



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

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Warren G. Jenkins, CPA
Chief Deputy Auditor of State

NEWS RELEASE

FOR RELEASE _____

October 4, 2002 _____

Contact: Andy Nielsen
515/281-5515

Auditor of State Richard Johnson today released an audit report on the City of Lewis, Iowa.

Johnson reported that the City's receipts totaled \$255,715 for the year ended June 30, 2002. The receipts included \$55,379 in property tax, \$26,775 in local option sales tax, \$5,978 in other city taxes, \$52,487 from other governments and \$7,152 in interest on investments.

Disbursements for the year totaled \$263,674 and included \$27,173 for community protection, \$14,641 for human development, \$189,584 for home and community environment, and \$32,276 for policy and administration.

This report contains recommendations to the City Council and other City officials. For example, the City should review its internal control procedures and segregate duties to the extent possible. The City has responded to each item in the report and stated that corrective action will be taken.

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

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

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City of Lewis

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
Hugh Newton	Mayor	(Resigned)
Steve Andersen (Appointed)	Mayor	Nov 2001
Donald Sanny	Mayor	Jan 2002
William Worth	Council Member	Jan 2002
DeWayne Madsen	Council Member	Jan 2002
Linda South	Council Member	Jan 2004
Ilene Rhoads	Council Member	Jan 2004
Betty Thompson	Council Member	Jan 2004
(After January 2002)		
Donald Sanny	Mayor	Jan 2004
Linda South	Council Member	Jan 2004
Ilene Rhoads	Council Member	Jan 2004
Betty Thompson	Council Member	Jan 2004
William Worth	Council Member	Jan 2006
Dorothy Bokan	Council Member	Jan 2006
Shirley Ward	Clerk	Indefinite
Lawrence Jones	Attorney	Indefinite

City of Lewis



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Chief Deputy Auditor of State

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

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, 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.

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 preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Lewis 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 July 24, 2002 on our consideration of the City of Lewis's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. 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 financial statements taken as a whole. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 24, 2002

City of Lewis

Financial Statements

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

	Governmental Fund Types		
		Special	Debt
	General	Revenue	Service
Receipts:			
Property tax	\$ 36,862	6,305	12,212
Other city tax	3,976	27,462	1,315
Licenses and permits	1,094	-	-
Use of money and property	9,436	-	-
Intergovernmental	17,405	35,082	-
Charges for service	-	-	-
Miscellaneous	18,841	-	-
Total receipts	<u>87,614</u>	<u>68,849</u>	<u>13,527</u>
Disbursements:			
Community Protection Program	27,173	-	-
Human Development Program	14,641	-	-
Home and Community Environment Program	1,598	50,334	13,905
Policy and Administration Program	32,276	-	-
Total disbursements	<u>75,688</u>	<u>50,334</u>	<u>13,905</u>
Excess (deficiency) of receipts over (under) disbursements	<u>11,926</u>	<u>18,515</u>	<u>(378)</u>
Other financing sources (uses):			
Operating transfers in	1,836	-	-
Operating transfers out	(800)	(1,036)	-
Total other financing sources (uses)	<u>1,036</u>	<u>(1,036)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	12,962	17,479	(378)
Balance beginning of year	<u>62,715</u>	<u>123,871</u>	<u>2,098</u>
Balance end of year	<u>\$ 75,677</u>	<u>141,350</u>	<u>1,720</u>

See notes to financial statements.

Proprietary Fund Types	Total (Memorandum Only)
Enterprise	
-	55,379
-	32,753
-	1,094
254	9,690
-	52,487
82,030	82,030
3,441	22,282
<u>85,725</u>	<u>255,715</u>
-	27,173
-	14,641
123,747	189,584
-	32,276
<u>123,747</u>	<u>263,674</u>
<u>(38,022)</u>	<u>(7,959)</u>
42,076	43,912
<u>(42,076)</u>	<u>(43,912)</u>
-	-
<u>(38,022)</u>	<u>(7,959)</u>
<u>70,978</u>	<u>259,662</u>
<u>32,956</u>	<u>251,703</u>

City of Lewis
 Comparison of Receipts, Disbursements
 and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

	Actual	Amended Budget
Receipts:		
Property tax	\$ 55,379	55,753
Other City tax	32,753	24,159
Licenses and permits	1,094	400
Use of money and property	9,690	8,000
Intergovernmental	52,487	48,211
Charges for service	82,030	94,000
Miscellaneous	22,282	-
Total receipts	255,715	230,523
Disbursements:		
Community Protection Program	27,173	22,193
Human Development Program	14,641	14,662
Home and Community Environment Program	189,584	147,447
Policy and Administration Program	32,276	36,900
Total disbursements	263,674	221,202
Excess (deficiency) of receipts over (under) disbursements	(7,959)	9,321
Balance beginning of year	259,662	249,103
Balance end of year	\$ 251,703	249,103

See notes to financial statements.

