



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 1, 2004

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Prescott, Iowa for the year ended June 30, 2002. The audit was performed as a result of a petition for audit filed by residents of the City.

The City's receipts totaled \$264,222 for the year ended June 30, 2002. The receipts included \$34,277 in property tax, \$46,259 from other governments, \$162,748 in charges for service and \$446 in interest on investments. The City also received note proceeds of \$88,500 that are reported as other financing sources.

Disbursements for the year totaled \$352,525, and included \$47,466 for community protection, \$22,043 for human development, \$242,804 for home and community environment and \$40,192 for policy and administration.

This report contains recommendations to the City Council and other City officials to review accounting and operating procedures to obtain the maximum internal control possible under the circumstances and to maintain proper financial accounting records. The report also includes findings pertaining to noncompliance with several statutory provisions and recommendations to comply with these provisions in the future. The City has responded favorably to the comments.

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

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

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City of Prescott

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Queener	Mayor	Jan 2004
Paula Simmer	Mayor Pro tem	Jan 2006
Galyn Mc Intire	Council Member	Jan 2004
Paula Mullinix	Council Member	Jan 2006
Jennifer Queener	Council Member	Jan 2006
Kim Reed	Council Member	Jan 2004
Judy Beckett	Clerk/Treasurer	Resigned April 2003
Jeff Milhollin	Attorney	Indefinite

City of Prescott



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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 Prescott, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Prescott's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following two paragraphs, 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, 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.


For the year ended June 30, 2002, utility billings, collections and delinquent accounts were not reconciled and certain billing and collection information was not retained. The City's records do not permit the application of other auditing procedures to utility records. Since we were not able to apply other auditing procedures to satisfy ourselves as to utility billings and collections, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the Enterprise Funds.

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, as discussed in the third paragraph, the aforementioned financial statements, excluding those of the Enterprise Funds on which we express no opinion, present fairly, in all material respects, the results of the cash transactions of the funds of the City of Prescott 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 our report dated March 31, 2004 on our consideration of the City of Prescott'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 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion pertaining to the Enterprise Funds on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the aforementioned 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, 2001, as discussed in the third paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 31, 2004

Financial Statements

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

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 23,975	-	10,302
Other city tax	2,251	-	929
Licenses and permits	583	-	-
Use of money and property	536	-	-
Intergovernmental	24,953	21,306	-
Charges for service	13,597	-	-
Miscellaneous	15,264	-	-
Total receipts	<u>81,159</u>	<u>21,306</u>	<u>11,231</u>
Disbursements:			
Community protection	47,466	-	-
Human development	22,043	-	-
Home and community environment	47,072	64,572	-
Policy and administration	40,192	-	-
Total disbursements	<u>156,773</u>	<u>64,572</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(75,614)</u>	<u>(43,266)</u>	<u>11,231</u>
Other financing sources (uses):			
Note proceeds	88,500	-	-
Operating transfers in	6,092	-	-
Operating transfers out	(6,092)	-	-
Total other financing sources	<u>88,500</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	12,886	(43,266)	11,231
Balance beginning of year	<u>30,482</u>	<u>(64)</u>	<u>-</u>
Balance end of year	<u>\$ 43,368</u>	<u>(43,330)</u>	<u>11,231</u>

See notes to financial statements.

Proprietary Fund Type	Total (Memorandum Only)
Enterprise	
-	34,277
-	3,180
-	583
60	596
-	46,259
149,151	162,748
1,315	16,579
150,526	264,222
-	47,466
-	22,043
131,160	242,804
-	40,192
131,160	352,505
19,366	(88,283)
-	88,500
-	6,092
-	(6,092)
-	88,500
19,366	217
16,623	47,041
35,989	47,258

