

CITY OF MANILLA

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANACIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2004

## TABLE OF CONTENTS

Officials		3-4
Independent Auditors' Report		5-6
Management's Discussion and Analysis		7-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	15-16
Government Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	18-19
Notes to Financial Statements		20-26
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28-29
Notes to Required Supplementary Information – Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	32
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	2	33
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting		34-35
Schedule of Findings		36-40

CITY OF MANILLA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Pat Wuestewald	Mayor	Jan 2004
Dennis Hansen	Mayor Pro tem	Jan 2004
Lynn Olson	Council Member	Jan 2005
Scott Badow	Council Member	Jan 2005
Patricia McMahon	Council Member	Jan 2004
Rick Sloth	Council Member	Jan 2004
(After January 2004)		
Pat Wuestewald	Mayor	Jan 2006
Dennis Hansen	Mayor Pro tem	Jan 2008
Lynn Olson	Council Member	Jan 2006
Scott Badow	Council Member	Jan 2006
Rick Sloth	Council Member	Jan 2008
Charles Agan	Council Member	Jan 2008
James Heller	Clerk	Indefinite
Carma Birks	Assistant Clerk	Indefinite
Mary Ann Macumber	Treasurer	Indefinite
Allen K. Nepper	Attorney	Indefinite

CITY OF MANILLA  
MUNICIPAL SERVICE OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
-------------	--------------	---------------------

(Before January 2004)

BOARD OF TRUSTEES

Charles Schram	Chairman/Trustee	Jan 2004
Jon Vennink	Vice-Chairman/Trustee	Jan 2009
Leonard Kaufmann	Trustee	Jan 2008

OFFICIALS

Glen Macumber	Utility Director	Jan 2004
---------------	------------------	----------

(After January 2004)

BOARD OF TRUSTEES

Jon Vennink	Chairman/Trustee	Jan 2009
Leonard Kaufmann	Vice-Chairman/Trustee	Jan 2008
Barry Christensen	Trustee	Jan 2009

OFFICIALS

Glen Macumber	Utility Director	Jan 2006
---------------	------------------	----------

James Heller	Secretary	Indefinite
--------------	-----------	------------

Mary Ann Macumber	Treasurer	Indefinite
-------------------	-----------	------------

# **HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.**

## **Certified Public Accountants**

Morrie M. Heithoff, CPA  
Susan L. Hansen, CPA  
Jeffrey L. Muhlbauer, CPA

305 Main Street  
Manning, Iowa 51455-1030  
(712) 655-3777  
Fax (712) 655-3778

August 18, 2004

### INDEPENDENT AUDITORS' 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 Manilla, Iowa, as of and for the year ended June 30, 2004, 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 Manilla's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 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, 2003.

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, 2003, 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

Honorable Mayor and  
Members of the City Council  
Page Two

activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Manilla as of June 30, 2004, 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 9, during the year ended June 30, 2004, 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 reports dated August 18, 2004, on our consideration of the City of Manilla's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are 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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and pages 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Manilla's basic financial statements. Other supplementary information included in Schedules 1 and 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except that portion marked "unaudited" on Schedule 2, "Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds", on which we express no opinion, 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.

*Heithoff, Hansen, Muhlbauer & Co., P.C.*

HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.  
Certified Public Accountants

**City of Manilla**  
443 Main Street PO Box 398  
Manilla, Iowa 51454

*Office of Clerk*

*654-2632-Fax 654-9182*

*A Town to Pull For*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Manilla 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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2004 FINANCIAL HIGHLIGHTS**

- The City's governmental fund receipts decreased 19% or approximately \$78,700, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$7,000. Property tax levies for the city have remained constant for the past few years. Property valuation has gone up resulting in an increase in tax revenue.
- The City's governmental funds disbursements decreased 14%, or approximately \$52,000, in fiscal 2004 from fiscal 2003.
- The City's total cash basis net assets (which includes the business type activities), decreased 12%, or approximately \$414,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$28,000 and the assets of the business type activities decreased by approximately \$442,000, mainly due to the acquisition of 135 acres of land for economic development. Other items included the purchase of a fire truck and IKM Foundation donation.

