



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

NEWS RELEASE

FOR RELEASE _____ June 30, 2006

Contact: Andy Nielsen
515/281-5834

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

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

The City's receipts totaled \$355,462 for the year ended June 30, 2005. The receipts included \$120,910 in property tax, \$123,045 from charges for service, \$79,948 from operating grants, contributions and restricted interest, \$19,859 from local option sales tax, \$1,157 from unrestricted interest on investments and \$10,543 from other general receipts.

Disbursements for the year totaled \$367,293, and included \$115,795 for public works, \$77,313 for general government and \$68,659 for public safety.

A copy of the report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

###

CITY OF PACIFIC JUNCTION
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	9
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	10-11
Notes to Financial Statements		12-16
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds		18
Notes to Required Supplementary Information – Budgetary Reporting		19
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances	1	23
Schedule of Indebtedness	2	24-25
Note and Loan Maturities	3	26
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		27-28
Schedule of Findings		29-39
Staff		40

City of Pacific Junction

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Lovely	Mayor	Jan 2006
Fred Nuss	Mayor Pro Tem	Jan 2006
Pat Hatcher	Council Member	Jan 2006
Andy Young	Council Member	Jan 2006
William "Butch" Green III	Council Member	Jan 2006
Linda Harmon	Council Member	(Resigned)
Judy Bents (Appointed)	Council Member	Jan 2006
Kari Williams	City Clerk	Indefinite
T. J. Pattermann	Attorney	Indefinite

City of Pacific Junction



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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Pacific Junction, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pacific Junction's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Pacific Junction as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

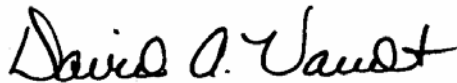
As described in Note 8, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

The City of Pacific Junction has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

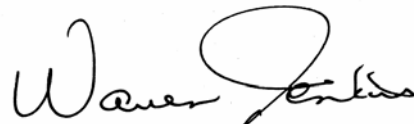
The budgetary comparison information on pages 18 and 19 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. We did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2006 on our consideration of the City of Pacific Junction's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Pacific Junction's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 30, 2006

Basic Financial Statements

City of Pacific Junction

City of Pacific Junction
 Statement of Activities and Net Assets – Cash Basis
 As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		Net (Disbursements)
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Receipts and Changes in Cash Basis Net Assets
				Total
Functions/Programs:				
Governmental activities:				
Public safety	\$ 68,659	33,861	27,681	(7,117)
Public works	115,795	88,764	42,155	15,124
Culture and recreation	37,942	-	10,112	(27,830)
Community and economic development	10,380	30	-	(10,350)
General government	77,313	390	-	(76,923)
Debt service	57,204	-	-	(57,204)
Total	\$ 367,293	123,045	79,948	(164,300)
General Receipts:				
Property tax levied for:				
General purposes				92,676
Debt service				28,234
Local option sales tax				19,859
Unrestricted interest on investments				1,157
Miscellaneous				10,543
Total general receipts				152,469
Change in cash basis net assets				(11,831)
Cash basis net assets beginning of year				166,476
Cash basis net assets end of year				\$ 154,645
Cash Basis Net Assets				
Restricted:				
Streets				\$ 30,284
Local option sales tax				25,502
Other purposes				23,045
Unrestricted				75,814
Total cash basis net assets				\$ 154,645

See notes to financial statements.

City of Pacific Junction

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

As of and for the year ended June 30, 2005

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 87,723	-	-
Other city tax	-	-	19,859
Licenses and permits	440	-	-
Use of money and property	1,152	-	-
Intergovernmental	10,777	42,155	10,000
Charges for service	106,934	-	-
Miscellaneous	9,653	-	-
Total receipts	216,679	42,155	29,859
Disbursements:			
Operating:			
Public safety	51,339	-	-
Public works	84,227	30,850	-
Culture and recreation	16,264	-	17,323
Community and economic development	9,734	-	174
General government	75,854	-	-
Debt service	-	-	-
Total disbursements	237,418	30,850	17,497
Excess (deficiency) of receipts over (under) disbursements	(20,739)	11,305	12,362
Other financing sources (uses):			
Operating transfers in	2,837	-	-
Operating transfers out	(5,560)	-	-
Total other financing sources (uses)	(2,723)	-	-
Net change in cash balances	(23,462)	11,305	12,362
Cash balances beginning of year	99,276	18,979	13,140
Cash balances end of year	\$ 75,814	30,284	25,502
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 75,814	-	-
Special revenue funds	-	30,284	25,502
Total cash basis fund balances	\$ 75,814	30,284	25,502

See notes to financial statements.