City of Prescott

City of Prescott

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

	Actual	Amended Budget	Variance Favorable (Unfavorable)	Actual % of Amended Budget
Receipts:				
Property tax	\$ 34,277	33,723	554	102%
Other city tax	3,180	3,092	88	103%
Licenses and permits	583	600	(17)	97%
Use of money and property	596	1,675	(1,079)	36%
Intergovernmental	46,259	63,165	(16,906)	73%
Charges for service	162,748	163,010	(262)	100%
Miscellaneous	16,579	7,315	9,264	227%
Total receipts	264,222	272,580	(8,358)	97%
Disbursements:				
Community protection	47,466	37,932	(9,534)	125%
Human development	22,043	38,085	16,042	58%
Home and community environment	242,804	247,221	4,417	98%
Policy and administration	40,192	48,414	8,222	83%
Total disbursements	352,505	371,652	19,147	95%
Deficiency of receipts under disbursements	(88,283)	(99,072)		
Other financing sources, net	88,500	108,500		
Excess of receipts and other financing sources over disbursements and other financing uses	217	9,428		
Balance beginning of year	47,041	48,630		
Balance end of year	\$ 47,258	58,058		

See notes to financial statements.

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Street improvement	Jun 15, 1995	5.75-6.00%	\$ 25,000
Street improvement	Aug 4, 1995	4.75	12,500
Street improvement	Oct 13, 1999	5.00	12,000
Street improvement	Sep 12, 2000	6.00	13,000
Corporate purpose and refunding note	Nov 13, 2001	4.50	88,500
Total			
Revenue bonds:			
Sewer	Apr 6, 1972	5.00	\$ 125,000
Lease purchase:			
Fire truck	Nov 4, 1996	5.75	\$ 50,000

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
10,000	-	10,000	-	300
7,500	-	7,500	-	178
9,600	-	9,600	-	239
13,000	-	13,000	-	389
-	88,500	14,750	73,750	2,190
\$ 40,100	88,500	54,850	73,750	3,296
62,000	-	4,000	58,000	3,100
21,420	-	21,420	-	3,913

City of Prescott

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The City of Prescott is a political subdivision of the State of Iowa located in Adams County. It was first incorporated in 1870 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

For financial reporting purposes, City of Prescott 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: Adams County Assessor's Conference Board.

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

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

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 Prescott 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 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 No. 3.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 14,750	3,319	5,000	2,900	19,750	6,219
2004	14,750	2,655	5,000	2,650	19,750	5,305
2005	14,750	1,991	5,000	2,400	19,750	4,391
2006	14,750	1,327	5,000	2,150	19,750	3,477
2007	14,750	664	6,000	1,900	20,750	2,564
2008	-	-	6,000	1,600	6,000	1,600
2009	-	-	6,000	1,300	6,000	1,300
2010	-	-	6,000	1,000	6,000	1,000
2011	-	-	7,000	700	7,000	700
2012	-	-	7,000	350	7,000	350
Total	\$ 73,750	9,956	58,000	16,950	131,750	26,906

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, during the year, note principal and interest was paid from the General Fund and the Special Revenue Fund, Road Use Tax Fund.

The resolution providing for the issuance of the revenue bonds includes the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) A sewer reserve account shall be established in the amount of \$7,500. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

The City has not established the sinking account required by the sewer revenue bond resolution.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002 was \$1,433, equal to the required contribution for the year.

(5) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2002, disbursements in the Community Protection program exceeded the amount budgeted.

(6) 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.

(7) Deficit Balance

The Special Revenue Fund, Road Use Tax Account had a deficit balance of \$43,330 at June 30, 2002. The deficit balance resulted from recording debt payments in the fund.