**USING THIS REPORT**

This 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 report, the reader 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, "How did the City fare compared to its prior year as a result of the current year's activities?" The Statement of Activities and Net Assets reports information which 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, culture and recreation, community and economic development and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the gas utility, electric utility, cable television, garbage, waterworks, and the sanitary sewer system. These activities are financed primarily by user 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 and Local Option Sales 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 statements for governmental funds include 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 six Enterprise Funds to provide separate information for the gas, electric, cable, garbage, water and sewer funds, all considered major funds of the City, with the exception of the sewer and garbage funds.

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

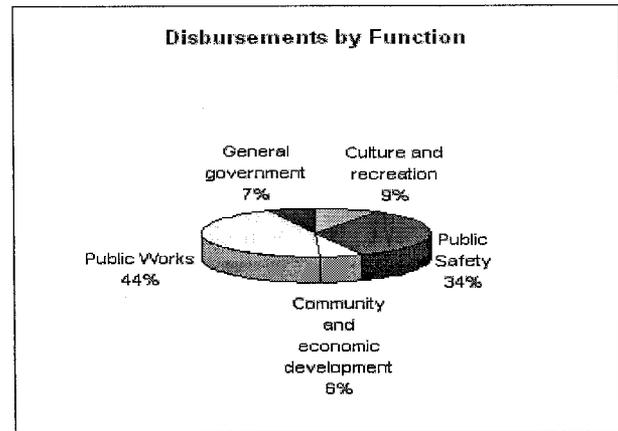
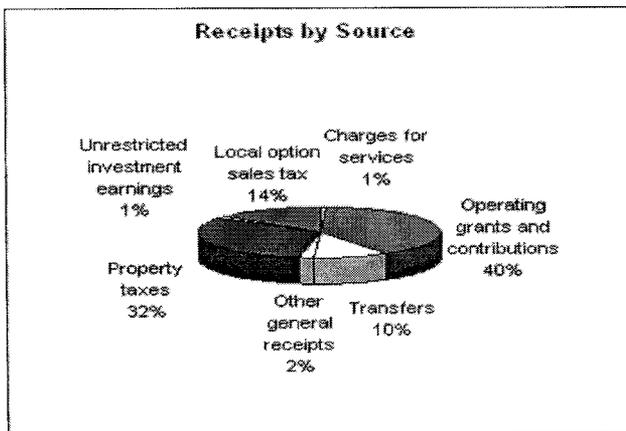
## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased over \$28,000 from a year ago, increasing from \$403,129 to \$431,558. The analysis that follows focuses on the changes in cash balances for governmental activities.

(Continued)

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 3,189	\$ 4,126
Operating grants and contributions	136,724	233,371
General receipts:		
Property tax	108,123	101,092
Local option sales tax	48,561	47,262
Unrestricted investment earnings	4,582	5,946
Other general receipts	6,595	29,245
Transfers, net	<u>34,549</u>	<u>-0-</u>
Total receipts and transfers	342,323	421,042
 Disbursements:		
Public safety	106,998	72,252
Public works	136,961	118,846
Culture and recreation	28,845	26,960
Community and economic development	19,748	131,281
General government	<u>21,342</u>	<u>16,494</u>
Total disbursements	<u>313,894</u>	<u>365,833</u>
 Increase in cash basis net assets	28,429	55,209
 Cash basis net assets beginning of year	<u>403,129</u>	<u>347,920</u>
 Cash basis net assets end of year	<u>\$431,558</u>	<u>\$403,129</u>



The City's total receipts for governmental activities decreased by 19%, or \$78,719. The total cost of all programs and services decreased by approximately \$52,000, or 14%, with no new programs added this year. The decrease in receipts was primarily the result of a decrease in state grants received. The decrease in disbursements was primarily due to the prior year's cost of the Klondike Hotel restoration project.

The City did not increase property tax rates for 2004. Based on decreases in the total assessed valuation, property tax receipts are budgeted to decrease by an additional \$1,000 next year.

