



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

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE

April 1, 2003

Contact: Andy Nielsen
515/281-5515

The Office of Auditor of State today released an audit report on the City of Davis City, Iowa.

The City's receipts totaled \$377,052 for the year ended June 30, 2002. The receipts included \$18,084 in property tax, \$134,671 from the state, \$125,000 from the federal government, and \$76,982 in charges for service.

Disbursements for the year totaled \$560,774, and included \$22,940 for community protection, \$2,564 for human development, \$516,281 for home and community environment and \$18,989 for policy and administration.

This report contains recommendations to the City Council and other city officials. For example, the City should segregate accounting duties to the extent possible with the existing personnel, and procedures should be established to reconcile utility billings, collections, and delinquencies for each billing period. The City has responded to each item in the report and stated that corrective action is being taken.

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

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CITY OF DAVIS CITY
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2002

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5
Financial Statements:	<u>Exhibit</u>	
Combined Statement of Cash Transactions – All Fund Types	A	8-9
Comparison of Receipts, Disbursements and Changes in Balances – Actual to Budget	B	10-11
Statement of Indebtedness	C	12-13
Notes to Financial Statements		14-19
Supplemental Information:	<u>Schedule</u>	
Combining Schedules of Cash Transactions:		
General Fund	1	22-25
Special Revenue Funds	2	26
Capital Projects Funds	3	27
Enterprise Funds	4	28-29
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		31-32
Schedule of Findings		33-38
Staff		39

City of Davis City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
Lewis Hamilton	Mayor	Jan 2002
Robert Omer	Mayor Pro tem	Jan 2002
Lois Hullinger	Council Member	Jan 2002
Ed Burk	Council Member	Jan 2002
Vickie Reed	Council Member	Jan 2002
Mary DeLong	Council Member	Jan 2002
Carolyn Carroll	Clerk/Treasurer	Indefinite
(After January 2002)		
Lewis Hamilton	Mayor	Jan 2004
Robert Omer	Mayor Pro tem	Jan 2004
Lucretia Hamilton	Council Member	Jan 2004
Duane McClintock	Council Member	Jan 2004
Mathrew Denny	Council Member	Jan 2004
Wayland Marvin	Council Member	Jan 2004
Carolyn Carroll	Clerk/Treasurer	Indefinite

City of Davis City



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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, listed as exhibits in the table of contents of this report, of the City of Davis City, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Davis City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, 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 that our audit provides a reasonable basis for our opinion.

As described in note 1 to the financial statements, 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, 2001.

As described in notes 8 and 9 to the financial statements, certain Community Building and Fire Department funds have not been included in the audit report for the year ended June 30, 2002 since these funds have not been accounted for or reported by the City.

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, 2001 and the omission of certain Community Building and Fire Department funds, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Davis City as of and for the year ended June 30, 2002, and its indebtedness at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued a report dated March 6, 2003 on our consideration of the City of Davis City'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.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

March 6, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Davis City

Financial Statements

City of Davis City
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Receipts:			
Property tax	\$ 18,084	-	-
Other city tax	-	8,117	-
Licenses and permits	75	-	-
Use of money and property	2,154	-	299
Intergovernmental	9,107	27,027	229,113
Charges for service	1,311	-	-
Miscellaneous	321	-	-
Total receipts	<u>31,052</u>	<u>35,144</u>	<u>229,412</u>
Disbursements:			
Community Protection Program	7,627	15,313	-
Human Development Program	2,564	-	-
Home and Community Environment Program	3,683	10,067	420,486
Policy and Administration Program	16,581	2,408	-
Total disbursements	<u>30,455</u>	<u>27,788</u>	<u>420,486</u>
Excess (deficiency) of receipts over (under) disbursements	<u>597</u>	<u>7,356</u>	<u>(191,074)</u>
Other financing sources (uses):			
Note proceeds	-	-	40,000
Interim financing	-	-	165,641
Operating transfers in	5,225	3,275	1,019
Operating transfers out	(8,500)	-	(1,019)
Total other financing sources (uses)	<u>(3,275)</u>	<u>3,275</u>	<u>205,641</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(2,678)</u>	<u>10,631</u>	<u>14,567</u>
Balance beginning of year	<u>10,387</u>	<u>37,251</u>	<u>47,114</u>
Balance end of year	<u>\$ 7,709</u>	<u>47,882</u>	<u>61,681</u>

See notes to financial statements.