City of Prescott

Supplemental Information

Schedule 1City of Prescott
Combined Schedule of Cash Transactions

General Fund

Year ended June 30, 2002

	General	Fire	Library	Museum	Volunteer Fire and Rescue	Total
Receipts:						
Property tax	\$ 23,975	-	-	-	-	23,975
Other city tax:						
Utility tax replacement excise tax	2,251	-	-	-	-	2,251
Licenses and permits	583	-	-	-	-	583
Use of money and property:						
Interest on investments	238	3	52	93	150	536
Intergovernmental:						
State allocation	3,525	-	-	-	-	3,525
Bank franchise tax	1,867	-	-	-	-	1,867
County contributions	3,150	-	-	-	2,547	5,697
Other	-	-	-	-	260	260
Township contributions	13,604	-	-	-	-	13,604
	22,146	-	-	-	2,807	24,953
Charges for service:						
Sanitation fees	13,597	-	-	-	-	13,597
Miscellaneous:						
Donations and contributions	-	-	3,530	2,793	2,531	8,854
Fund raiser	-	-	-	-	4,103	4,103
Sale of rock	229	-	-	-	-	229
Miscellaneous	1,288	-	-	476	314	2,078
	1,517	-	3,530	3,269	6,948	15,264
Total receipts	64,307	3	3,582	3,362	9,905	81,159
Disbursements:						
Community Protection Program:						
Street lighting	3,180	-	-	-	-	3,180
Fire department:						
Personal services	309	-	-	-	-	309
Contractual services	3,371	-	-	-	4,383	7,754
Commodities	2,736	-	-	-	3,372	6,108
Capital outlay	2,903	-	-	-	1,417	4,320
Debt service:						
Principal redeemed	21,420	-	-	-	-	21,420
Interest paid	3,913	-	-	-	-	3,913
	34,652	-	-	-	9,172	43,824
Disaster services	462	-	-	-	-	462
	38,294	-	-	-	9,172	47,466

City of Prescott
 Combined Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2002

	General	Fire	Library	Museum	Volunteer Fire and Rescue	Total
Disbursements (continued):						
Human Development Program:						
Library:						
Personal services	6,427	-	-	-	-	6,427
Contractual services	1,161	-	-	-	-	1,161
Commodities	5,429	-	-	-	-	5,429
	13,017	-	-	-	-	13,017
Community beautification	80	-	-	-	-	80
Park:						
Contractual services	167	-	-	-	-	167
Commodities	613	-	-	-	-	613
Capital outlay	1,023	-	-	-	-	1,023
	1,803	-	-	-	-	1,803
Museum:						
Contractual services	1,270	-	-	-	-	1,270
Commodities	5,403	-	-	-	-	5,403
Capital outlay	458	-	-	-	-	458
	7,131	-	-	-	-	7,131
Animal control	12	-	-	-	-	12
	22,043	-	-	-	-	22,043
Home and Community Environment Program:						
Streets:						
Contractual services	15,943	-	-	-	-	15,943
Debt service:						
Principal redeemed	14,750	-	-	-	-	14,750
Interest paid	2,190	-	-	-	-	2,190
	32,883	-	-	-	-	32,883
Garbage collection:						
Contractual services	14,189	-	-	-	-	14,189
	47,072	-	-	-	-	47,072
Policy and Administration Program:						
Mayor and council members:						
Personal services	1,867	-	-	-	-	1,867
Clerk and treasurer:						
Personal services	17,543	-	-	-	-	17,543
Legal services:						
Contractual services	1,290	-	-	-	-	1,290

Schedule 1

City of Prescott
Combined Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Fire	Library	Museum	Volunteer Fire and Rescue	Total
Disbursements (continued):						
Policy and Administration Program:						
General administration:						
Contractual services	11,923	-	-	-	-	11,923
City hall:						
Contractual services	7,569	-	-	-	-	7,569
	<u>40,192</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,192</u>
Total disbursements	<u>147,601</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,172</u>	<u>156,773</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(83,294)</u>	<u>3</u>	<u>3,582</u>	<u>3,362</u>	<u>733</u>	<u>(75,614)</u>
Other financing sources (uses):						
Note proceeds	88,500	-	-	-	-	88,500
Operating transfers in (out):						
General:						
General	-	-	(1,541)	(4,551)	-	(6,092)
Library	1,541	-	-	-	-	1,541
Museum	4,551	-	-	-	-	4,551
Total other financing sources	<u>94,592</u>	<u>-</u>	<u>(1,541)</u>	<u>(4,551)</u>	<u>-</u>	<u>88,500</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>11,298</u>	<u>3</u>	<u>2,041</u>	<u>(1,189)</u>	<u>733</u>	<u>12,886</u>
Balance beginning of year	<u>1,546</u>	<u>258</u>	<u>3,989</u>	<u>10,453</u>	<u>14,236</u>	<u>30,482</u>
Balance end of year	<u>\$ 12,844</u>	<u>261</u>	<u>6,030</u>	<u>9,264</u>	<u>14,969</u>	<u>43,368</u>