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Program receipts:		
Charges for service:		
Cable	\$ 72,277	\$ 63,188
Electric	464,798	454,345
Garbage	41,587	41,440
Gas	348,221	384,475
Sewer	31,747	32,427
Water	73,760	75,690
General receipts:		
Unrestricted interest on investments	<u>59,244</u>	<u>77,392</u>
Total receipts	1,091,634	1,128,957
Disbursements and transfers:		
Cable	83,735	67,081
Electric	662,228	387,840
Garbage	42,285	41,045
Gas	573,734	392,386
Sewer	20,559	22,114
Water	116,984	189,823
Transfers	<u>34,549</u>	<u>-0-</u>
Total disbursements and transfers	1,534,074	1,100,289
Increase (decrease) in cash balance	(442,440)	28,668
Cash basis net assets beginning of year	<u>2,945,046</u>	<u>2,916,378</u>
Cash basis net assets end of year	<u>\$2,502,606</u>	<u>\$2,945,046</u>

Total business type activities receipts for the fiscal year were \$1,091,634 compared to \$1,128,957 last year. This decrease was due primarily to a decline in gas consumption. Total disbursements and transfers for the fiscal year increased by 39% or a total of \$433,785 due to cable and electric costs increasing, as well as the purchase of land for economic development. The cash balance of the business type activities decreased by approximately \$442,000 from the prior year.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As City of Manilla completed the year, its governmental funds reported a combined fund balance of \$431,558, an increase of \$28,429 above last year's total of \$403,129. The following are some reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$20,212 from the prior year to \$369,713. Most of this increase was due the decrease in expenses associated with community and economic development or the Klondike Hotel restoration project.
- The Road Use Tax Fund cash balance increased by \$8,860 to \$58,477 during the fiscal year. This increase was attributable to an increase in state road use tax and a decrease in road expenses. The City intends to use this money to resurface Walkertown road.

### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased by \$41,828 to \$1,890, due primarily to water plant renovations.
- The Cable Television Fund cash balance decreased by \$9,406 to \$116,194, due primarily to an increase in cable signal charges and equipment costs.
- The Electric and Gas Funds cash balances decreased by \$176,682 and \$225,014, respectively, due primarily to land purchase cost and donations. Their ending cash balances at June 30, 2004 were \$1,484,398 and \$799,214, respectively.

### **BUDGETARY HIGHLIGHTS**

The City adopted its budget on March 3, 2003 and had no amendments over the course of the year.

### **DEBT ADMINISTRATION**

At June 30, 2004, the City had no long-term debt.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City's elected and appointed officials, and citizens considered many factors when setting the 2005 fiscal year budget. One of those factors is the economy. The City's total assessed valuations have increased slightly. However, funding from the State has decreased due to the State's budget constraints.

Property taxes are expected to decrease slightly in FY05 as compared to FY04. The City's cash balance is expected to remain constant by the close of FY05.

## **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 James Heller, City Clerk, 433 Main Street, City of Manilla, Iowa.

## BASIC FINANCIAL STATEMENTS

CITY OF MANILLA  
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Disbursements</u>	<u>Program Receipts</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$ 106,998	\$ -0-	\$ 13,818
Public works	136,961	-0-	70,464
Culture and recreation	28,845	1,165	2,776
Community and economic development	19,748	-0-	17,344
General government	<u>21,342</u>	<u>2,024</u>	<u>32,322</u>
Total governmental activities	313,894	3,189	136,724
Business type activities:			
Cable	83,735	72,277	-0-
Electric	662,228	457,998	6,800
Garbage	42,285	41,587	-0-
Gas	573,734	341,421	6,800
Sewer	20,559	31,747	-0-
Water	<u>116,984</u>	<u>73,760</u>	<u>-0-</u>
Total business type activities	<u>1,499,525</u>	<u>1,018,790</u>	<u>13,600</u>
Total	<u>\$1,813,419</u>	<u>\$1,021,979</u>	<u>\$150,324</u>

General Receipts:  
Property tax levied for general purposes  
Local option sales tax  
Unrestricted interest on investments  
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