Fire and Rescue	Debt Service	Nonmajor Special Revenue	Total
-	28,234	4,953	120,910
-	-	-	19,859
-	-	-	440
-	-	5	1,157
-	-	-	62,932
15,670	-	-	122,604
14,590	-	3,317	27,560
30,260	28,234	8,275	355,462
15,962	-	1,358	68,659
-	-	718	115,795
-	-	4,355	37,942
-	-	472	10,380
-	-	1,459	77,313
-	57,204	-	57,204
15,962	57,204	8,362	367,293
14,298	(28,970)	(87)	(11,831)
400	16,560	-	19,797
(11,000)	-	(3,237)	(19,797)
(10,600)	16,560	(3,237)	-
3,698	(12,410)	(3,324)	(11,831)
18,880	12,410	3,791	166,476
22,578	-	467	154,645
-	-	-	75,814
22,578	-	467	78,831
22,578	-	467	154,645

City of Pacific Junction

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Pacific Junction is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1882 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Pacific Junction 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: Mills County Assessor's Conference Board, Mills County Emergency Management Commission and Mills 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 are supported by tax and intergovernmental revenues.

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 Statement – A separate financial statement is provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statement. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for ballot referendum items financed by local option sales tax.

The Fire and Rescue Fund is used to account for operation of the City's fire and rescue system.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development and general government functions.

The City budgeted for sewer disbursements under the proprietary column on the budget form but reflected sewer receipts under the General Fund column. Also, transactions and the resulting balances for the Community Betterment and Fire and Rescue Departments were not included in the City's budget.

(2) Cash and Pooled Investments

The City's deposits in the local bank at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Long Term Debt

Notes Payable

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

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 15,000	1,838	16,838

Lease Purchase Agreement

On March 28, 2000, the City entered into a lease-purchase agreement for an ambulance and pumper. The lease is for ten years, with interest at 6.09% per annum, and requires annual payments of \$33,430.

The following is a schedule of future minimum lease payments and the present value of net minimum lease payments under the ambulance and pumper lease agreement.

Year Ending June 30,	Amount
2006	\$ 33,430
2007	33,430
2008	33,430
2009	33,430
2010	<u>33,430</u>
Total minimum lease payments	167,150
Less amount representing interest	<u>(26,676)</u>
Present value of net minimum lease payments	<u>\$ 140,474</u>

Payments under the ambulance and pumper lease agreement for the year ended June 30, 2005 totaled \$33,430.

Bank Loans

On October 4, 2000, the City entered into a loan agreement for a maintenance building. The loan is for four years and one month, with interest at 9.484% per annum, and requires annual payments of varying amounts. The balance remaining on the loan at June 30, 2005 is \$16,754.

On March 26, 2002, the City entered into a loan agreement for an ambulance. The loan is for three years and eight months, with interest at 7.50% per annum, and requires annual payments of varying amounts. The balance remaining on the loan at June 30, 2005 is \$12,251.

Payments on these loan agreements during the year ended June 30, 2005 totaled \$8,002 and \$5,000, respectively.

(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 salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2005 was \$2,510, equal to the required contributions for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2005, primarily relating to the General Fund, is \$1,100. This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue: Emergency	<u>\$ 2,837</u>
Special Revenue: Fire and Rescue	Community Betterment	<u>400</u>
Debt Service	General Special Revenue: Fire and Rescue	5,560 <u>11,000</u> <u>16,560</u>
Total		<u>\$ 19,797</u>

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

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and a fund financial statement 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 Pacific Junction

