



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE March 31, 2006

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

The City's receipts totaled \$324,860 for the year ended June 30, 2005. The receipts included \$38,206 in property tax, \$75,864 from charges for service, \$76,426 from operating grants, contributions and restricted interest, \$61,036 from capital grants, contributions and restricted interest, \$15,321 from local option sales tax, \$51,300 from bank loan proceeds and \$6,707 from other general receipts.

Disbursements for the year totaled \$333,482, and included \$93,974 for public safety, \$57,552 for debt service and \$43,258 for public works. Also, disbursements for business type activities totaled \$79,957.

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

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CITY OF WAUCOMA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2005

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City of Waucoma

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kevin Kleve	Mayor	Jan 2006
Gary Gossling	Mayor Pro tem	Jan 2006
Ken Hemesath	Council Member	Jan 2006
David Klimesh	Council Member	Jan 2006
Richard Bohr	Council Member	Jan 2006
Tom Sloan	Council Member	Jan 2006
Lois Langreck	Clerk/Treasurer	Indefinite
Jan Kleve	Water/Sewer Superintendent	Indefinite
Stephan Belay	Attorney	Indefinite

City of Waucoma



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Waucoma, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Waucoma's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

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

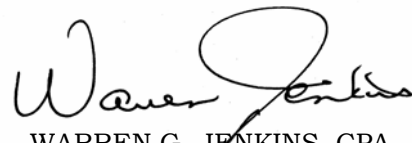
As described in Note 7, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2006 on our consideration of the City of Waucoma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Waucoma's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 6, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Waucoma provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2005 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental funds increased by approximately \$14,000 due to cut backs in City spending.
- The cash basis net assets for the City's business type activities decreased by approximately \$23,000 due to water tower repairs and other utility improvements.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and sanitary sewer system. These activities are financed primarily by user fees and related charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue Funds, such as Road Use Tax. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

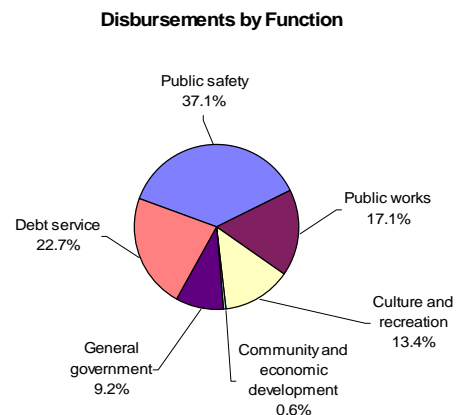
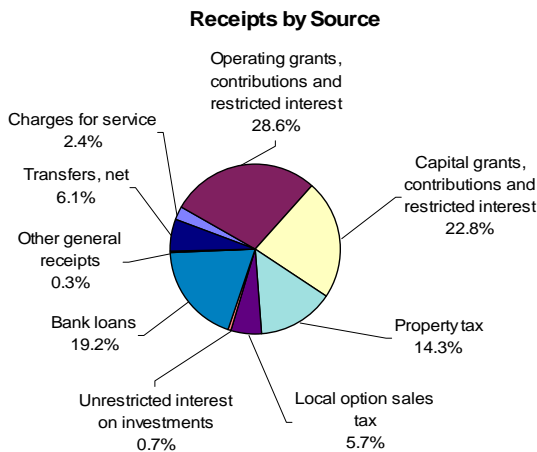
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer operations, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$196,611 to \$210,685 during the year. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2005
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 6,328
Operating grants, contributions and restricted interest	76,426
Capital grants, contributions and restricted interest	61,036
General receipts:	
Property tax	38,206
Local option sales tax	15,321
Unrestricted interest on investments	1,772
Bank loans	51,300
Other general receipts	781
Transfers, net	16,429
Total receipts and transfers	267,599
Disbursements:	
Public safety	93,974
Public works	43,258
Culture and recreation	33,929
Community and economic development	1,579
General government	23,233
Debt service	57,552
Total disbursements	253,525
Increase in cash basis net assets	14,074
Cash basis net assets beginning of year	196,611
Cash basis net assets end of year	\$ 210,685