        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
\$ (93,180)	\$ -0-	\$ (93,180)
(66,497)	-0-	(66,497)
(24,904)	-0-	(24,904)
(2,404)	-0-	(2,404)
<u>13,004</u>	<u>-0-</u>	<u>13,004</u>
(173,981)	-0-	(173,981)
-0-	(11,458)	(11,458)
-0-	(197,430)	(197,430)
-0-	(698)	(698)
-0-	(225,513)	(225,513)
-0-	11,188	11,188
<u>-0-</u>	<u>(43,224)</u>	<u>(43,224)</u>
<u>-0-</u>	<u>(467,135)</u>	<u>(467,135)</u>
(173,981)	(467,135)	(641,116)
108,123	-0-	108,123
48,561	-0-	48,561
4,582	59,244	63,826
6,595	-0-	6,595
<u>34,549</u>	<u>(34,549)</u>	<u>-0-</u>
<u>202,410</u>	<u>24,695</u>	<u>227,105</u>
28,429	(442,440)	(414,011)
<u>403,129</u>	<u>2,945,046</u>	<u>3,348,175</u>
<u>\$ 431,558</u>	<u>\$2,502,606</u>	<u>\$2,934,164</u>
\$ 58,477	\$ -0-	\$ 58,477
3,368	-0-	3,368
<u>369,713</u>	<u>2,502,606</u>	<u>2,872,319</u>
<u>\$ 431,558</u>	<u>\$2,502,606</u>	<u>\$2,934,164</u>

CITY OF MANILLA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Special Revenue</u>		<u>Total</u>
		<u>Road Use Tax</u>	<u>Other Nonmajor Governmental Funds</u>	
Receipts:				
Property tax	\$ 96,794	\$ -0-	\$ 11,329	\$108,123
Local option sales tax	-0-	-0-	48,561	48,561
Licenses and permits	2,024	-0-	-0-	2,024
Use of money and property	5,747	-0-	-0-	5,747
Intergovernmental	66,260	70,464	-0-	136,724
Miscellaneous	<u>6,595</u>	<u>-0-</u>	<u>-0-</u>	<u>6,595</u>
Total receipts	177,420	70,464	59,890	307,774
Operating Disbursements:				
Public safety	95,026	-0-	11,972	106,998
Public works	75,357	61,604	-0-	136,961
Culture and recreation	28,845	-0-	-0-	28,845
Community and economic development	19,748	-0-	-0-	19,748
General government	<u>21,342</u>	<u>-0-</u>	<u>-0-</u>	<u>21,342</u>
Total disbursements	<u>240,318</u>	<u>61,604</u>	<u>11,972</u>	<u>313,894</u>
Excess (deficiency) of receipts over (under) disbursements	(62,898)	8,860	47,918	(6,120)
Other financing sources (uses):				
Operating transfers in	83,110	-0-	-0-	83,110
Operating transfers out	<u>-0-</u>	<u>-0-</u>	<u>(48,561)</u>	<u>(48,561)</u>
Total other financing sources (uses)	<u>83,110</u>	<u>-0-</u>	<u>(48,561)</u>	<u>34,549</u>
Net change in cash balances	20,212	8,860	(643)	28,429
Cash balances beginning of year	<u>349,501</u>	<u>49,617</u>	<u>4,011</u>	<u>403,129</u>
Cash balances end of year	<u>\$369,713</u>	<u>\$ 58,477</u>	<u>\$ 3,368</u>	<u>\$431,558</u>
Cash Basis Fund Balances				
Unreserved:				
General fund	\$369,713	\$ -0-	\$ -0-	\$369,713
Special revenue funds	<u>-0-</u>	<u>58,477</u>	<u>3,368</u>	<u>61,845</u>
Total cash basis fund balances	<u>\$369,713</u>	<u>\$ 58,477</u>	<u>\$ 3,368</u>	<u>\$431,558</u>

See notes to financial statements.