Proprietary Fund Type Enterprise	Total (Memorandum Only)
-	18,084
-	8,117
-	75
4,013	6,466
-	265,247
75,671	76,982
1,760	2,081
<u>81,444</u>	<u>377,052</u>
-	22,940
-	2,564
82,045	516,281
-	18,989
<u>82,045</u>	<u>560,774</u>
<u>(601)</u>	<u>(183,722)</u>
-	40,000
-	165,641
7,866	17,385
(7,866)	(17,385)
<u>-</u>	<u>205,641</u>
<u>(601)</u>	<u>21,919</u>
<u>149,599</u>	<u>244,351</u>
<u><u>148,998</u></u>	<u><u>266,270</u></u>

City of Davis City
 Comparison of Receipts, Disbursements and Changes in Balances -
 Actual to Budget
 Year ended June 30, 2002

	Actual	Budget
Receipts:		
Property tax	\$ 18,084	16,467
Other city tax	8,117	9,938
Licenses and permits	75	550
Use of money and property	6,466	4,300
Intergovernmental	265,247	195,691
Charges for service	76,982	81,775
Miscellaneous	2,081	500
Total receipts	377,052	309,221
Disbursements:		
Community Protection Program	22,940	14,664
Human Development Program	2,564	5,800
Home and Community Environment Program	516,281	265,077
Policy and Administration Program	18,989	14,671
Total disbursements	560,774	300,212
Excess (deficiency) of receipts over (under) disbursements	(183,722)	9,009
Other financing sources, net	205,641	-
Excess of receipts and other financing sources over disbursements and other financing uses	21,919	9,009
Balance beginning of year	244,351	240,797
Balance end of year	\$ 266,270	249,806

See notes to financial statements.

<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>Actual</u> <u>as % of</u> <u>Budget</u>
1,617	110%
(1,821)	82%
(475)	14%
2,166	150%
69,556	136%
(4,793)	94%
1,581	416%
<u>67,831</u>	<u>122%</u>
(8,276)	156%
3,236	44%
(251,204)	195%
(4,318)	129%
<u>(260,562)</u>	<u>187%</u>

City of Davis City
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes:			
Sewer	Jan 20, 1975	5.000%	\$ 220,000
Water	Feb 15, 1989	6.125	115,000
Sewer	Oct 25, 2001	4.500	40,000
Total			
Bank loan:			
Fire station	Jan 2, 1995	7.00-15.00%	\$ 22,310
Interim financing:			
Wastewater treatment lagoon warrant	Jun 6, 2001	5.900%	\$ 165,641

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
116,000	-	6,000	110,000	5,800
100,130	-	2,279	97,851	5,595
-	40,000	1,203	38,797	971
\$ 216,130	40,000	9,482	246,648	12,366
16,628	-	988	15,640	1,528
-	165,641	165,641	-	1,791

City of Davis City

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The City of Davis City is a political subdivision of the State of Iowa located in Decatur County. It was first incorporated in 1877 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, recreation, public improvements and general administrative services.

A. Reporting Entity

Except as explained in notes 8 and 9, for financial reporting purposes, the City of Davis City 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.

Jointly Governed Organizations

The City also 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: Decatur County Assessor's Conference Board and Wayne, Ringgold, and Decatur County Solid Waste Management Committee.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 that are not paid through other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Capital Projects Funds – The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

C. Basis of Accounting

The City of Davis 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.

D. Budgets and Budgetary Accounting

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 four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned “Memorandum Only” to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2002 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 Number 3.