The cash basis net assets for the City's governmental funds increased primarily due to reductions in City spending.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Water	\$ 69,536
General receipts:	
Unrestricted interest on investments	4,154
Total receipts	<u>73,690</u>
Disbursements and transfers:	
Water	53,081
Sewer	26,876
Transfers, net	16,429
Total disbursements and transfers	<u>96,386</u>
Decrease in cash basis net assets	(22,696)
Cash basis net assets beginning of year	<u>209,582</u>
Cash basis net assets end of year	<u>\$ 186,886</u>

The cash basis net assets for the City's business type activities decreased primarily due to water tower repairs and other utility improvements.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Waucoma completed the year, its governmental funds reported a combined fund balance of \$210,685, an increase of more than \$14,000 above last year's total of \$196,611. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$7,373 from the prior year to a year-end balance of \$101,514. This decrease is attributable to the purchase of a fire truck.
- The Special Revenue, Waucoma Volunteer Fire Department Fund cash balance increased \$14,605 over the prior year to a year end balance of \$19,127. The increase is due to grant funds received that were not disbursed until after June 30, 2005.
- The Special Revenue, Road Use Tax Fund cash balance decreased insignificantly by \$682 from the prior year, resulting in a year end balance of \$58,004.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$29,151 to a year end balance of \$99,211. The City Council paid for water tower work and other system improvements.
- The Sewer Fund cash balance increased by \$6,455 to a year end balance of \$87,675.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The amendments were approved on April 26, 2005 and May 24, 2005 and resulted in an overall increase of \$109,392 in operating disbursements due to a \$55,000 fire vehicle purchase and an anticipated bridge renovation project.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$372,372 in long-term revenue bond and other long-term debt, as follows:

Outstanding Debt at Year-End	
	June 30, 2005
Water revenue bonds	\$ 142,172
Sewer revenue bonds	123,140
Bank loans	107,060
Total	\$ 372,372

City debt payments in FY2005 reduced outstanding debt by \$10,179, without the issuance of any new debt.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City has no outstanding general obligation bonded indebtedness at June 30, 2005. The City's general obligation bank loans totaling \$107,060 is significantly below its constitutional debt limit of approximately \$357,566.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Several factors were considered when formulating the FY2006 budget. The first factor is the increase in property tax valuation which has resulted in additional taxes.

Second, the City can no longer depend upon State intergovernmental revenue. Bank franchise and allocation are no longer received.

The proposed FY2006 budget contains total revenues of \$382,492 and expenditures of \$445,500.

The proposed FY2006 levy is \$8.10 per \$1,000 of assessed valuation, the same as in FY2005. Unfortunately, the City has maximized its General Fund levy limit of \$8.10 and will levy its Emergency Fund levy limit of \$0.27 in FY2006. The increase in valuation results in a direct increase in general revenue. Utilizing local option sales tax for debt reduction has resulted in a reduction of street improvement debt which would otherwise have to be paid from property taxes.

New bridge work was estimated to be \$40,000 in FY2005. The new estimate for the bridge work is determined to be \$80,000 for the City's share. These costs will be financed through other financial sources and/or general obligation bonds/notes.

These parameters were taken into account when adopting the budget for FY2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lois Langreck, City Clerk, 24592 White Tail Rd., Waucoma, IA 52171.

City of Waucoma

Basic Financial Statements

City of Waucoma

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 93,974	225	30,575	30,484
Public works	43,258	888	24,581	-
Culture and recreation	33,929	5,065	18,832	-
Community and economic development	1,579	-	-	-
General government	23,233	150	2,438	-
Debt service	57,552	-	-	30,552
Total governmental activities	253,525	6,328	76,426	61,036
Business type activities:				
Water	53,081	69,536	-	-
Sewer	26,876	-	-	-
Total business type activities	79,957	69,536	-	-
Total	\$ 333,482	75,864	76,426	61,036

General Receipts:

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

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Streets
 Waucoma Volunteer Fire Department
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(32,690)	-	(32,690)
(17,789)	-	(17,789)
(10,032)	-	(10,032)
(1,579)	-	(1,579)
(20,645)	-	(20,645)
(27,000)	-	(27,000)
(109,735)	-	(109,735)
-	16,455	16,455
-	(26,876)	(26,876)
-	(10,421)	(10,421)
(109,735)	(10,421)	(120,156)
38,206	-	38,206
15,321	-	15,321
1,772	4,154	5,926
51,300	-	51,300
781	-	781
16,429	(16,429)	-
123,809	(12,275)	111,534
14,074	(22,696)	(8,622)
196,611	209,582	406,193
\$ 210,685	186,886	397,571
\$ 58,004	-	58,004
19,127	-	19,127
32,040	-	32,040
101,514	186,886	288,400
\$ 210,685	186,886	397,571