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

Required Supplementary Information

Year ended June 30, 2005

	Actual	Original and Final Budget	Budget to Actual Variance
Receipts:			
Property tax	\$ 120,910	113,066	7,844
Other city tax	19,859	52,387	(32,528)
Licenses and permits	440	-	440
Use of money and property	1,157	-	1,157
Intergovernmental	62,932	50,724	12,208
Charges for service	122,604	112,194	10,410
Miscellaneous	27,560	-	27,560
Total receipts	<u>355,462</u>	<u>328,371</u>	<u>27,091</u>
Disbursements:			
Public safety	68,659	50,716	(17,943)
Public works	115,795	35,751	(80,044)
Culture and recreation	37,942	16,401	(21,541)
Community and economic development	10,380	9,479	(901)
General government	77,313	55,834	(21,479)
Debt service	57,204	77,902	20,698
Business type activities	-	59,031	59,031
Total disbursements	<u>367,293</u>	<u>305,114</u>	<u>(62,179)</u>
Excess (deficiency) of receipts over (under) disbursements	(11,831)	23,257	(35,088)
Balances beginning of year	166,476	41,864	124,612
Balances end of year	<u>\$ 154,645</u>	<u>65,121</u>	<u>89,524</u>

See accompanying independent auditor's report.

City of Pacific Junction

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Debt Service 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, 2005, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development and general government functions. The City budgeted for sewer disbursements in the proprietary column on the budget forms but reflected sewer receipts in the General Fund column. Also, transactions and the resulting balances for the Community Betterment and Fire and Rescue Departments were not included in the City's budget.

City of Pacific Junction

Other Supplementary Information

City of Pacific Junction

City of Pacific Junction

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

As of and for the year ended June 30, 2005

	Special Revenue			Total
	Employee Benefits	Emergency	Community Betterment	
Receipts:				
Property tax	\$ 2,992	1,961	-	4,953
Use of money and property	-	-	5	5
Miscellaneous	-	-	3,317	3,317
Total receipts	<u>2,992</u>	<u>1,961</u>	<u>3,322</u>	<u>8,275</u>
Disbursements:				
Operating:				
Public safety	1,358	-	-	1,358
Public works	718	-	-	718
Culture and recreation	299	-	4,056	4,355
Community and economic development	472	-	-	472
General government	1,459	-	-	1,459
Total disbursements	<u>4,306</u>	<u>-</u>	<u>4,056</u>	<u>8,362</u>
Excess (deficiency) of receipts over under disbursements	(1,314)	1,961	(734)	(87)
Other financing uses:				
Operating transfers out	-	(2,837)	(400)	(3,237)
Net change in cash balances	(1,314)	(876)	(1,134)	(3,324)
Cash balances beginning of year	1,314	876	1,601	3,791
Cash balances end of year	<u>\$ -</u>	<u>-</u>	<u>467</u>	<u>467</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ -	-	467	467
Total cash basis fund balances	<u>\$ -</u>	<u>-</u>	<u>467</u>	<u>467</u>

See accompanying independent auditor's report.

City of Pacific Junction
 Schedule of Indebtedness
 Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Sewer improvement	Jul 1, 1990	6.50% - 7.35%	\$ 215,000
Lease purchase agreement:			
Ambulance and fire pumper	Mar 28, 2000	6.09%	\$ 245,000
Bank loans:			
Maintenance building	Oct 4, 2000	9.484%	\$ 39,339
Ambulance	Mar 26, 2002	7.50%	35,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 25,000	10,000	15,000	730
\$ 163,921	23,447	140,474	9,983
\$ 22,858	6,104	16,754	1,898
17,156	4,905	12,251	95
\$ 22,858	11,009	29,005	1,993

Schedule 3

City of Pacific Junction
Note and Loan Maturities
June 30, 2005

Year Ending June 30,	General Obligation Sewer Improvement Notes		Loans				
	Interest		Interest	Maintenance	Interest		
	Rate	Amount	Rate	Building	Rate	Ambulance	Total
2006	7.35%	<u>\$ 15,000</u>	9.484%	<u>\$16,754</u>	7.50%	<u>\$ 12,251</u>	<u>29,005</u>

See accompanying independent auditor's report.