(3) Long-Term Debt

Farmers Home Administration Loans

The resolution providing for the issuance of the water revenue notes issued in 1989 under a loan agreement between the City of Davis City and the Farmers Home Administration, United States Department of Agriculture, includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue sinking account for the purpose of making the note principal and interest payment when due.
- (c) Additional monthly transfers of \$66 to a separate water revenue reserve account shall be made until a specific minimum balance has been accumulated. The account is to be used solely for the purpose of paying note principal and interest when insufficient funds are available in the sinking account.

This loan is to be repaid in annual installments of \$7,866, including interest at 6.125 percent per annum. The unpaid principal balance on the loan at June 30, 2002, was \$97,851.

The City has not established the sinking and reserve accounts required by the water revenue note resolution.

The resolution providing for the issuance of the sewer revenue notes issued in 2001 under a loan agreement between the City of Davis City and the Farmers Home Administration, United States Department of Agriculture, includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue sinking account for the purpose of making the note principal and interest payment when due.
- (c) There shall initially be deposited into a separate sewer revenue reserve account from legally available funds of the City at the time the note is issued the sum of \$2,174. The account is to be used solely for the purpose of paying note principal and interest when insufficient funds are available in the sinking account.

This loan is to be repaid in annual installments of \$2,174, including interest at 4.5 percent per annum. The unpaid principal balance on the loan at June 30, 2002, was \$38,797.

The City has not established the sinking and reserve accounts required by the sewer revenue note resolution.

The resolution providing for the issuance of the sewer revenue notes issued in 1975 under a loan agreement between the City of Davis City and the Farmers Home Administration, United States Department of Agriculture, could not be located by the City.

This loan is to be repaid in annual installments of \$11,800, including interest at 5 percent per annum. The unpaid principal balance on the loan at June 30, 2002, was \$110,000.

Bank Loan

On January 2, 1995, the City entered into a loan agreement to purchase a fire station building for \$22,310. The loan is to be repaid in thirty bi-annual payments of \$1,258, including interest at 7-15 percent per annum. The unpaid principal on the loan at June 30, 2002 was \$15,640.

Wastewater Treatment Lagoon Warrant

On June 6, 2001, the City entered into an agreement with Citizens Bank, Leon, Iowa to provide for the issuance of a warrant in connection with the construction of the Wastewater Treatment Lagoon. The warrant was issued to Citizens Bank in the maximum amount of \$260,000. The warrant was to be payable from the net revenues of the municipal sanitary sewer and mature on November 1, 2001 with interest at 5.9 percent per annum. The City received advances under this agreement of \$165,641. The warrant was redeemed by the City on October 25, 2001.

(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 salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002, was \$288, equal to the required contribution for that year.

(5) Risk Management

The City of Davis City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 400 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 annual contributions to the Pool for the year ended June 30, 2002 were \$3,651.

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 \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, 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 that 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, 2002, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

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

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and public officials bond in the amount of \$1,000,000 and \$25,000, respectively. The City assumes responsibility for any deductibles and claims in excess of coverage limits. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year.

(6) Service Agreements

The City has an agreement with Decatur County to provide police protection for its citizens. The City paid \$2,647 under this agreement during the year ended June 30, 2002.

(7) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed amounts budgeted appropriations at the program level. During the year ended June 30, 2002, disbursements in the Community Protection, Home and Community Environment, and Policy and Administration programs exceeded the amounts budgeted.

(8) Community Building Funds

As more fully described in finding (G), we were unable to determine the propriety of two bank accounts established using the City's taxpayer identification number. These two accounts include public funds derived from local option sales tax collections; tax levied for the City's General Fund, as well as donations and charges for use of the community building. These public funds should have been under the City's fiduciary control for deposit and investment purposes and, as such, would be subject to the public funds criteria for disbursement.

The funds in these two bank accounts have not been accounted for or reported by the City Clerk in the City's financial statements and reports or in this audit report. The balance at June 30, 2002 was \$5,890.

(9) Fire Department Funds

As described in finding (H), the City accounts for the transactions of the Volunteer Fire Department in the City's General Fund. However, the Volunteer Fire Department also has a separate savings account, with a June 30, 2002 balance of \$1,462, which has not been accounted for or reported by the City in the City's financial statements and reports or in this audit report.