City of Waucoma

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

As of and for the year ended June 30, 2005

	Special Revenue		
	General	Waucoma Volunteer Fire Department	Road Use Tax
Receipts:			
Property tax	\$ 38,206	-	-
Other city tax	15,321	-	-
Licenses and permits	375	-	-
Use of money and property	2,532	-	-
Intergovernmental	17,588	30,984	24,582
Charges for service	5,231	-	-
Miscellaneous	39,411	7,825	-
Total receipts	<u>118,664</u>	<u>38,809</u>	<u>24,582</u>
Disbursements:			
Operating:			
Public safety	62,041	24,204	-
Public works	17,994	-	25,264
Culture and recreation	30,067	-	-
Community and economic development	1,579	-	-
General government	23,233	-	-
Debt service	57,552	-	-
Total disbursements	<u>192,466</u>	<u>24,204</u>	<u>25,264</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(73,802)</u>	<u>14,605</u>	<u>(682)</u>
Other financing sources (uses):			
Bank loans	50,000	-	-
Operating transfers in	17,229	-	-
Operating transfers out	(800)	-	-
Total other financing sources (uses)	<u>66,429</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(7,373)	14,605	(682)
Cash balances beginning of year	108,887	4,522	58,686
Cash balances end of year	<u>\$ 101,514</u>	<u>19,127</u>	<u>58,004</u>
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 101,514	-	-
Special revenue funds	-	19,127	58,004
Total cash basis fund balances	<u>\$ 101,514</u>	<u>19,127</u>	<u>58,004</u>

See notes to financial statements.

Nonmajor Special Revenue	Total
-	38,206
-	15,321
-	375
363	2,895
3,397	76,551
-	5,231
14,055	61,291
17,815	199,870
7,729	93,974
-	43,258
3,862	33,929
-	1,579
-	23,233
-	57,552
11,591	253,525
6,224	(53,655)
1,300	51,300
-	17,229
-	(800)
1,300	67,729
7,524	14,074
24,516	196,611
32,040	210,685
-	101,514
32,040	109,171
32,040	210,685

City of Waucoma

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

As of and for the year ended June 30, 2005

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 69,536	-	69,536
Operating disbursements:			
Business type activities	37,724	18,275	55,999
Excess (deficiency) of operating receipts over (under) operating disbursements	31,812	(18,275)	13,537
Non-operating receipts (disbursements):			
Interest on investments	3,072	1,082	4,154
Debt service	(15,357)	(8,601)	(23,958)
Net non-operating disbursements	(12,285)	(7,519)	(19,804)
Excess (deficiency) of receipts over (under) disbursements	19,527	(25,794)	(6,267)
Transfers:			
Operating transfers in	800	32,249	33,049
Operating transfers out	(49,478)	-	(49,478)
Total transfers	(48,678)	32,249	(16,429)
Net change in cash balances	(29,151)	6,455	(22,696)
Cash balances beginning of year	128,362	81,220	209,582
Cash balances end of year	\$ 99,211	87,675	186,886
Cash Basis Fund Balances			
Unreserved	\$ 99,211	87,675	186,886

See notes to financial statements.

City of Waucoma

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Waucoma is a political subdivision of the State of Iowa located in Fayette County. It was first incorporated in 1855 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Waucoma 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.

These financial statements present the City of Waucoma (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The following component unit is legally separate from the City, but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Fund.

The Waucoma First Responders, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa for the purpose of providing emergency medical and emergency rescue services to people in Waucoma and the surrounding area. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Waucoma First Responders, Inc. meets the definition of a component unit which should be blended. The financial activity for the account held by the component unit has been blended as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Fayette County Assessor's Conference Board, Fayette County Emergency Management Commission and the Fayette County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Waucoma Volunteer Fire Department Fund is used to account for operation of the Fire Department to extinguish fires and perform related duties.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety, debt service and business type activities functions.

(2) Cash and Investments

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

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

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

(3) Bonds and Bank Loans Payable

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

Year Ending June 30,	Principal	Interest	Total
2006	\$ 10,689	13,266	23,955
2007	11,224	12,731	23,955
2008	11,752	12,203	23,955
2009	12,373	11,582	23,955
2010	12,991	10,964	23,955
2011 - 2015	75,345	44,431	119,776
2016 - 2020	60,396	24,783	85,179
2021 - 2025	28,012	14,978	42,990
2026 - 2031	42,530	7,575	50,105
Total	\$ 265,312	152,513	417,825

The resolutions providing for the issuance of the water and sewer revenue bonds include the following provisions.