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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Pacific Junction, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 30, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

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

Internal Control Over Financial Reporting

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

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

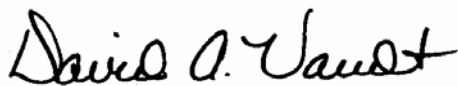
Compliance and Other Matters

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

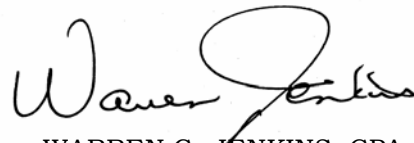
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pacific Junction and other parties to whom the City of Pacific Junction 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 Pacific Junction 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 30, 2006

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash and petty cash – initiating cash receipt and disbursement functions and handling and recording cash and petty cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long term debt – recording and reconciling.
- (5) Receipts – opening mail receipts, collecting, depositing, journalizing, maintaining the deposit/check register and posting.
- (6) Disbursements – check preparation, purchasing, check signing, recording, maintaining the check register and reconciling.
- (7) Payroll – approval, input of information, preparing, check signing, recording and distributing.
- (8) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
- (9) Financial reporting – preparing, reconciling and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of various reviews should be indicated by initials of the independent reviewer and the date of the review.

Response – The City will implement a policy to require Council Member review of financial records on a rotating basis.

Conclusion – Response accepted.

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

The City does not have written policies for:

- (1) Requiring time out/log off or screen saver password to protect computer terminals when not in use.

- (2) Requiring passwords to be changed at least every 60 to 90 days.
- (3) Maintaining password privacy and confidentiality.
- (4) Requiring the use of anti-virus programs on computers.
- (5) Personal use of computer equipment and software.
- (6) Physical access to computer facility limiting unauthorized personnel.
- (7) Ensuring software not licensed to the City is not installed.
- (8) Usage of the internet.
- (9) Requiring backups be performed (daily, weekly, monthly and yearly) and the backup tapes be stored off site daily.
- (10) Ownership of in-house developed software and data.

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

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

Response – The City will establish and implement a written policy addressing the above items and incorporate the policy into the existing Hazardous Mitigation Plan.

Conclusion – Response accepted.

- (C) City Financial Management Information – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City including but not limited to, property tax levied for specific purposes, road use tax, bond, note and loan proceeds and donations.

Monthly financial reports, including fund balances and comparisons of actual results to budget by function, were not compiled from accounting records and provided to the Council for review and approval.

Procedures do not exist to ensure the accounting system includes all transactions applicable to the reporting period. Receipts are not verified to deposits, checks issued are not compared to checks clearing the bank and the receipts and checks issued are not compared to the check register which maintains a running book balance.

Monthly reconciliations are not prepared (including a listing of outstanding checks) to reconcile book and bank balances. An unidentified variance of \$2,143 existed between the check register and the reconciled bank balances at the beginning and end of the year. Interest of \$1,116 was unrecorded, certain receipts, including property tax, certain disbursements and interfund transfers were posted incorrectly.

Recommendation – The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting.

To improve financial accountability and control, a monthly report should be submitted to the Council showing beginning balance, receipts, disbursements, transfers and ending balance for each individual fund. To provide better control over budgeted disbursements and the opportunity for timely amendments to the budget, the Clerk’s monthly financial reports to the Council should include comparisons to the certified budget by function.

Procedures should be established to ensure the accounting system includes all transactions applicable to the reporting period and receipts, disbursements and transfers are correctly coded.

A monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month and retained.

Response – The City will implement the above recommendations and will ensure the City Clerk receives necessary training. The City will look into the possibility of upgrading the computer system to one that would facilitate fund accounting.

Conclusion – Response accepted.

- (D) Sewer and Ambulance Billings, Collections and Delinquencies – The Glenwood Municipal Utilities provides sewer billing and collection services to the City and Cashflow Billing Solutions, Inc. provides ambulance billing and collection services. The City does not obtain or prepare a reconciliation of sewer and ambulance billings, receivables and delinquencies.

Recommendation – Procedures should be established to reconcile billings, collections and delinquencies monthly for sewer and ambulance accounts receivables. The City Council or Mayor and Fire Chief, respectively, should review the reconciliations monthly and variances, if any, should be resolved timely.

Response – The City will look into this matter and request additional information from Glenwood and Cashflow Billing Solutions, Inc. to allow the City to perform or review the recommended reconciliations.

Conclusion – Response accepted.