(10) Subsequent Event

In August 2002, the City entered into a construction contract for Phase III of the wastewater treatment project for \$92,300 to be financed with community development block grant and community and facilities grant funds and revenues from City sewer operations.

City of Davis City

Supplemental Information

City of Davis City
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Park
Receipts:		
Property tax	\$ 17,085	-
Licenses and permits	75	-
Use of money and property:		
Interest on investments	2,025	14
Intergovernmental:		
State allocation	3,141	-
Clarke County development grant	2,655	-
Fire contracts	2,921	-
Other	390	-
	9,107	-
Charges for service:		
Park	-	272
Cemetery	-	-
Miscellaneous	165	-
	165	272
Miscellaneous	321	-
Total receipts	28,778	286
Disbursements:		
Community Protection Program:		
Fire department	7,627	-
Human Development Program:		
Park and recreation	650	-
Community center	1,914	-
	2,564	-
Home and Community Environment Program:		
Landfill	550	-
Cemetery	3,133	-
	3,683	-

Cemetery	Fire Grant	Tort Liability	Total
-	-	999	18,084
-	-	-	75
115	-	-	2,154
-	-	-	3,141
-	-	-	2,655
-	-	-	2,921
-	-	-	390
-	-	-	9,107
-	-	-	272
874	-	-	874
-	-	-	165
874	-	-	1,311
-	-	-	321
989	-	999	31,052
-	-	-	7,627
-	-	-	650
-	-	-	1,914
-	-	-	2,564
-	-	-	550
-	-	-	3,133
-	-	-	3,683

City of Davis City
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Park
Disbursements (continued):		
Policy and Administration Program:		
Mayor and council members	1,954	-
Clerk/treasurer	4,440	-
Elections	235	-
Legal and professional	51	-
City hall	2,073	-
General administration	7,017	-
	15,770	-
Total disbursements	29,644	-
Excess (deficiency) of receipts over (under) disbursements	(866)	286
Other financing sources (uses):		
Operating transfers in (out):		
General:		
General	-	(600)
Park	600	-
Cemetery	3,000	-
Fire Grant	1,655	-
Special Revenue:		
Fire Department Grant	(3,275)	-
Total other financing sources (uses)	1,980	(600)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,114	(314)
Balance beginning of year	1,204	2,230
Balance end of year	\$ 2,318	1,916

See accompanying independent auditor's report.

Cemetery	Fire Grant	Tort Liability	Total
-	-	-	1,954
-	-	-	4,440
-	-	-	235
-	-	-	51
-	-	-	2,073
-	-	811	7,828
-	-	811	16,581
-	-	811	30,455
989	-	188	597
(3,000)	(1,655)	-	(5,255)
-	-	-	600
-	-	-	3,000
-	-	-	1,655
-	-	-	(3,275)
(3,000)	(1,655)	-	(3,275)
(2,011)	(1,655)	188	(2,678)
5,298	1,655	-	10,387
3,287	-	188	7,709

Schedule 2

City of Davis City
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	Road Use Tax	Local Option Tax	Fire Department Grant	Total
Receipts:				
Other city tax:				
Local option sales tax	\$ -	8,117	-	8,117
Intergovernmental:				
Road use tax allocation	22,027	-	-	22,027
Rural development community and facilities grant	-	-	5,000	5,000
	<u>22,027</u>	<u>-</u>	<u>5,000</u>	<u>27,027</u>
Total receipts	<u>22,027</u>	<u>8,117</u>	<u>5,000</u>	<u>35,144</u>
Disbursements:				
Community Protection Program:				
Police	-	2,647	-	2,647
Fire department	-	-	8,275	8,275
Street lighting	4,391	-	-	4,391
	<u>4,391</u>	<u>2,647</u>	<u>8,275</u>	<u>15,313</u>
Home and Community Environment Program:				
Bridges, roads, and sidewalks	10,067	-	-	10,067
Policy and Administration Program:				
Legal and professional	-	825	-	825
General administration	-	1,583	-	1,583
	<u>-</u>	<u>2,408</u>	<u>-</u>	<u>2,408</u>
Total disbursements	<u>14,458</u>	<u>5,055</u>	<u>8,275</u>	<u>27,788</u>
Excess (deficiency) of receipts over (under) disbursements	7,569	3,062	(3,275)	7,356
Other financing sources:				
Operating transfers in:				
General:				
General	-	-	3,275	3,275
Excess of receipts and other financing sources over disbursements	7,569	3,062	-	10,631
Balance beginning of year	25,466	11,785	-	37,251
Balance end of year	<u>\$ 33,035</u>	<u>14,847</u>	<u>-</u>	<u>47,882</u>