- (a) The bonds 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 separate water revenue bond and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Monthly transfers shall be made to separate water and sewer reserve accounts until specified balances have been accumulated. These accounts are restricted for paying principal at maturity and interest on the bonds in the event the sinking account balances are insufficient to make the required payments.

The City has not established the water and sewer revenue bond sinking accounts or the water and sewer reserve accounts.

Bank Loan Agreements

On March 2, 1999, the City entered into a loan agreement with the local bank for \$25,000. The funds were used for the purchase of a fire truck. The loan bears 6.00% per annum interest and is to be repaid in six annual installments of \$4,500, including interest, beginning May 1, 2000 and ending May 1, 2006. The balance of the loan at June 30, 2005 was \$4,513.

On July 10, 2003, the City entered into a loan agreement with the local bank for \$100,000. The funds were used for street improvements. The loan bears 4.00% per annum interest and is to be repaid in four annual installments of \$22,500, including interest, beginning July 10, 2004 and ending July 10, 2008. The balance of the loan at June 30, 2005 was \$81,459.

On February 11, 2005, the City entered into a loan agreement with the local bank for \$50,000. The funds were used for the purchase of a fire pumper. The loan bears 3.75% per annum interest and is to be repaid in six annual installments of \$8,254, including interest, beginning February 11, 2006 and ending February 11, 2012. After

applying local donations of \$30,212 to principal, the balance of the loan at June 30, 2005 was \$19,788.

On May 26, 2005, the City entered into a loan agreement with the local bank for \$1,300. The funds were used as operating cash for the Waucoma Ball Park. The loan bears 6.75% per annum interest and was paid in full on July 11, 2005, including \$11 interest.

(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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2005 was \$955, equal to the required contribution for the year.

(5) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Enterprise: Water	\$ 17,229
Enterprise: Sewer	Enterprise: Water	32,249
Enterprise: Water	General	800
Total		<u>\$ 50,278</u>

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

(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) Accounting Change and Restatements

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

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

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 38,206	-	-
Other city tax	15,321	-	-
Licenses and permits	375	-	-
Use of money and property	2,895	4,154	192
Intergovernmental	76,551	-	2,897
Charges for service	5,231	69,536	-
Special assessments	-	-	-
Miscellaneous	61,291	-	3,761
Total receipts	199,870	73,690	6,850
Disbursements:			
Public safety	93,974	-	7,729
Public works	43,258	-	-
Culture and recreation	33,929	-	-
Community and economic development	1,579	-	-
General government	23,233	-	-
Debt service	57,552	-	-
Capital projects	-	-	-
Business type activities	-	79,957	-
Total disbursements	253,525	79,957	7,729
Excess (deficiency) of receipts over (under) disbursements	(53,655)	(6,267)	(879)
Other financing sources, net	67,729	(16,429)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	14,074	(22,696)	(879)
Balances beginning of year	196,611	209,582	10,803
Balances end of year	\$ 210,685	186,886	9,924

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
38,206	38,437	38,437	(231)
15,321	18,000	18,000	(2,679)
375	425	425	(50)
6,857	3,000	3,000	3,857
73,654	31,100	31,100	42,554
74,767	83,700	98,700	(23,933)
-	150	150	(150)
57,530	100	12,593	44,937
266,710	174,912	202,405	64,305
86,245	12,450	70,075	(16,170)
43,258	30,700	46,700	3,442
33,929	29,400	43,600	9,671
1,579	5,200	5,850	4,271
23,233	19,900	25,818	2,585
57,552	27,600	27,600	(29,952)
-	34,500	34,500	34,500
79,957	52,000	67,000	(12,957)
325,753	211,750	321,143	(4,610)
(59,043)	(36,838)	(118,738)	59,695
51,300	-	50,000	1,300
(7,743)	(36,838)	(68,738)	60,995
395,390	286,213	286,213	109,177
387,647	249,375	217,475	170,172

City of Waucoma

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund the Special Revenue Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$109,393. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety, debt service and business type activities functions.