- (E) Receipts – Receipts were not issued for all collections and two receipts tested were not deposited timely. One receipt tested, totaling \$2,601, could be traced to a posting in the cash receipts journal but not to a deposit and one deposit of \$1,598 could be traced to a deposit but was not posted.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. To safeguard cash and increase funds available for investment, receipts should be recorded and deposited intact on a timely basis. Also, control over cash collections would be strengthened if receipts were reconciled to deposits.

Response – The City will issue prenumbered receipts and will record collections in a timely manner. The City will also implement procedures to reconcile receipts to deposit and resolve variances, if any, timely.

Conclusion – Response accepted.

- (F) Disbursements – Certain disbursements were not approved by the Council prior to disbursement. The City does not have a written disbursement approval policy allowing certain items to be paid prior to Council approval. Invoices and supporting documentation were not always marked paid to prevent possible duplicate payment. The Mayor's signature stamp was controlled by the Clerk, who prepares and countersigns checks.

Additionally, certain disbursements were not supported by proper documentation or the invoices or other supporting documentation could not be located for review. Void checks were not retained until December 2004.

Recommendation – The City should adopt a written disbursement policy to allow payment of certain bills prior to Council approval. All City disbursements should be approved by the Council prior to disbursement with the exception of these specifically allowed by policy. Checks should be signed and countersigned when the completed check and appropriate supporting evidence is available for review. Prior to signing, the checks and supporting documentation should be reviewed for propriety. The Mayor’s signature stamp should be under the control of an independent person and all invoices and supporting documentation should be canceled to prevent possible duplicate payment. All disbursements should be supported by original invoices or other supporting documentation.

Response – Any disbursements made prior to Council formal approval had been verbally approved by the Council. The Council will develop and approve a written policy to allow payment of certain bills prior to Council approval.

Also, the City will implement procedures to ensure all invoices are marked “paid.” The Mayor’s signature stamp will be controlled by a Council Member independent of all bookkeeping functions.

Conclusion – Response accepted.

- (G) Payroll – Time sheets/time cards were not always maintained and/or retained for all employees and officials. Also, time records maintained for employees did not indicate they had been approved before the payroll was prepared.

Recommendation – Time sheets/time cards should be retained to support time worked for all employees and should be reviewed and approved by a responsible official before the payroll checks are prepared.

Response – Timesheets will be retained and will be reviewed and approved by a responsible official.

Conclusion – Response accepted.

- (H) Credit Card Policy – The City has credit cards for use by employees while on City business. The City has adopted a formal policy to regulate the use of credit cards. However, the policy does not identify proper controls over the credit cards, who is authorized to use the credit cards, types of allowable purchases or an established limit.

Recommendation – The City should amend its formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges and a maximum allowable limit of charges.

Response – The City has established a policy requiring vendor receipts to support all charges. The City will modify the existing credit card policy to address controls over the cards, what the cards may be used for and the maximum allowed to be charged.

Conclusion – Response accepted.

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

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

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

Response – The City will implement this recommendation and will begin creating a procedures manual immediately.

Conclusion – Response accepted.

- (J) Records of Accounts – The Community Betterment and Fire and Rescue Departments maintain separate accounting records for their operations. These transactions and resulting balances were not included in the City’s monthly accounting records. However, they are included in these financial statements.

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

Response – The City will implement accountability and budgetary control over the Community Betterment and Fire and Rescue accounts. However, the City plans to look into having the Community Betterment Group obtain separate legal status, thereby eliminating the need for the City to budget and account for their activity.

Conclusion – Response accepted.

- (K) Community Betterment Account –

- (1) One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas for the Community Betterment Account activity:

- Accounting system – performing all general accounting functions and having custody of assets.
- Receipts – collecting, depositing, journalizing and posting.
- Disbursements – check writing, signing and posting.

- (2) The Community Betterment Committee maintains the accounting records pertaining to this department’s operations. Receipts were not issued for all collections, checks disbursed required only one signature, void checks were not retained, one cancelled check and the July 2004 bank statement could not be located, one invoice tested was not cancelled and bank reconciliations were not prepared, including a list of outstanding checks.

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

To strengthen controls over receipts and disbursements, receipts should be issued for all collections when received and an independent countersignature should be required on all checks issued. All void checks, cancelled checks and bank statements should be retained and monthly bank reconciliations be prepared, including a listing of outstanding checks.