See accompanying independent auditor's report.

City of Davis City
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2002

	Sewer Construction	Sewer Grant	Total
Receipts:			
Use of money and property:			
Interest on investments	\$ 299	-	299
Intergovernmental:			
Rural development community and facilities grant	120,000	-	120,000
Community development block grant	109,113	-	109,113
	<u>229,113</u>	<u>-</u>	<u>229,113</u>
Total receipts	<u>229,412</u>	<u>-</u>	<u>229,412</u>
Disbursements:			
Home and Community Environment Program:			
Sewers and sewage disposal	253,054	-	253,054
Debt service:			
Principal redeemed	165,641	-	165,641
Interest paid	1,791	-	1,791
Total disbursements	<u>420,486</u>	<u>-</u>	<u>420,486</u>
Deficiency of receipts under disbursements	<u>(191,074)</u>	<u>-</u>	<u>(191,074)</u>
Other financing sources (uses):			
Note proceeds	40,000	-	40,000
Interim financing	165,641	-	165,641
Operating transfers in (out):			
Capital Projects:			
Sewer Construction	-	1,019	1,019
Sewer Grant	(1,019)	-	(1,019)
Total other financing sources (uses)	<u>204,622</u>	<u>1,019</u>	<u>205,641</u>
Excess of receipts and other financing sources over disbursements and other financing uses	13,548	1,019	14,567
Balance beginning of year	<u>48,133</u>	<u>(1,019)</u>	<u>47,114</u>
Balance end of year	<u>\$ 61,681</u>	<u>-</u>	<u>61,681</u>

See accompanying independent auditor's report.

City of Davis City
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water Utility
Receipts:	
Use of money and property:	
Interest on investments	\$ 965
Charges for service:	
Sale of water	30,871
Sewer rental fees	-
Installations and connections	-
Meter deposits	1,905
Garbage services	-
	32,776
Miscellaneous	-
Total receipts	33,741
Disbursements:	
Home and Community Environment Program:	
Water utility	23,264
Sewer utility	-
Garbage	-
Debt service:	
Principal redeemed	-
Interest paid	-
Total disbursements	23,264
Excess (deficiency) of receipts over (under) disbursements	10,477
Other financing sources (uses):	
Operating transfers in (out):	
Enterprise:	
Water Utility	-
Sewer Utility	7,866
Total other financing sources (uses)	7,866
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,611
Balance beginning of year	50,595
Balance end of year	\$ 53,206

See accompanying independent auditor's report.

Sewer Utility	Garbage	Total
3,048	-	4,013
-	-	30,871
26,681	-	26,681
675	-	675
-	-	1,905
-	15,539	15,539
27,356	15,539	75,671
1,760	-	1,760
32,164	15,539	81,444
-	-	23,264
24,276	-	24,276
-	12,657	12,657
9,482	-	9,482
12,366	-	12,366
46,124	12,657	82,045
(13,960)	2,882	(601)
(7,866)	-	(7,866)
-	-	7,866
(7,866)	-	-
(6,094)	2,882	(601)
88,250	10,754	149,599
82,156	13,636	148,998

City of Davis City



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**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Davis City, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated March 6, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion for the omission of certain Community Building and Fire Department funds and since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

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 Davis City'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 of Davis City's operations for the year ended June 30, 2002 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 Davis City'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 Davis City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings.