CITY OF MANILLA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Cable</u>	<u>Electric</u>	<u>Enterprise Garbage</u>
Operating receipts:			
Use of money and property	\$ -0-	\$ 30,532	\$ -0-
Charges for service	71,375	428,693	41,587
Miscellaneous	<u>902</u>	<u>5,573</u>	<u>-0-</u>
Total operating receipts	72,277	464,798	41,587
Operating disbursements:			
Business type activities:			
Operations	83,735	460,672	42,285
Capital outlay	<u>-0-</u>	<u>201,556</u>	<u>-0-</u>
Total operating disbursements	<u>83,735</u>	<u>662,228</u>	<u>42,285</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(11,458)	(197,430)	(698)
Non-operating receipts (disbursements):			
Interest on investments	<u>2,052</u>	<u>38,023</u>	<u>-0-</u>
Excess (deficiency) of receipts over (under) disbursements	(9,406)	(159,407)	(698)
Operating transfers out	<u>-0-</u>	<u>(17,275)</u>	<u>-0-</u>
Net change in cash balances	(9,406)	(176,682)	(698)
Cash balances beginning of year	<u>125,600</u>	<u>1,661,080</u>	<u>10,158</u>
Cash balances end of year	<u>\$ 116,194</u>	<u>\$ 1,484,398</u>	<u>\$ 9,460</u>
 Cash Basis Fund Balances – Unreserved	 <u>\$ 116,194</u>	 <u>\$ 1,484,398</u>	 <u>\$ 9,460</u>

See notes to financial statements.

<u>Funds</u>			
<u>Gas</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
\$ 18,616	\$ -0-	\$ -0-	\$ 49,148
328,386	31,747	73,353	975,141
<u>1,219</u>	<u>-0-</u>	<u>407</u>	<u>8,101</u>
348,221	31,747	73,760	1,032,390
372,178	20,559	116,984	1,096,413
<u>201,556</u>	<u>-0-</u>	<u>-0-</u>	<u>403,112</u>
<u>573,734</u>	<u>20,559</u>	<u>116,984</u>	<u>(1,499,525)</u>
(225,513)	11,188	(43,224)	(467,135)
<u>17,773</u>	<u>-0-</u>	<u>1,396</u>	<u>59,244</u>
(207,740)	11,188	(41,828)	(407,891)
<u>(17,274)</u>	<u>-0-</u>	<u>-0-</u>	<u>(34,549)</u>
(225,014)	11,188	(41,828)	(442,440)
<u>1,024,228</u>	<u>80,262</u>	<u>43,718</u>	<u>2,945,046</u>
<u>\$ 799,214</u>	<u>\$ 91,450</u>	<u>\$ 1,890</u>	<u>\$2,502,606</u>
<u>\$ 799,214</u>	<u>\$ 91,450</u>	<u>\$ 1,890</u>	<u>\$2,502,606</u>

CITY OF MANILLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

(1) Summary of Significant Accounting Policies

The City of Manilla is a political subdivision of the State of Iowa located in Crawford County. It was first incorporated in 1887 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 and recreation, community and economic development, and general government services. The City also provides gas, water, garbage, sewer, electric and cable utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Crawford County Solid Waste Agency and Crawford County Development Corporation.

B. Basis of Presentation

Government-wide Financial Statements – 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 services.

CITY OF MANILLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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 that do not meet 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 and contributions 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 governmental funds are aggregated and reported as nonmajor governmental 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 that are not paid from other funds.

Special Revenue:

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

CITY OF MANILLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Fund Financial Statements (continued)

The City reports the following proprietary funds, which are all major funds of the City, with the exception of the sewer and garbage funds.

The Cable Fund accounts for the operation and maintenance of the City's cable television system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Garbage Fund accounts for the collection and cost of the City's sanitary disposal service.

The Gas Fund accounts for the collection and cost of the City's gas service.

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 Manilla 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.

CITY OF MANILLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

(1) Summary of Significant Accounting Policies (continued)

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in the general government and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 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's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City of its agent in the City's name.

The City's cash and certificates of deposits at June 30, 2004 are as follows:

Cash	\$1,035,582
Certificates of Deposits	<u>1,893,766</u>
Total	<u>\$2,929,348</u>

In addition, the City has investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$4,816, pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

CITY OF MANILLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

(3) Due from Others

The City of Manilla Municipal Utility loaned Super Cross Hybrids, Inc. d/b/a Sucrosco Seeds, \$50,000 as evidenced by a promissory noted dated February 8, 1999. The loan is to be repaid in ten annual installments of \$5,000, plus accrued interest at the rate of 6% per annum, beginning February 8, 2000. The balance of the loan, which is secured by a real estate mortgage dated February 8, 1999, was \$25,000 on June 30, 2004. The final payment is scheduled February 8, 2009.