Response – The City will review controls over the Community Betterment account and will comply with the recommendations. As previously noted, the City plans to look into having the Community Betterment group obtain separate legal status.

Conclusion – Response accepted.

(L) Fire and Rescue Account –

(1) One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas for the Fire and Rescue account activity:

- Accounting system – performing all general accounting functions and having custody of assets.
- Receipts – collecting, depositing, journalizing and posting.
- Disbursements – check writing, signing (for the Rescue account) and posting.

(2) The Fire and Rescue Department maintains the accounting records pertaining to its operation. Receipts were not issued for all collections, checks issued required only one signature and bank reconciliations were not prepared, including a list of outstanding checks.

Also, minutes of meetings were not signed and dated and one disbursement tested was not properly supported.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Fire and Rescue Department should review its operating procedures to obtain the maximum internal control possible under the circumstances.

To strengthen controls over receipts and disbursements, receipts should be issued for all collections when received and a countersignature should be required on all checks issued. Monthly bank reconciliations should be prepared, including a listing of outstanding checks, minutes should be signed to authenticate the action taken and invoices should be obtained and retained to support all disbursements.

Response – The City will review controls over the Fire and Rescue account and will implement the recommendations.

Conclusion – Response accepted.

Findings Related to Required Statutory Reporting:

- (1) Official Depository – A resolution naming official depositories has been approved by the City. However, the maximum deposit amount was not stated in the resolution and the Fire and Rescue Department had deposits at a bank which was not included on the depository resolution.

Recommendation – A new depository resolution should be approved naming all financial institutions with maximum depository amounts for the City, including the Fire and Rescue Department accounts.

Response – The Council will approve a new resolution to name all approved depositories and the maximum amount allowed to be deposited at each bank.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

The City budgeted for sewer disbursements in the proprietary column on the budget form but reflected sewer receipts in the General Fund column. Also, transactions and the resulting balances for the Community Betterment and Fire and Rescue Departments were not included in the City’s budget.

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. According to the City Finance Committee’s uniform chart of accounts, since the City contracts for sewer treatment services through the City of Glenwood and does not operate its own sewer enterprise, the receipts and disbursements related to the activity should be budgeted as part of the General fund. The financial activity and balances for all City accounts, organizations and departments should be included in the City’s budget, including the Community Betterment and Fire and Rescue account activity.

Response – The City will include transactions for all accounts, including Community Betterment and Fire and Rescue, and will amend the budget as necessary prior to expenditures exceeding the budget.

Conclusion – Response accepted.

- (3) Questionable Disbursements – City employees received Christmas bonuses ranging from \$50 to \$200 in addition to their authorized salaries for the year ended June 30, 2005. These payments were not authorized and approved prior to issuance of the checks. In addition, the bonuses were not paid through the payroll system and, accordingly, were not reported as compensation on the employee’s W-2 form and were not subject to income tax withholding or FICA and IPERS contributions. The City may be subject to various penalties for failure to withhold taxes and report earned income.

Certain disbursements were noted we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The City purchased pop, water and other drinks for City employees at a cost of \$241 during the year ended June 30, 2005.

According to the Attorney General’s 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 City should establish procedures to ensure bonuses paid to employees are properly approved prior to payment. All compensation to employees should be properly reported and should be subject to applicable taxes.

The City should determine and document the public purpose served by purchasing drinks for employees before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response – The City will comply with the recommendations.

Conclusion – Response accepted.

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted. However, certain payments for meal reimbursements for non-City employees were noted for which no reimbursement to the City was noted. The payments are listed below:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Perkins	Meals for Clerk’s significant	\$ 15
Subway	other during attendance	5
Applebee’s	at Ames school in	37
Carlos O’Kelly	July 2005	<u>20</u>
Total		<u>\$ 77</u>

On May 3, 2006, the Mayor provided a letter stating the City Clerk presented the Mayor and Council with cash receipts and cash reimbursements for the above meals. However, the reimbursements could not be traced to the City’s financial records or to deposits.

Recommendation – The Council should establish a policy prohibiting the payment of non-City employee meals and should seek reimbursement of the amounts identified.

Response – Reimbursement for the noted disbursements was made to the City. In the future, all reimbursements for non-City employee expenses, if any, will be clearly documented.

Conclusion – Response accepted.

