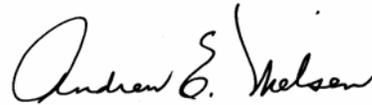
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City of Little Sioux

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Karen L. Kibbe, 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