See accompanying independent auditor's report.

City of Prescott
 Schedule of Cash Transactions
 Special Revenue Fund
 Year ended June 30, 2002

	Road Use Tax
Receipts:	
Intergovernmental:	
Road use tax allocation	\$ 21,306
Disbursements:	
Home and Community Environment Program:	
Personal services	10,348
Contractual services	3,446
Commodities	4,580
Capital outlay	4,992
Debt service:	
Principal redeemed	40,100
Interest paid	1,106
Total disbursements	64,572
Deficiency of receipts under disbursements	(43,266)
Balance beginning of year	(64)
Balance end of year	\$ (43,330)

See accompanying independent auditor's report.

Schedule 3

City of Prescott
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2002

	<u>General Obligation Notes</u>
Receipts:	
Property tax	\$ 10,302
Other city tax:	
Utility tax replacement excise tax	<u>929</u>
Total receipts	11,231
Disbursements:	
None	<u>-</u>
Excess of receipts over disbursements	11,231
Balance beginning of year	<u>-</u>
Balance end of year	<u><u>\$ 11,231</u></u>

See accompanying independent auditor's report.

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

	Water	Gas	Sewer	Total
Receipts:				
Use of money and property:				
Interest on investments	\$ -	60	-	60
Charges for service:				
Sale of water	41,400	-	-	41,400
Sale of gas	-	83,503	-	83,503
Sewer rental fees	-	-	24,248	24,248
	41,400	83,503	24,248	149,151
Miscellaneous:				
Sales tax collected	196	158	-	354
Customer deposits	223	738	-	961
	419	896	-	1,315
Total receipts	41,819	84,459	24,248	150,526
Disbursements:				
Home and Community Environment Program:				
Personal services	5,534	5,462	5,489	16,485
Contractual services	25,346	63,664	398	89,408
Commodities	6,624	4,451	1,672	12,747
Capital outlay	1,930	1,220	2,270	5,420
Debt service:				
Principal redeemed	-	-	4,000	4,000
Interest paid	-	-	3,100	3,100
Total disbursements	39,434	74,797	16,929	131,160
Excess of receipts over disbursements	2,385	9,662	7,319	19,366
Balance beginning of year	556	9,295	6,772	16,623
Balance end of year	\$ 2,941	18,957	14,091	35,989

See accompanying independent auditor's report.

Schedule 5

City of Prescott
Bond and Note Maturities
June 30, 2002

Year Ending June 30,	<u>General Obligation</u> <u>Corporate Purpose/ Refunding</u> <u>Issued Nov 13, 2001</u>		<u>Revenue Bonds</u> <u>Sewer</u> <u>Issued Apr 6, 1972</u>	
	Interest Rates	Amount	Interest Rates	Amount
2003	4.50%	\$ 14,750	5.00%	\$ 5,000
2004	4.50	14,750	5.00	5,000
2005	4.50	14,750	5.00	5,000
2006	4.50	14,750	5.00	5,000
2007	4.50	14,750	5.00	6,000
2008		-	5.00	6,000
2009		-	5.00	6,000
2010		-	5.00	6,000
2011		-	5.00	7,000
2012		-	5.00	7,000
Total		<u>\$ 73,750</u>		<u>\$ 58,000</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 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 Prescott, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated March 31, 2004. Due to the unavailability of certain utility records, our report disclaimed an opinion on the financial statements of the Enterprise Funds. Except for the Enterprise Funds, our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion 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 Prescott'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 Prescott'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.