<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>Actual as %</u> <u>of Amended</u> <u>Budget</u>
(374)	99%
8,594	136%
694	274%
1,690	121%
4,276	109%
(11,970)	87%
<u>22,282</u>	
<u>25,192</u>	<u>111%</u>
(4,980)	122%
21	100%
(42,137)	129%
<u>4,624</u>	<u>87%</u>
<u>(42,472)</u>	<u>119%</u>

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Water	Apr 1, 1998	4.85-5.30%	\$ 90,000
Revenue bonds:			
Water	Feb 25, 1982	5.00	\$ 220,300

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
70,000	-	10,000	60,000	3,605
151,599	-	28,097	123,462	7,703

City of Lewis

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The City of Lewis is a political subdivision of the State of Iowa located in Cass County. It was first incorporated in 1853 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, the City of Lewis has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City 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: Cass County Assessor's Conference Board and the Cass County Environmental Control Agency.

B. Fund Accounting

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

Governmental Funds

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

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

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 Lewis 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 columns on the combined statements of cash transactions are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns 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 not 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 are as follows:

Year Ending June 30,	General Obligation Notes			Total
	Rate	Principal	Interest	
2003	5.05%	\$ 10,000	3,105	13,105
2004	5.10	10,000	2,600	12,600
2005	5.15	10,000	2,090	12,090
2006	5.20	10,000	1,575	11,575
2007	5.25	10,000	1,055	11,055
2008	5.30	10,000	530	10,530
		<u>\$ 60,000</u>	<u>10,955</u>	<u>70,955</u>

Water Revenue Bonds – The City issued water revenue bonds totaling \$220,300 on February 25, 1982 to defray a portion of the cost of constructing water system improvements. The bonds are payable to the U.S. Department of Agriculture (USDA) in annual installments of \$13,062, including interest of 5% per annum. Installments due after July 1, 1994 are subject to call prior to maturity. During the year ended June 30, 2002, the City paid \$35,800 to the USDA, leaving a balance due at June 30, 2002 of \$123,462.

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 separate water revenue bond sinking account to make the bond principal and interest payments when due.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002 was \$2,568, equal to the required contribution for that year.

(5) Risk Management

The City of Lewis 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 resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Budget Overexpenditures

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 and Home and Community Environment Programs exceeded the amounts budgeted.

(7) Deficit Balance

The Enterprise Fund, Sewer Rental Account had a deficit balance of \$1,420 at June 30, 2002. The deficit balance was a result of capital improvements. The deficit will be eliminated through a rate increase established in December 2001.

City of Lewis

Supplemental Information

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

	General
Receipts:	
Property tax	\$ 36,862
Other city tax:	
Utility tax replacement excise tax	3,976
Licenses and permits	1,094
Use of money and property:	
Interest on investments	5,569
Rent	2,538
	8,107
Intergovernmental:	
State allocation	4,891
State fire equipment grant	-
County contribution	5,471
Township fire and rescue protection	5,043
	15,405
Miscellaneous:	
Donations and contributions	-
Miscellaneous	68
	68
Total receipts	65,512
Disbursements:	
Community Protection Program:	
Street lighting	6,758
Ambulance:	
Contractual services	2,064
Commodities	534
	2,598
Fire:	
Contractual services	8,373
Commodities	-
Capital outlay	600
	8,973
	18,329