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

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

March 6, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Davis City
Schedule of Findings
Year ended June 30, 2002

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 performing duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One individual has control over one or more of the following areas:

- (1) Accounting system - performance of all accounting functions and custody of assets.
- (2) Cash - preparing bank account reconciliations, cash receipt and disbursement functions, handling and recording cash.
- (3) Receipts - collecting, depositing, journalizing and recording.
- (4) Utility receipts - billing, collecting, depositing and recording.

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

Response - The City will review the segregation of duties and make every attempt to involve the Council Members in assisting with various duties.

Conclusion - Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquencies were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - We will total each month's billing totals with each month's collections to figure the delinquencies. However, we do have a shut off list at the end of each month which represents delinquencies.

Conclusion - Response acknowledged. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

City of Davis City

Schedule of Findings

Year ended June 30, 2002

- (C) Chart of Accounts and Accounting System - The City does not have an established chart of accounts. The accounting system consisted of a receipts journal and a journal of checks written, both maintained by the City Clerk. General and subsidiary ledgers have not been established.

Recommendation - To provide better financial information and control, a chart of accounts such as the one endorsed by the City Finance Committee should be established. Appropriate ledgers and subsidiary ledgers should be maintained and reconciled monthly for all funds.

Response - The City will establish a chart of accounts to be used for budget analysis and to provide additional information.

Conclusion - Response accepted.

- (D) Petty Cash - The City maintains a petty cash fund at City Hall. However, the Council has not adopted a resolution establishing an authorized amount. In addition, the City uses utility collections to replenish petty cash.

Recommendation - The Council should adopt a resolution establishing an authorized amount. In addition, utility collections should be recorded and deposited intact and petty cash should be replenished through a check drawn on the City's bank account.

Response - The City will approve a resolution allowing for petty cash. A separate book will be kept regarding any expense disbursed. We will direct that the Mayor review this account each month.

Conclusion - Response acknowledged. In addition, petty cash should be replenished through a check drawn on the City's bank account.

- (E) Receipts - Receipts were not issued for collections.

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

Response - The City shall purchase prenumbered receipt book for recording the collections.

Conclusion - Response accepted.

- (F) Disbursements - Certain invoices or other supporting documentation were not properly cancelled to prevent duplicate payment. Certain disbursements were not supported by proper documentation, or the invoices or other supporting documentation could not be located for review. In addition, certain other disbursements were not approved by the Council prior to payment. The City does not have a written disbursement approval policy allowing certain items to be paid prior to Council approval.

Recommendation - The City could 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 those specifically allowed by a policy. All disbursements should be supported by original invoices or other supporting

City of Davis City

Schedule of Findings

Year ended June 30, 2002

documentation and invoices or other supporting documentation should be marked or stamped "paid" with the date of the payment to prevent duplicate payment.

Response - The City shall adopt a written policy to allow disbursement of electrical and all utility type expenditures by the City Clerk prior to Council approval.

Conclusion - Response accepted.

- (G) Community Building Funds - In May 1998, a bank account was opened under the name of "Davis City Community Building Fund", c/o Lewis Hamilton, Mayor. This account appears to have been opened by the Mayor using the City's taxpayer identification number. The account was used to account for funds collected and disbursed for the construction of the community building. In addition to donations that were collected, \$16,000 of local option sales tax collected by the City and proceeds totaling \$10,900 from the City's General Fund from a matured certificate of deposit were deposited into this account.

In May 2001, a second bank account was opened under the name of "Community Davis City Fund." This account was opened by a citizen of Davis City using the City's taxpayer identification number. The account was used to account for collections received for the community building and charges for community building use by the community.

During the April 2002 Council meeting the City Council discussed that a Community City Board (Board) would be established and the remaining funds in the "Davis City Community Building Fund" of \$4,958 would be transferred to the "Community Davis City Fund". However, no formal action was taken by the Council to establish the Community Center Board or to authorize the transfer of funds held by the City.

Subsequent to the April 2002 meeting, a certified check was drawn by the City Clerk on the "Davis City Community Building Fund" to close that account and the proceeds were then deposited into the "Community Davis City Fund."