- (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
Fred Nuss, Council Member,	Clerk duties – Fiscal 2002	\$ 1,156
	Clerk duties – Fiscal 2004	738
	Clerk duties – Fiscal 2005	<u>221</u>
Total		<u>\$ 2,115</u>

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since total transactions were less than \$2,500 each 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 – Except for finding (3) and below, no transactions were found that we believe should have been approved in the Council minutes but were not.

Certain minutes of Council proceedings were not published and others were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. The publications did not include total disbursements from each fund or a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Certain minutes of Council meetings were not signed as required by Chapter 380.7 of the Code of Iowa and some meeting minutes from the fiscal year ended June 30, 2004 were not available and on file at City Hall.

The Council went into closed session several times during fiscal years 2004 and 2005. The minutes record did not document the roll call vote or the specific information regarding the closed session as required by Chapter 21.5 of the Code of Iowa, commonly known as the open-meetings law. Also, closed sessions were not always identified on the agenda.

Although a list of claims paid by the City was published, the publication did not include an explanation of the claim in accordance with an Attorney General's opinion dated April 12, 1978. Also, variances were noted between the bills due lists provided to the Council and the lists of claims published in the newspaper.

The City did not publish annual gross salaries as required by an Attorney General's opinion dated April 12, 1978 and Chapter 372.13(6) of the Code of Iowa. Also, beginning in fiscal 2004, the City began publishing checks issued to City employees as one lump sum identified as "salaries/wages" or "Human Resources."

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes, each individual bill and annual individual gross salaries, as required. In regard to publication of salaries and checks issued to City employees, an Attorney General's Opinion dated April 12, 1978 states, in part, "We do not believe that a municipality must publish each month the salary paid to each employee when the annual salary and changes are otherwise published. A municipality must, however, each month indicate the total amount of expenditure

from each fund which would include the total amount of the salaries. And of course, amounts paid to occasional, casual, temporary employees and others who do not receive an annual salary would have to be listed.”

Council minutes should be available at City Hall and should be properly signed as required by Chapter 380.7 of the Code of Iowa. The purpose of each claim should be published, as required. Closed meetings should be held in compliance with Chapter 21.5 of the Code of Iowa and should be properly identified on the meeting agenda. The Council should establish procedures to ensure accurate bill listings are provided to the Council and the bill listings agree to the list of bills published.

Response – The City will be more diligent with compliance pertaining to required publications and Chapter 21.5 of the Code of Iowa.

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.

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

Response – The City will adopt a written investment policy that complies with the Code of Iowa.

Conclusion – Response accepted.

- (9) Annual Financial Report – The City’s Annual Financial Report for the fiscal year ended June 30, 2005 was not filed by December 1 as required by Chapter 384.22 of the Code of Iowa and, when filed, included several errors. Also, the report did not include the financial activity of the Community Betterment and Fire and Rescue Department accounts as required by Chapter 384.20 of the Code of Iowa.

Recommendation – The Annual Financial Report should be amended and resubmitted to correct errors. Future reports should be filed timely and should include all City accounts as required by Chapter 384.20 of the Code of Iowa.

Response – The City will comply.

Conclusion – Response accepted.

- (10) Sewer Utility Rates – The sewer rates charged were not approved by ordinance as required by Chapter 384.84 of the Code of Iowa.

Recommendation – The City should establish all utility rates by ordinance as required by Chapter 384.84 of the Code of Iowa.

Response – The City’s sewer rates were established by Council resolution. The Council will take corrective action to establish rates by ordinance as required.

Conclusion – Response accepted.

- (11) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the retention of cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and the back of each cancelled check. Both of the Fire and Rescue Department bank accounts provide cancelled checks through electronic image. However, one account does not provide an image of the back of each cancelled check as required.

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

Response – The City will ensure the Fire and Rescue Department account obtains an image of the front and back of each cancelled check.

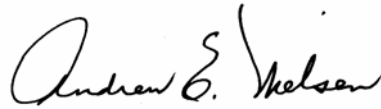
Conclusion – Response accepted.

City of Pacific Junction

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II
Chad L. Lehman, Assistant Auditor
Michelle L. Harris, 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 a distinct 'E'.

Andrew E. Nielsen, CPA
Deputy Auditor of State