Other Supplementary Information

City of Waucoma

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

As of and for the year ended June 30, 2005

	Sesquicentennial	Library Equipment, Book and Improvement	Waucoma First Responders, Inc.
Receipts:			
Use of money and property	\$ -	171	192
Intergovernmental	-	-	2,897
Miscellaneous	8,502	-	3,761
Total receipts	<u>8,502</u>	<u>171</u>	<u>6,850</u>
Disbursements:			
Operating:			
Public safety	-	-	7,729
Culture and recreation	335	-	-
Total disbursements	<u>335</u>	<u>-</u>	<u>7,729</u>
Excess (deficiency) of receipts over (under) disbursements	8,167	171	(879)
Other financing sources:			
Bank loan	-	-	-
Net change in cash balances	<u>8,167</u>	<u>171</u>	<u>(879)</u>
Cash balances beginning of year	-	13,457	10,803
Cash balances end of year	<u>8,167</u>	<u>13,628</u>	<u>9,924</u>
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 8,167	13,628	9,924

See accompanying independent auditor's report.

Waucoma Ball Park	Total
-	363
500	3,397
1,792	14,055
<u>2,292</u>	<u>17,815</u>
-	7,729
3,527	3,862
<u>3,527</u>	<u>11,591</u>
(1,235)	6,224
1,300	1,300
65	7,524
256	24,516
<u>321</u>	<u>32,040</u>
<u>321</u>	<u>32,040</u>

City of Waucoma
Schedule of Indebtedness
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue bonds:			
Water	Aug 7, 1978 [■]	5.00%	\$ 259,000
Sewer	Nov 12, 1991 [■]	5.00	145,000
Total			
Bank Loans:			
Fire truck	Mar 2, 1999 [■]	6.00%	\$ 25,000
Street improvements	Jul 10, 2003 [■]	4.00	100,000
Fire pumper	Feb 11, 2005 [■]	3.75	50,000
Ball park	May 26, 2005 [■]	6.75	1,300
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
150,027	-	7,855	142,172	7,502
125,464	-	2,324	123,140	6,277
\$ 275,491	-	10,179	265,312	13,779
8,466	-	3,953	4,513	547
100,000	-	18,541	81,459	3,959
-	50,000	30,212	19,788	340
-	1,300	-	1,300	-
\$ 108,466	51,300	52,706	107,060	4,846

City of Waucoma

Bond Maturities

June 30, 2005

Year Ending June 30,	Revenue Bonds					Total
	Water		Sewer			
	Issued Aug 7, 1978		Issued Nov 12, 1991			
	Interest Rates	Amount	Interest Rates	Amount		
2006	5.00%	\$ 8,248	5.00%	\$ 2,441	10,689	
2007	5.00	8,661	5.00	2,563	11,224	
2008	5.00	9,077	5.00	2,675	11,752	
2009	5.00	9,548	5.00	2,825	12,373	
2010	5.00	10,025	5.00	2,966	12,991	
2011	5.00	10,526	5.00	3,115	13,641	
2012	5.00	11,041	5.00	3,256	14,297	
2013	5.00	11,605	5.00	3,433	15,038	
2014	5.00	12,185	5.00	3,605	15,790	
2015	5.00	12,794	5.00	3,785	16,579	
2016	5.00	13,429	5.00	3,961	17,390	
2017	5.00	14,105	5.00	4,172	18,277	
2018	5.00	10,928	5.00	4,381	15,309	
2019		-	5.00	4,600	4,600	
2020		-	5.00	4,820	4,820	
2021		-	5.00	5,071	5,071	
2022		-	5.00	5,324	5,324	
2023		-	5.00	5,591	5,591	
2024		-	5.00	5,862	5,862	
2025		-	5.00	6,164	6,164	
2026		-	5.00	6,471	6,471	
2027		-	5.00	6,795	6,795	
2028		-	5.00	7,131	7,131	
2029		-	5.00	7,491	7,491	
2030		-	5.00	7,865	7,865	
2031		-	5.00	6,777	6,777	
Total		<u>\$ 142,172</u>		<u>\$ 123,140</u>	<u>265,312</u>	

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Waucoma, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 6, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

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

Internal Control Over Financial Reporting

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

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

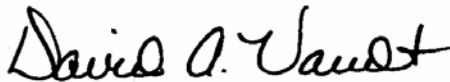
Compliance and Other Matters

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

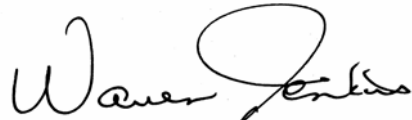
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions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