Library	Volunteer Fire Department	First Responders	Fire Building	Fire Reserve	Total
-	-	-	-	-	36,862
-	-	-	-	-	3,976
-	-	-	-	-	1,094
-	332	15	338	644	6,898
-	-	-	-	-	2,538
-	332	15	338	644	9,436
-	-	-	-	-	4,891
-	2,000	-	-	-	2,000
-	-	-	-	-	5,471
-	-	-	-	-	5,043
-	2,000	-	-	-	17,405
255	4,690	1,053	12,657	-	18,655
118	-	-	-	-	186
373	4,690	1,053	12,657	-	18,841
373	7,022	1,068	12,995	644	87,614
-	-	-	-	-	6,758
-	-	-	-	-	2,064
-	-	2,069	-	-	2,603
-	-	2,069	-	-	4,667
-	-	-	-	-	8,373
-	2,857	-	100	-	2,957
-	3,818	-	-	-	4,418
-	6,675	-	100	-	15,748
-	6,675	2,069	100	-	27,173

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

	General
Disbursements (continued):	
Human Development Program:	
Parks and recreation:	
Personal services	5,281
Contractual services	759
	6,040
Animal control:	
Contractual services	1,047
Library:	
Personal services	2,513
Contractual services	4,363
Commodities	-
	6,876
	13,963
Home and Community Environment Program:	
Solid waste:	
Contractual services	563
Community beautification	135
Cemetery	900
	1,035
	1,598
Policy and Administration Program:	
Personal services	3,658
Contractual services	24,811
Commodities	3,807
	32,276
Total disbursements	66,166
Excess (deficiency) of receipts over (under) disbursements	(654)

Library	Volunteer Fire Department	First Responders	Fire Building	Fire Reserve	Total
-	-	-	-	-	5,281
-	-	-	-	-	759
-	-	-	-	-	6,040
-	-	-	-	-	1,047
-	-	-	-	-	2,513
-	-	-	-	-	4,363
678	-	-	-	-	678
678	-	-	-	-	7,554
678	-	-	-	-	14,641
-	-	-	-	-	563
-	-	-	-	-	135
-	-	-	-	-	900
-	-	-	-	-	1,035
-	-	-	-	-	1,598
-	-	-	-	-	3,658
-	-	-	-	-	24,811
-	-	-	-	-	3,807
-	-	-	-	-	32,276
678	6,675	2,069	100	-	75,688
(305)	347	(1,001)	12,895	644	11,926

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

	General
Other financing sources (uses):	
Operating transfers in(out):	
General:	
Volunteer Fire Department	-
First Responders	-
Fire Building	-
Special Revenue:	
Emergency	1,036
Total other financing sources (uses)	1,036
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	382
Balance beginning of year	28,938
Balance end of year	\$ 29,320

See accompanying independent auditor's report.

Library	Volunteer Fire Department	First Responders	Fire Building	Fire Reserve	Total
-	-	-	300	-	300
-	-	-	(500)	-	(500)
-	(300)	500	-	-	200
-	-	-	-	-	1,036
-	(300)	500	(200)	-	1,036
(305)	47	(501)	12,695	644	12,962
2,700	10,236	2,516	-	18,325	62,715
2,395	10,283	2,015	12,695	18,969	75,677

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

	Road Use Tax	Emergency	Employee Benefits
Receipts:			
Property tax	\$ -	899	5,406
Other city tax:			
Utility tax replacement excise tax	-	97	590
Local option sales tax	-	40	-
Intergovernmental:			
Road use tax allocation	35,082	-	-
Total receipts	35,082	1,036	5,996
Disbursements:			
Home and Community Environment Program:			
Personal services	8,069	-	5,966
Contractual services	8,189	-	-
Commodities	6,046	-	-
Capital outlay	4,393	-	-
Total disbursements	26,697	-	5,966
Excess (deficiency) of receipts over (under) disbursements	8,385	1,036	30
Other financing uses:			
Operating transfers out:			
General:			
General	-	(1,036)	-
Excess (deficiency) of receipts over (under) disbursements and other financing uses	8,385	-	30
Balance beginning of year	31,523	-	-
Balance end of year	\$ 39,908	-	30

See accompanying independent auditor's report.