The City of Manilla Municipal Gas Department loaned Super Cross Hybrids, Inc., d/b/a Sucrosco Seeds, \$50,000 as evidenced by a promissory noted dated February 8, 1999. The loan is to be repaid in ten annual installments of \$5,000, plus accrued interest at the rate of 6% per annum, beginning February 8, 2000. The balance of the loan, which is secured by a real estate mortgage dated February 8, 1999 was \$25,000 on June 30, 2004. The final payment is scheduled February 8, 2009.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2004 was \$16,248, equal to the required contributions.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

CITY OF MANILLA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2004

(5) Compensated Absences (continued)

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 8,706
Sick Leave	<u>30,890</u>
Total	<u>\$ 39,596</u>

The liability has been computed based on rates of pay in effect at June 30, 2004.

At the end of each calendar year, any unused vacation pay is paid to employees. Upon separation from employment, accumulated unused vacation pay is paid per employee election, either in a lump sum payment or in a continuation of payments at usual pay periods until paid in full.

Sick leave is payable when used or upon retirement or death with a maximum accumulation to be paid out on forty-five days.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	\$ 48,561
	Local Option Sales Tax	
	Enterprise:	
	Electric	17,275
	Gas	<u>17,274</u>
	Total	<u>\$ 83,110</u>

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

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$9,283 during the year ended June 30, 2004.

CITY OF MANILLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

(8) 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.

(9) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. 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. Nonmajor funds are presented in total in one column. The government-wide financial statement reports the City's governmental and business type activities.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MANILLA  
 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, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required to be <u>Budgeted</u>	Total <u>Actual</u>
<b>Receipts:</b>				
Property tax	\$ 108,123	\$ -0-	\$ -0-	\$ 108,123
Other city tax	48,561	-0-	-0-	48,561
Licenses and permits	2,024	-0-	-0-	2,024
Use of money and property	5,747	108,392	-0-	114,139
Intergovernmental	136,724	-0-	-0-	136,724
Charges for service	-0-	975,141	-0-	975,141
Miscellaneous	<u>6,595</u>	<u>8,101</u>	<u>-0-</u>	<u>14,696</u>
Total receipts	307,774	1,091,634	-0-	1,399,408
<b>Disbursements:</b>				
Public safety	106,998	-0-	-0-	106,998
Public works	136,961	-0-	-0-	136,961
Health and social services	-0-	-0-	-0-	-0-
Culture and recreation	28,845	-0-	-0-	28,845
Community and economic development	19,748	-0-	-0-	19,748
General government	21,342	-0-	-0-	21,342
Business type activities	<u>-0-</u>	<u>1,499,525</u>	<u>-0-</u>	<u>1,499,525</u>
Total disbursements	<u>313,894</u>	<u>1,499,525</u>	<u>-0-</u>	<u>1,813,419</u>
Deficiency of receipts under disbursements	(6,120)	(407,891)	-0-	(414,011)
Other financing sources (uses), net	<u>34,549</u>	<u>(34,549)</u>	<u>-0-</u>	<u>-0-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	28,429	(442,440)	-0-	(414,011)
Balances beginning of year	<u>403,129</u>	<u>2,945,046</u>	<u>-0-</u>	<u>3,348,175</u>
Balances end of year	<u>\$ 431,558</u>	<u>\$2,502,606</u>	<u>\$ -0-</u>	<u>\$2,934,164</u>

See accompanying independent auditors' report.

<u>Budget</u>	Variance Favorable <u>(Unfavorable)</u>
\$108,030	\$ 93
46,000	2,561
2,575	(551)
131,000	(16,861)
131,140	5,584
1,108,900	(133,759)
<u>45,900</u>	<u>(31,204)</u>
1,573,545	(174,137)
134,525	27,527
232,780	95,819
200	200
57,880	29,035
20,000	252
34,605	13,263
<u>1,732,000</u>	<u>232,475</u>
<u>2,211,990</u>	<u>398,571</u>
(638,445)	224,434
<u>-0-</u>	<u>-0-</u>
(638,445)	224,434
<u>2,662,976</u>	<u>685,199</u>
<u>\$2,024,531</u>	<u>\$ 909,633</u>

CITYOF MANILLA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY REPORTING  
JUNE 30, 2004