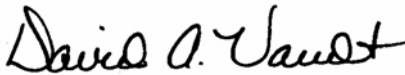
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Prescott'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 Prescott'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.

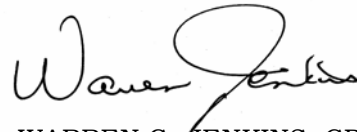
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected 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, B, E, F, G and H are material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Prescott and other parties to whom the City of Prescott 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 Prescott 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 31, 2004

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Part II: 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. One person has control over each of the following areas for the City:

- (1) Accounting system - performing all general accounting functions and having custody of assets.
- (2) Receipts - collecting, depositing, journalizing, posting and reconciling.
- (3) Disbursements - check writing, journalizing and reconciling.
- (4) Cash - initiating cash receipts and disbursements, recording and reconciling.
- (5) Investments - investing, recording, reconciling interest earnings and custody.
- (6) Utilities - billing, collecting, depositing and reconciling.
- (7) Payroll - preparation and distribution.

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.

Response – A few new policies have been implemented since May 2003. Bank deposit slips are matched with the computer printout of accounts credited. We have discussed having someone from the bank sign off on the books twice a year. We have yet to decide on the person to do that. Bank statements have been reconciled every month and a report given to the Council. With no way to segregate, the Clerk is very careful to fully document details and leave a good paper trail.

Conclusion – Response accepted.

City of Prescott

Schedule of Findings

Year ended June 30, 2002

- (B) Bank Reconciliations – The book balances have not been reconciled to the bank accounts and investments monthly and provided to the Council. A list of outstanding checks was not always prepared at the end of each month, or they could not be located, and certain voided checks were not retained.

The Council was not provided accurate financial information with which to make decisions. Monthly Treasurer and Clerk reports which included correct investment and fund balances could not be located, nor could budget comparison reports. Also, certain transactions were not recorded in the City's computer system.

Recommendation – To improve financial accountability and control, the book and bank balances should be reconciled monthly. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared at the end of each month end and should be retained, along with all voided checks.

The Council should be provided each month with at least the basic financial reports to ensure decisions can be made based on current financial information for the City. The City's computer system should include all financial transactions to ensure reliability and enhance report preparation.

Response – Accounts are reconciled monthly and books are balanced, followed with a report given to the Council.

Conclusion – Response accepted.

- (C) Financial Management – There were several bank charges for insufficient funds during the year.

Recommendation – The City should implement procedures to ensure funds needed for operations are readily available and are transferred to the checking account in a timely manner to avoid deficit balances in this account.

Response – Bank accounts are balanced monthly, and the reconciled balance is known daily to avoid insufficient funds penalties. New administration is more aware of finances of the City and the funds available.

Conclusion – Response accepted.

- (D) Imprest Cash – Petty cash funds on hand at City Hall did not appear to be maintained on an imprest basis.

Recommendation – The cash funds should be maintained on an imprest basis and the cash on hand should be included in the appropriate fund balance. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

City of Prescott

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Response – A petty cash fund has been set up and accounted for in the fund balance, on an imprest basis.

Conclusion – Response accepted.

- (E) Receipts – Certain receipt journals were not available and deposit slips did not contain detail of all checks being deposited. Certain receipts tested could not be traced to a posting in the cash receipts journal or to a deposit, and the receipts did not always indicate the type of payment received.

Recommendation – All receipt journals should be available and deposit slips should include the detail of the money deposited. Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. Also, receipts should indicate the type of payment received and should be reconciled to deposits.

Response – Deposit slips are matched with a receipt statement. Receipts are kept by month. Details are recorded on the receipt statement as an additional procedure.

Conclusion – Response accepted.