LOST Community Protection	LOST Emergency	LOST Community Betterment	LOST Water	LOST Sewer	LOST Street	Total
-	-	-	-	-	-	6,305
-	-	-	-	-	-	687
3,181	536	1,605	8,026	8,045	5,342	26,775
3,181	536	1,605	8,026	8,045	5,342	27,462
-	-	-	-	-	-	35,082
3,181	536	1,605	8,026	8,045	5,342	68,849
-	-	-	-	-	-	14,035
-	-	-	-	-	-	8,189
-	-	-	-	-	-	6,046
-	-	-	17,671	-	-	22,064
-	-	-	17,671	-	-	50,334
3,181	536	1,605	(9,645)	8,045	5,342	18,515
-	-	-	-	-	-	(1,036)
3,181	536	1,605	(9,645)	8,045	5,342	17,479
5,572	1,659	5,569	29,922	29,672	19,954	123,871
8,753	2,195	7,174	20,277	37,717	25,296	141,350

Schedule 3

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

Receipts:		
Property tax	\$	12,212
Other city tax:		
Utility tax replacement excise tax		<u>1,315</u>
Total receipts		<u>13,527</u>
Disbursements:		
Home and Community Environment Program:		
Debt service:		
Principal redemption		10,000
Interest payments		3,605
Registrar fee		<u>300</u>
Total disbursements		<u>13,905</u>
Deficiency of receipts under disbursements		(378)
Balance beginning of year		<u>2,098</u>
Balance end of year	\$	<u><u>1,720</u></u>

See accompanying independent auditor's report.

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

	Water	Water Revenue Bond Sinking	Water Reserve	Sewer Rental	Sewer Reserve	Total
Receipts:						
Use of money and property:						
Interest on investments	\$ -	-	-	-	254	254
Charges for service:						
Sale of water	60,201	-	-	-	-	60,201
Sewer rental fees	-	-	-	21,829	-	21,829
	<u>60,201</u>	<u>-</u>	<u>-</u>	<u>21,829</u>	<u>-</u>	<u>82,030</u>
Miscellaneous:						
Customer deposits	800	-	-	-	-	800
Miscellaneous	2,518	-	-	123	-	2,641
	<u>3,318</u>	<u>-</u>	<u>-</u>	<u>123</u>	<u>-</u>	<u>3,441</u>
Total receipts	<u>63,519</u>	<u>-</u>	<u>-</u>	<u>21,952</u>	<u>254</u>	<u>85,725</u>
Disbursements:						
Home and Community Environment Program:						
Personal services	16,847	-	-	8,069	-	24,916
Contractual services	13,675	-	-	63	-	13,738
Commodities	7,637	-	-	872	-	8,509
Capital outlay	16,074	-	-	24,710	-	40,784
Debt service:						
Principal redemption	-	28,097	-	-	-	28,097
Interest payments	-	7,703	-	-	-	7,703
Total disbursements	<u>54,233</u>	<u>35,800</u>	<u>-</u>	<u>33,714</u>	<u>-</u>	<u>123,747</u>
Excess (deficiency) of receipts over (under) disbursements	<u>9,286</u>	<u>(35,800)</u>	<u>-</u>	<u>(11,762)</u>	<u>254</u>	<u>(38,022)</u>
Other financing sources (uses):						
Operating transfers in (out):						
Enterprise:						
Water	-	35,800	(6,276)	-	-	29,524
Water Revenue Bond Sinking	(35,800)	-	-	-	-	(35,800)
Water Reserve	6,276	-	-	-	-	6,276
Total other financing sources (uses)	<u>(29,524)</u>	<u>35,800</u>	<u>(6,276)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(20,238)</u>	<u>-</u>	<u>(6,276)</u>	<u>(11,762)</u>	<u>254</u>	<u>(38,022)</u>
Balance beginning of year	<u>27,591</u>	<u>3,612</u>	<u>18,622</u>	<u>10,342</u>	<u>10,811</u>	<u>70,978</u>
Balance end of year	<u>\$ 7,353</u>	<u>3,612</u>	<u>12,346</u>	<u>(1,420)</u>	<u>11,065</u>	<u>32,956</u>

See accompanying independent auditor's report.

City of Lewis



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

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Chief Deputy Auditor of State

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 Lewis, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated July 24, 2002. Our report, which was prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion on the financial statements 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 Lewis's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Lewis'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 Lewis's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

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

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 24, 2002

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

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

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

- (1) Receipts - collecting, depositing, posting and reconciling.
- (2) Disbursements - check signing, posting and reconciling.
- (3) Utility receipts - billing, collections, depositing and reconciling.
- (4) Payroll - preparation and distribution.
- (5) Investments - recordkeeping, custody of investments and reconciliation of earnings.
- (6) Cash - preparing bank account reconciliations, initiating cash receipts and disbursements and recording cash.