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 Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. 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, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and 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 ended June 30, 2004, no budget amendments were made and disbursements did not exceed amounts budgeted in the general government and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MANILLA  
STATEMENT OF CASH RECEIPTS, DISBURSMENTS  
AND CHANGES IN CASH BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Special Revenue</u>		<u>Total</u>
	<u>Employee Benefits</u>	<u>Local Option Sales Tax</u>	
Receipts:			
Property tax	\$ 11,329	\$ -0-	\$ 11,329
Other city tax	<u>-0-</u>	<u>48,561</u>	<u>48,561</u>
Total receipts	11,329	48,561	59,890
Disbursements:			
Operating:			
Public safety	<u>11,972</u>	<u>-0-</u>	<u>11,972</u>
Excess (deficiency) of receipts over (under) disbursements	(643)	48,561	47,918
Other financing uses:			
Operating transfers out	<u>-0-</u>	<u>(48,561)</u>	<u>(48,561)</u>
Net change in cash balances	(643)	-0-	(643)
Cash balances beginning of year	<u>4,011</u>	<u>-0-</u>	<u>4,011</u>
Cash balances end of year	<u>\$ 3,368</u>	<u>\$ -0-</u>	<u>\$ 3,368</u>
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	<u>\$ 3,368</u>	<u>\$ -0-</u>	<u>\$ 3,368</u>

See accompanying independent auditors' report.

CITY OF MANILLA  
 SCHEDULE OF RECEIPTS BY SOURCE AND  
 DISBURSEMENTS BY FUNCTION –  
 ALL GOVERNMENTAL FUNDS

FOR THE LAST FOUR YEARS ENDING JUNE 30

	<u>2004</u>	<u>2003*</u>	<u>2002*</u>	<u>2001*</u>
Receipts:				
Property tax	\$ 108,123	\$ 101,092	\$ 104,540	\$ 102,635
Other city tax	48,561	47,262	48,946	54,060
Licenses and permits	2,024	2,181	2,404	2,482
Use of money and property	4,582	5,946	9,605	16,144
Intergovernmental	136,724	233,371	184,163	259,825
Charges for services	1,165	1,945	1,680	1,505
Miscellaneous	<u>6,595</u>	<u>29,245</u>	<u>6,454</u>	<u>8,095</u>
 Total	 <u>\$ 307,774</u>	 <u>\$ 421,042</u>	 <u>\$ 357,792</u>	 <u>\$ 444,746</u>
 Disbursements:				
Operating:				
Public safety	106,998	72,252	82,335	67,937
Public works	136,961	118,846	130,473	156,543
Culture and recreation	28,845	26,960	25,704	26,942
Community and economic development	19,748	131,281	138,690	147,471
Capital projects	<u>21,342</u>	<u>16,494</u>	<u>20,184</u>	<u>24,184</u>
 Total	 <u>\$ 313,894</u>	 <u>\$ 365,833</u>	 <u>\$ 397,386</u>	 <u>\$ 423,077</u>

\*Unaudited

See accompanying independent auditors' report.

# **HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.**

## **Certified Public Accountants**

Morrie M. Heithoff, CPA  
Susan L. Hansen, CPA  
Jeffrey L. Muhlbauer, CPA

305 Main Street  
Manning, Iowa 51455-1030  
(712) 655-3777  
Fax (712) 655-3778

August 18, 2004

### Independent Auditors' 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 Manilla, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 18, 2004. Our report on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

Except as noted in the Independent Auditors' 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 Manilla's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 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. Prior audit statutory comments have been resolved except for items 1, 3 and 4.

To the Honorable Mayor and  
Members of the City Council  
Page Two

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Manilla'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 Manilla'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 weakness and was reported as a prior audit reportable condition.

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 Manilla and other parties to whom the City of Manilla 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 Manilla 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.

*Heithoff, Hansen, Muhlbauer & Co., P.C.*

HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.  
Certified Public Accountants

CITY OF MANILLA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Findings Related to the Financial Statements:

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

**REPORTABLE CONDITIONS:**

- A. Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that a limited number of people have the primary responsibility for most of the accounting and financial duties.

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. In addition, dual signatures should be required on payroll checks and other checks which exceed a dollar threshold established by the City Council and Board of Trustees.