- (F) Utility Billings, Collections and Delinquencies – We were unable to determine the propriety of the amounts recorded and deposited for utility collections due to incomplete records, as noted below:

- (1) Utility billings, collections and delinquencies were not reconciled. Also, a monthly delinquent account listing was not prepared.
- (2) Meter reading sheets and paid utility bill stubs were not retained.
- (3) The utility receipt registers were unavailable.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquencies monthly. The Council should review the reconciliation monthly and variances, if any, should be resolved timely.

In addition, procedures should be established to ensure all utility records are maintained and available and all paid stubs are retained and indicate the date paid by the customer to document collections are posted and deposited on a timely basis.

Response – A new billing program has been implemented and established policies followed. Delinquent account negotiations have been documented in great detail, and followed up upon. The City is slowly closing the gap on delinquent accounts. With the new billing program it is easier to see a history of certain accounts, whereas before only a one year history could be kept.

Conclusion – Response accepted.

City of Prescott

Schedule of Findings

Year ended June 30, 2002

- (G) Disbursements – Certain invoices were not properly marked paid or cancelled to prevent possible duplicate payment. Some disbursements did not agree with the amount on the Council approved listing. Also, the minutes did not always contain the list of bills approved by the Council and some bills paid were not on the Council approved list of bills.

Recommendation – All invoices and supporting documentation should be cancelled to help prevent possible duplicate payment. All invoices should be approved by the Council on a complete and accurate listing of bills included in the minutes. The checks issued should agree with the amounts presented on the Council approved listing.

Response – Invoices are stamped with date, check number, and amount paid. The Council approves all bills, and a listing has been put in the minutes.

Conclusion – Response accepted.

- (H) Separately Maintained Records – Prescott Volunteer Fire and Rescue maintained its checking and savings account records in a location separate from the Clerk's office. These accounts were not reflected in the City's accounting system, monthly fund balances or annual budget. Additionally, all accounting functions were handled by the Treasurer of the Fire and Rescue department and prenumbered receipts were not issued for all collections.

Also, book balances were not reconciled to the bank accounts and investments and were not provided with a list of outstanding checks. Also, checks were not always written in numerical sequence.

Recommendation – Chapter 384.20 of the Code of Iowa states in part that a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose. Volunteer Fire and Rescue account financial transactions should be included in the Clerk's monthly financial reports. Internal control would be strengthened and operating efficiency could be increased by integrating the account receipts and disbursements with the City accounting records in the Clerk's office. To improve accountability and control, the book and bank balances should be reconciled monthly. A listing of outstanding checks should be prepared each month and retained along with all voided checks. Internal control would be strengthened if prenumbered receipts were issued for all collections and all checks were written in numerical sequence and accounted for.

If the Volunteer Fire and Rescue account receipts and disbursements are not integrated with the City accounting records in the Clerk's office, duties should be segregated to the extent possible, prenumbered receipts should be issued, monthly reconciliations should be prepared and checks should be written in numerical order.

Response – We will implement the recommendations.

Conclusion – Response accepted.

City of Prescott

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Other Findings Related to Statutory Reporting:

- (1) Official Depositories – A resolution naming an official depository has been adopted by the City Council. However, a maximum deposit amount was not stated in the depository resolution.

Recommendation – A new resolution stating an amount sufficient to cover anticipated balances at the approved depository should be adopted by the City Council.

Response – A new resolution was adopted, naming a maximum deposit amount on Tuesday, March 9, 2004.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2002 exceeded the amount budgeted in the Community Protection program. 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.

The notice of the budget amendment hearing was not timely published as required by Chapter 384.16 of the Code of Iowa.

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

The notice of the budget amendment hearing should be published not less than 10 days or more than 20 days prior to the hearing date.

Response – In the future, the budget will be used more as a financial tool reflecting accurate information than it has in the past. An amendment will be done if it appears we will exceed the budget.

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 insure the coverage is adequate for current operations.

City of Prescott

Schedule of Findings

Year ended June 30, 2002

- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not, except as follows:

Transfers were not approved by the Council and listed in the minutes record.