The funds in these two accounts have not been accounted for or reported by the City Clerk in the City's financial statements and reports.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa provides that public funds may only be used for the public benefit. Chapter 15A of the Code of Iowa establishes the requirements under which the state, a city or a county may provide financial assistance to or for the benefit of private persons.

We are unable to determine the propriety of the two bank accounts established using the City's taxpayer identification number. These two accounts include public funds derived from local option sales tax collections; tax levied for the City's General Fund as well as donations and charges for use of the community building. These public funds should have been under the City's fiduciary control for deposit and investment purposes and, as such, would be subject to the public funds criteria for disbursements.

The City should consult legal counsel to determine the disposition of these accounts and the propriety of the transfer of funds held by the City. Specifically, the City Council did not take action to formally establish the Board and did not take formal action regarding

City of Davis City

Schedule of Findings

Year ended June 30, 2002

these accounts or action to document public purpose and authorize the transfer of \$4,958. Accordingly, the City should retain custody and control over the accounts and funds until a legal determination has been made.

Response - The City will review the above comments. I do want it noted this fund was established by a previous Mayor. I have never seen an accounting of these funds. The Council will draft an ordinance establishing the Community Center Board and they in turn will report all income and expenses to the City Council. We await determination on control of the funds.

Conclusion - Response accepted.

- (H) Fire Department Funds - The City provides fire protection as required by Chapter 364.16 of the Code of Iowa. The City accounts for the transactions of the Volunteer Fire Department in the City's General Fund. However, the Volunteer Fire Department also has a separate savings account which has not been accounted for or reported by the City in the City's financial statements and reports, and this account has not been included in this audit report.

Recommendation - The City and Volunteer Fire Department should determine the status of the savings account for accountability and reporting purposes. If the Volunteer Fire Department wishes to maintain custody and control over the savings account, they would need to establish a legally separate "Fire Association", including Articles of Incorporation and By-Laws. Legal counsel should be consulted for assistance, as necessary, to resolve this issue.

Response - The Council will check with the Fire Department regarding this matter and decide if the City will set up a separate fund within the City's account or become incorporated.

Conclusion - Response accepted.

City of Davis City
Schedule of Findings
Year ended June 30, 2002

Other Findings Related to Required Statutory Reporting:

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

Recommendation - A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council.

Response - A resolution of deposit will be approved by the City Council in the near future.

Conclusion - Response accepted.

- (2) Certified Budget - Disbursements during the year ended June 30, 2002 exceeded the amount budgeted in the Community Protection, Home and Community Environment, and Policy and Administration programs. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The Clerk will set up an appropriation schedule in order to comply with the budget amendments.

Conclusion - Response accepted.

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

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

- (5) Business Transactions - No business transactions between the City and City officials or employees were noted.

- (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 ensure that the coverage is adequate for current operations.

- (7) Council Minutes - The City did not publish or post the actual gross wages of City employees as required by Chapter 372.13 of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

Recommendation - The City should comply with Chapter 372.13 of the Code of Iowa and publish or post gross wages as required.

Response - The City will post the gross wages as required by the Code.

Conclusion - Response accepted.

City of Davis City

Schedule of Findings

Year ended June 30, 2002

- (8) Deposits and Investments - Except as noted in item (1) above and as follows, no instances on non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

A written investment policy has not been adopted by the City as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City Council should adopt an investment policy as required.

Response - The City will adopt an investment policy.

Conclusion - Response accepted.

- (9) Revenue Notes - The City has not established the sinking and reserve accounts required by the revenue note resolutions. In addition, the City was unable to locate the resolution providing for the issuance of the sewer revenue notes issued in 1975.

Recommendation - The City should establish these accounts and make the required transfers. In addition, Chapter 372.13(5) states that all revenue note resolutions shall be retained for the life of the note and for at least eleven years following the final maturity of the notes.

Response - The City will establish the reserve and sinking accounts and report them on the monthly financial reports.

Conclusion - Response accepted.

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

City of Davis City

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Kathleen S. Caggiano, Staff Auditor
Tammy A. Wolterman, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State