Response – We will investigate alternatives and consider passing a resolution requiring dual signatures on payroll checks and other checks over a certain amount.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- B. Credit Cards – The City has credit cards for use by various employees/officials while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the type of supporting documentation required to substantiate charges.

Response – We have not established a formal written policy detailing specifics on the use of City credit cards and will review procedures and guidelines to establish a written policy.

Conclusion – Response accepted.

CITY OF MANILLA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

**REPORTABLE CONDITIONS (continued)**

- C. Check Numbers – During our review, we found that computer generated check registers did not always correctly list the actual check number.

Recommendation – Actual check numbers should be correctly listed on the computer generated reports in order to maintain adequate control of the checks and provide an accurate accounting of warrants paid.

Response – This was an oversight in that the first two checks in a series of checks printed were skipped by the check printing supplier. When this was discovered, computer reports were later corrected.

Conclusion – Response accepted.

- D. Disbursement Approval – The City Council and Board of Trustees approved several disbursements after the actual disbursement was made. The City does not have a written policy regarding payment prior to approval for certain types of disbursements.

Recommendation – The City should approve a resolution authorizing certain disbursements that may be paid prior to a City Council or Board meeting. These claims should then be presented at the next meeting for Council/Board approval. Then, except as expressly permitted, no checks should be prepared for claims that have not been properly authorized and approved.

Response – We will review and implement this recommendation.

Conclusion – Response accepted.

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

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

Response – We have requested from our bank an image of both the front and back of each cancelled check. Our bank will begin providing these immediately.

Conclusion – Response accepted.

CITY OF MANILLA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

**Other Findings Related to Statutory Reporting:**

- 1) Official Depositories – A resolution approving the City's investment policy was adopted, however the City did not properly designate its financial institutions and approve depository limits.

Recommendation – The City Council should properly designate the financial institutions of the City and set depository limits. In addition, these should be reviewed annually.

Response – We will designate official depositories of the City and set depository limits annually.

Conclusion – Response accepted.

- 2) Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted in the general government and business type activities functions.
- 3) Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows.

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Tiny's	Christmas hams for employee gifts	\$ 518
Card Service	Movie rental on hotel bill	\$ 12

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation. In addition, if the movie rental included on the hotel bill is determined to be of a personal nature, reimbursement from the employee should be made.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

CITY OF MANILLA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

**Other Findings Related to Statutory Reporting:** (continued)

- 4) Travel Expense – It was noted that a disbursement of City money for travel expenses was made for the spouse of a Municipal Service Official. While this disbursement was approved by the Board of Trustees, there appears to be no documentation as to the public purpose being served. According to the Attorney General’s opinion referred to in item (3) above, the public benefits derived should be clearly documented.

Recommendation – The Board should determine and document the public purpose served by disbursements of this nature before authorizing payment. In addition, written policies and procedures should be established which include the requirement of documenting the public purpose served. The City should also seek reimbursement for the above disbursement made unless its public purpose is clearly documented.

Response – We will not authorize disbursements for travel expenses for spouses of City officials or employees unless the public purpose is clearly documented.

Conclusion – Response accepted.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Lynn Olson, Council Member Part-owner of Olson Produce	Supplies	\$ 460
Leonard Kaufmann, Municipal Service Trustee, owner of Leonard's Repair	Mower parts	\$ 230
Jon Vennink, Municipal Service Trustee, owner of Jon's Body Shop	Truck parts	\$ 93
Barry Christensen, Municipal Service Trustee, co-owner of Harvey's Oil	Fuel and parts	\$8,344
Mike Warner, City employee, owner of Warner Welding	Repairs	\$156

CITY OF MANILLA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

**Other Findings Related to Statutory Reporting:** (continued)

(5) Business Transactions (continued)

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Council Member Olson, Municipal Service Trustees Kaufmann and Vennink, and employee Warner do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Municipal Service Trustee Christensen may represent a conflict of interest since total transactions with this individual was greater than \$2,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – In a small town it is very difficult to prevent related party purchases. The City has purchased fuel from this business for many years and will consult legal counsel regarding this matter.

Conclusion – Response acknowledged.

- 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 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.
- 8) Deposits and Investments – Except as noted in comment (1), no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.