The City did not publish annual gross salaries in accordance with Chapter 372.13(6) of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

The publication of the Council minutes did not include an explanation of the claims as required by an Attorney General's opinion dated April 12, 1978.

Certain minutes of meetings were not available for review as some had not yet been transcribed. These minutes were not published timely in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – The Council should ensure all minutes are transcribed and available for timely publication, transfers are approved through the certified budget, resolutions or minutes record and the purpose of claims are published as required by Chapter 372.13(6) of the Code of Iowa. Also, the City should publish individual salaries annually.

Response – Minutes will be published timely and presented to the Council for approval, claims and salaries will be published and transfers will be approved.

Conclusion – Response accepted.

- (8) Deposits and Investments – Except as noted in item (1), no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted. However, the current investment policy adopted by the Council does not contain the correct references to the Code of Iowa.

Recommendation – An updated investment policy should be adopted by the Council with correct code references to Chapters 12B and 12C of the Code of Iowa.

Response – An updated policy will be put in place.

Conclusion – Response accepted.

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

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

Response – A sinking fund was established on July 1, 2003.

Conclusion – Response accepted.

City of Prescott

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

- (10) Payment of General Obligation Debt – Certain general obligation debt was paid from the General Fund and the Special Revenue Fund, Road Use Tax Account. Chapter 384.4 of the Code of Iowa states in part that “Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from the appropriate fund to the Debt Service Fund for future funding contributions. Payments for notes and interest should then be disbursed from the Debt Service Fund.

Response – Funds will be transferred in the future to the Debt Service Fund to make debt payments.

Conclusion – Response accepted.

- (11) Payroll Withholdings – The City did not withhold the correct amount of federal tax as required by federal regulations and did not always withhold Iowa Public Employees Retirement System (IPERS) amounts for a City employee.

Recommendation – The City should consult the Internal Revenue Service and IPERS regarding the disposition of these matters.

Response – The accounting system has been updated with correct withholding amounts, and payroll tables will be updated annually, as the law requires.

Conclusion – Response accepted.

- (12) Annual Financial Report – The City did not publish or file the annual financial report for the fiscal year ended June 30, 2002 until May 2003. Chapter 384.22 of the Code of Iowa requires the report be filed with the Auditor of State not later than December 1 of each year.

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

Response – The financial report will be filed timely in the future.

Conclusion – Response accepted.

- (13) Financial Condition – The City had a deficit of \$43,330 in the Special Revenue Fund, Road Use Tax Account at June 30, 2002. The City issued a refunding note during the year ended June 30, 2002 and deposited all of the proceeds into the General Fund. Street improvement notes were then repaid from the Special Revenue Fund, Road Use Tax Account, increasing the deficit balance.

Recommendation – The City should approve a corrective transfer from the General Fund in the amount of \$41,206 to reimburse the Special Revenue Fund for the debt payments made. The City should also investigate alternatives to eliminate the remaining deficit in order to return the account to a sound financial condition.

City of Prescott

Schedule of Findings

Year ended June 30, 2002

Response – The City will follow recommendation made by the Auditor of State and transfer from the General Fund to reimburse the Special Revenue Fund.

Conclusion – Response accepted.

- (14) Employee Benefits – The City did not maintain a separate Special Revenue Fund to account for the employee benefits property tax levy as required by Chapter 384.6 of the Code of Iowa and rules adopted by the City Finance Committee in accordance with Chapter 384.13 of the Code of Iowa.

Recommendation – The City should establish this fund as required by the Code of Iowa.

Response – The City will establish this fund in the future.

Conclusion – Response accepted.

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

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

Response – The City has talked to the bank and they will be sending copies of both sides of cancelled checks with statements in the future.

Conclusion – Response accepted.

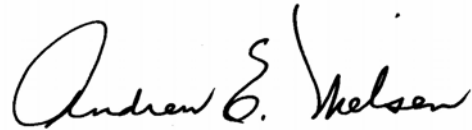
- (16) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Prescott

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State