For the Volunteer Fire Department and the First Responders, one individual has control over each of the following areas:

- (1) Cash - preparing bank account reconciliations, initiating cash receipts and disbursements and recording cash.
- (2) Receipts - collecting, depositing, posting and reconciling.
- (3) Disbursements - authorizing, check signing, posting and reconciling.

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

Response -

City - We will review procedures and use the Mayor and Council members for independent review of records.

Volunteer Fire Department/First Responders - We will get a second person involved in the bank reconciliations, receipts and check signing.

Conclusion - Response accepted.

City of Lewis

Schedule of Findings

Year ended June 30, 2002

- (B) Records of Accounts and Clerk's Report – The Library, Volunteer Fire Department and First Responders maintain the accounting records pertaining to the operations of the library and the fire and rescue. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate an detailed statement of all public funds collected, received, or expended for any city purpose."

Also, the Clerk's fund balance reports do not contain sufficient information to properly display fund balances for each required fund.

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of the Library, Volunteer Fire Department and First Responders should be recorded in the Clerk's records.

Also, the monthly reports should show individual balances and activity for each fund and should be reconciled to the bank balance.

Response – The Volunteer Fire Department and First Responders are in the process of establishing themselves as legally separate from the city and will not require inclusion on the monthly financial reports.

We will begin using a new type of monthly financial report that will show each required fund separately.

Conclusion – Response accepted.

- (C) Prenumbered Receipts - Although receipts are issued for collections, the receipts are not prenumbered by the printer.

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

Response – We will order prenumbered receipts and begin using them immediately.

Conclusion – Response accepted.

- (D) Investments - Although a listing of investments was maintained, the record was not complete.

Recommendation - A complete detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase date, redemption date, interest rate and amount of interest received.

Response – A detailed record of investment transactions will be given to the Council at each meeting.

Conclusion – Response accepted.

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

Other Findings Related to Required Statutory Reporting:

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

Recommendation – The Council should adopt a depository resolution as required by Chapter 12C.2 of the Code of Iowa

Response – A resolution will be adopted to establish the depository resolution as required by Chapter 12C.2 of the Code of Iowa.

Conclusion – Response accepted.

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

Recommendation – The budget should have been amended as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed budgeted amounts.

Response – The budget will be amended prior to disbursements exceeding the budgeted amounts.

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 – No business transactions between the City and City officials or employees were noted.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

- (7) Council Minutes – Except as noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

The minutes were not properly signed. Also, the City did not record the vote of the Council members present for a closed session on June 10, 2002. The meeting was also closed without indicating the specific reason.

City of Lewis

Schedule of Findings

Year ended June 30, 2002

Recommendation – The Mayor and Clerk should sign minutes to attest to their accuracy as required by Chapter 380.7 of the Code of Iowa. Also, the City should document the reason for the closed session and record the vote of each Council member present at the meeting as required by Chapter 21.5 of the Code of Iowa.

Response – We will follow these recommendations in the future.

Conclusion – Response accepted.

- (8) Deposits and Investments – The City has not adopted a written investment policy.

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

Response – We will adopt an investment policy to comply with this recommendation.

Conclusion – Response accepted.

- (9) Contract Labor – The City did not file a Form 1099 with the Internal Revenue Service for contract labor paid in excess of \$600.

Recommendation – The City should insure that all required 1099 forms are properly completed and filed.

Response – We will issue 1099's in the future.

Conclusion – Response accepted.

- (10) Employee Benefits – The City used Special Revenue Fund, Employee Benefits Account property tax levy proceeds to pay employee benefits for the Enterprise Funds, which is contrary to rules adopted by the City Finance Committee.

Recommendation – The City should review this matter and take appropriate corrective action. Also, the City should insure that property tax is levied and expended for employee benefits only for employees paid from the General Fund and the Special Revenue Fund, Road Use Tax Account.

Response – This will be done immediately.

Conclusion – Response accepted.

- (11) Sales Tax – Sales tax is not collected for sewer services provided to nonresidential commercial operations.

Recommendation – The City should collect sales tax on sewer services provided to nonresidential commercial operations and remit collections to the Iowa Department of Revenue and Finance as required by Chapter 422.43(13) of the Code of Iowa.

Response – We are currently collecting sales tax on sewer services provided to nonresidential commercial operations.

Conclusion – Response accepted.

City of Lewis

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Cory A. Warmuth, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State