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

January 6, 2006

City of Waucoma
Schedule of Findings
Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important element in designing internal control that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:

- (1) Cash – reconciling bank accounts, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Investments – detailed record keeping, custody and reconciling.
- (3) Long term debt – recording and reconciling.
- (4) Receipts – collecting, depositing, journalizing and posting.
- (5) Utility receipts – billing, collection, depositing, posting and reconciling.
- (6) Disbursements – purchasing, check signing, recording and reconciling.
- (7) Payroll – preparing and distributing.
- (8) Accounting system – performing all general accounting functions and having custody of City assets.

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

Response – Independent reviewer will spot check above items and initial.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled throughout the year. Also, delinquent account listings were not prepared.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each month and delinquent listings should be prepared monthly. The Council should review the reconciliations and monitor delinquencies.

City of Waucoma

Schedule of Findings

Year ended June 30, 2005

Response – City Council will review and monitor all delinquencies and the City will prepare a delinquent listing.

Conclusion – Response accepted.

- (C) Receipts – Prenumbered receipts were not issued for City collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all City money. The receipts should be recorded and reconciled with timely deposits and the reconciliation should be reviewed periodically by an independent person. For utility collections, a daily cash log should be maintained, with one receipt issued for a day's collections, and reconciled with timely deposits.

Response – We will use prenumbered receipts, record and reconcile with bank deposits.

Conclusion – Response accepted.

- (D) Accounting Records – Monthly financial reports were not prepared and provided to the Council for its review and approval. Additionally, monthly bank to book reconciliations were not prepared.

Recommendation – Monthly financial reports should be prepared and provided to the Council for its review and approval. Also, the monthly financial report should include a bank to book reconciliation to support the month end balances.

Response – Will prepare financial report, including bank reconciliation and give to City Council for review and approval.

Conclusion – Response accepted.

- (E) Disbursements – One disbursement was not approved by the Council prior to payment. Additionally, supporting documentation was not always cancelled with the date paid and the check number to prevent possible duplicate payment.

Recommendation – All City disbursements should be approved by the Council prior to payment unless specifically allowed to be paid prior to Council approval through an approved resolution of the Council. All supporting disbursement documentation should be cancelled with the date and check number to avoid duplicate payments of the same invoice.

Response – City will amend ordinance allowing Treasurer to pay recurring bills. Treasurer will date and put check number on invoices paid.

Conclusion – Response accepted.

- (F) Transfers – Individual fund/account transfers were not approved by the Council and documented in the Council minutes record.

City of Waucoma

Schedule of Findings

Year ended June 30, 2005

Recommendation – All individual fund/account transfers should be approved by the Council prior to making the transfer and the approval should be documented in the Council minutes record.

Response – City Council will approve prior to making the transfers and the approval will be recorded in City Council minutes book.

Conclusion – Response accepted.

- (G) Records of Accounts/Separately Maintained Records – The Waucoma Volunteer Fire Department and the Waucoma Ball Park each maintain bank accounts and accounting records separate from the City Clerk’s records. The transactions and the resulting balances were not reported to the City Council each month and the transactions were not recorded in the City Clerk’s records. Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose.”

Additionally, prenumbered receipts were not issued and paid invoices and other supporting documentation were not always cancelled. Also, the accounting records did not facilitate the classification of various receipts and/or disbursements by source and object, financial reports were not available and book balances were not reconciled with end of month bank balances.

Recommendation – The Waucoma Volunteer Fire Department and the Waucoma Ball Park financial transactions and balances should be included in the City Clerk’s monthly financial reports. Internal controls could be strengthened and operating efficiency could be increased by integrating the accounting receipts and disbursements with the City’s accounting records.

If the Waucoma Volunteer Fire Department and the Waucoma Ball Park receipts and disbursements are not integrated with the City’s accounting records, the Volunteer Fire Department and the Ball Park accounting duties should be segregated to the extent possible, prenumbered receipts should be issued for all collections and invoices or other supporting documentation should be cancelled in a manner to prevent possible duplicate payments. Accounting records should facilitate the classification of receipts and disbursements by source and object, book balances should be reconciled with bank balances at the end or each month and monthly financial reports should be prepared and provided to the City Council for its review and approval. Also, the receipts and disbursements activity of each entity should be provided to the City Clerk for inclusion in the City’s annual budget and financial reports.

Response – Fire Department and Ball Park bank accounts will be closed and transferred to the City. City will include all in the City’s annual budget and financial reports.

Conclusion – Response accepted.

City of Waucoma
 Schedule of Findings
 Year ended June 30, 2005

Findings Related to Required Statutory Reporting:

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

Recommendation – Chapter 12C.2 of the Code of Iowa requires the City, by written resolution, to name each depository approved for depositing all City funds and to specify the maximum dollar amount which may be kept on deposit at each depository. The City should name the depository/depositories it wishes to use and monitor deposit amounts to ensure deposits do not exceed the stipulated maximum dollar amount.

Response – City Attorney will draw up resolution for official depository, State Bank of Lawler.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the public safety, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – In the future, the budget will be amended in a timely fashion.

Conclusion – Response accepted.

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

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

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

Name, Title, and Business Connection	Transaction Description	Amount
Kevin Kleve, Mayor, daughter mowed ball park	Ball park mowing	\$ 500
Gary Gossling, Council Member, Owner of Gossling Woodworking	New desk and table work	3,285
Lois Langreck, City Clerk, Husband is owner of Langreck Furnace Sales and Service	Meters, parts and labor	3,956

City of Waucoma

Schedule of Findings

Year ended June 30, 2005

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Mayor's daughter do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year. The remaining transactions with Council Member Gary Gosling and the City Clerk's husband appear to represent conflicts of interest since total transactions were in excess of \$2,500.

Recommendation – The City should consult legal counsel to determine the disposition of the transactions with the Council Member and the City Clerk's husband.

Response – Will contact City Attorney on problems. Proper bidding procedures will be used in future.

Conclusion – Response accepted.

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

City Council minutes were posted rather than published, disbursements approved did not include the purpose of the disbursement and a summary of receipts and disbursements was not included as required by Chapter 372.13(6) of the Code of Iowa.

Additionally, the Library Board and Volunteer Fire Department minutes were not signed.

Recommendation – The City should publish minutes as required by the Code of Iowa. Also, Library Board and Volunteer Fire Department minutes should be signed to authenticate the record.

Response - City will publish minutes. Minutes of the Library Board and Volunteer Fire Department will be signed.

Conclusion – Response accepted.

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

Recommendation – The City should approve a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Response – We will adopt an investment policy.

Conclusion – Response accepted.

City of Waucoma

Schedule of Findings

Year ended June 30, 2005

- (9) Water and Sewer Revenue Bonds – The City has not established the water and sewer revenue bond sinking accounts or the water and sewer reserve accounts as required by the water and sewer bond resolutions.

Recommendation – The City should establish the water revenue bond sinking, sewer revenue bond sinking, water reserve and the sewer reserve accounts and make the monthly transfers required by the bond resolutions.

Response – Will establish these accounts.

Conclusion – Response accepted.

- (10) Road Use Tax and Local Option Sales Tax Collections – Road use tax collections and local option sales tax collections were posted directly to the General Fund for the year ended June 30, 2005.

Recommendation – The City should establish a Special Revenue, Road Use Tax Fund to record the collections of Road Use Tax allocations and ensure that Road Use Tax funds are spent in accordance with Chapter 312 of the Code of Iowa.

The City should also establish a Special Revenue, Local Option Sales Tax Fund to record collections of local option sales tax. The collections should then be transferred to the appropriate fund(s) as the City Council directs and pursuant to the local option sales tax referendum.

Response – City will list each separately.

Conclusion – Response accepted.

- (11) City Code of Ordinances – The City has not compiled the City ordinances since 1981.

Recommendation – In accordance with Chapter 380.8 of the Code of Iowa, a code of ordinances must be compiled at least once every five years unless a supplement to the code of ordinances is compiled at least annually. The City should compile the city ordinances as required.

Response – City will update ordinances as required.

Conclusion – Response accepted.

- (12) Bank Loans – On February 11, 2005, the City approved a bank loan for \$50,000 to purchase a fire pumper. Also, on May 26, 2005, the Mayor entered into a cash flow bank loan totaling \$1,300 for the Waucoma Ball Park. The City did not publish notice and hold a public hearing prior to entering into these loans.

Chapter 384.24A(3) of the Code of Iowa states, “The governing body shall follow substantially the same authorization procedure required for the issuance of general obligation bonds issued for the same purpose to authorize a loan agreement made payable from the debt service fund.” Pursuant to Chapter 384.25 of the Code of Iowa, the City should have published a notice of and held a public hearing prior to entering into the loan agreements.

City of Waucoma

Schedule of Findings

Year ended June 30, 2005

In addition, Chapter 384.24A(4) of the Code of Iowa states, in part, "The governing body may authorize a loan agreement which is payable from the general fund and which would not cause the total of scheduled annual payments of principal or interest or both principal and interest of the city due from the general fund of the city in any future year with respect to all loan agreements in force on the date of the authorization to exceed ten percent of the last certified general fund budget amount . . ." Scheduled fiscal year 2006 annual payments exceeded 10% of the fiscal year 2005 certified general fund budget.

Recommendation – In the future, the City should comply with the requirements of Chapters 384.24A and 384.25 of the Code of Iowa before entering into bank loans.

Response – City will comply with requirements of Chapters above.

Conclusion – Response accepted.

- (13) Utility Billings – City water ordinance No. 94 does not contain provisions on how delinquent utility accounts are to be handled by City officials or employees.

Section 6 of this ordinance states in part, "it is hereby made the duty of the City Clerk to render bills for water service and all other charges in connection therewith." However, another City employee prepares the utility billings, handles utility collections and posts transactions.

Section 8 of this same ordinance states in part, "the City Council shall cause to be made an audit by an independent audit concern of the books to show the receipts and disbursements of the water system." Previously, the City has utilized an independent third party to review water billing information and transactions, but an audit has not been performed.

In addition, the City Council approved recycling fees through regular City Council actions rather than by ordinance as required by Chapter 384.84 of the Code of Iowa.

Recommendation – The City should consult legal counsel concerning City water ordinance No. 94 and comply with and/or revise the ordinance to clarify the duty of the Clerk regarding billings and collections and the requirement for audit. Also, recycling fees should be established by ordinance.

Response – Corrections will be made in new code book.

Conclusion – Response accepted.

- (14) Wave Cable Customer Billings – Wave Cable billings have historically been included with City utility billings for water, sewer and recycling to those customers who subscribe to Wave Cable services. The City has received reimbursements for envelopes, postage, etc. for the convenience of this service although the City has no ownership in the Wave Cable Company.

City of Waucoma

Schedule of Findings

Year ended June 30, 2005

Recommendation – Article III, Section 31 of the Constitution of the State of Iowa states, in part, “no public money or property shall be appropriated for local, or private purposes.” The City should discontinue the practice of including Wave Cable billings in City utility billings for water, sewer and recycling.

Response – Wave Cable will process their billings separately and use their own envelopes.

Conclusion – Response accepted.

- (15) Mayor/City Council Compensation – The Mayor and City Council were paid flat fees for their services (meeting attendance). However, the City did not deduct the required employee FICA and the City did not submit the employer FICA match as required. The fees paid to the Mayor and Council Members were not established by City ordinance. Also, W-2’s were not issued for the fees paid.

Recommendation – The City should contact the Internal Revenue Service (IRS) and other Federal authorities to resolve the FICA withholdings for the Mayor and City Council members and the payments due for the employee and employer share of FICA.

Chapter 372.13(8) of the Code of Iowa requires Mayor/Council compensation to be established by City ordinance. The City should consult legal counsel to determine the disposition of this matter.

Response – Ordinance will be updated. City will deduct FICA. W-2’s were issued for 2005 fees/wages and FICA was deducted in December 2005.

Conclusion – Response acknowledged. The City should consult legal counsel and/or the IRS regarding the prior year withholdings.

- (16) Corrective Transfer – The City deposited \$888 of water collections into the general City checking account instead of into the water checking account during the year ended June 30, 2005.

Recommendation – The City should make a transfer from the general checking account to the water checking account to correct this error.

Response – Bank error – transfer corrected.

Conclusion – Response accepted.

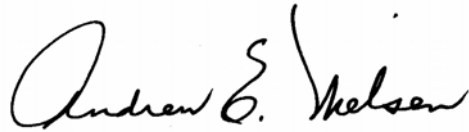
- (17) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Waucoma

Staff

This audit was performed by:

Joe T. Marturello, CIA, Manager
John G. Vanis, CGFM, Senior Auditor
Kara E. Rasmussen, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State