

CITY OF VICTOR

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
June 30, 2005**

Juli Ochs, CPA

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City Of Victor

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert P. Michalek	Mayor	Dec. 31, 2005
Roger Pawlak	Council Member	Dec. 31, 2005
Marla Faga	Council Member	Dec. 31, 2005
Rob Mertens	Council Member	Dec. 31, 2005
Brad Jahlas	Council Member	Dec. 31, 2005
Lynn DeNeve	Council Member	Dec. 31, 2005
Fred Stiefel	City Clerk/ City Attorney	Appointed

CITY OF VICTOR

Juli Ochs, CPA
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Victor, Iowa 52347
319-647-2295 (Home)

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I 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 Victor, Iowa, as of and for the year ended June 30, 2005. These financial statements are the responsibility of city officials. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards of the United States of America, 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 I 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 officials, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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 United States 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, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2004.

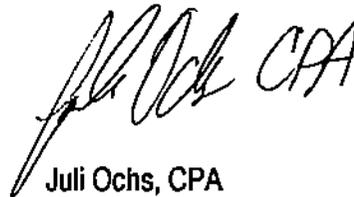
In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly,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

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

In accordance with Government Auditing Standards, I have also issued my reports dated November 8, 2005 on my consideration of the City of Victor's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 21 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. Other supplementary 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 my audit of the aforementioned financial statements and, in my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the third paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.



Juli Ochs, CPA

November 8, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Victor's financial performance is an overview of the City's financial activities for the fiscal year, which ended June 30, 2005. Readers should consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- *Revenues of the City decreased in the General Fund by \$89,369 because in Fiscal Year 2004 the City completed a housing rehabilitation program. The City received a Community Development Block Grant to fix up individual houses. The City had significant revenues and expenditures in connection with this program. Revenues of the City increased in the Special Revenue Fund, Road Use Tax Account by \$115,186 because of the Third Street Project.
- *Disbursements of the City increased due to the Third Street Project. Construction expenses were \$291,638. The City re-paved several blocks of Third Street using Road Use Tax Money and Iowa Department of Transportation Grant money. Additionally, the City purchased a new Fire Truck using the Special Revenue Fund, Fire Department Account which will be paid back in the future with township tax monies.
- * The City's total cash basis net assets decreased \$85,362 because of expenditures related to the Third Street Project and the purchase of a new Fire Truck.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis shows basic financial statement and an overview of cash receipts and disbursements. The cash basis of accounting does not take into consideration accounts receivable or accounts payable.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This Statement includes 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.

BASIS OF ACCOUNTING

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

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 declining.

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

- ❖ **Governmental Activities** include public safety, public works, culture and recreation, general government, and capital projects. These activities are financed mainly by property taxes and state/federal grants.
- ❖ **Business Type Activities** include the water system and the sanitary sewer system. Fees charged to the users finance these activities.

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, 2) the Special Revenue Funds, such as Road Use Tax, Fire Department, 3) the Capital Projects Fund and 4) the Permanent Fund. 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 two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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 decreased from \$628,453 to \$457,842 from a year ago.

Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u> <u>2005</u>
Receipts and transfers	
Program receipts	
Charges for services	49,453
Operating Grants, Contributions	256,519
General receipts:	
Property tax	185,934
Local Option Sales Tax	98,635
TIF revenues	39,482
Other general receipts	<u>82,307</u>
Total receipts	\$ <u>712,330</u>
Disbursements and transfers	
Public safety	239,563
Public works	528,148
Culture and recreation	43,177
General government	<u>72,053</u>
Total disbursements & transfers	\$ 882,941
Increase/decrease in cash basis net assets	(170,611)
Cash basis net assets beginning of year (net prior period)	\$ <u>628,453</u>
Cash basis net assets end of year	<u>\$ 457,842</u>

Cash Basis Net Assets of Business Type Activities

Receipts	<u>Year ended June 30,</u>
Program receipts	<u>2005</u>
Charges for services	
Water	73,000
Sewer	83,000
General receipts	
Water	<u>902</u>
Total receipts	<u>\$620,993</u>
Disbursements	
Water	36,581
Sewer	<u>35,072</u>
Total disbursements	<u>\$ 71,653</u>
Increase in cash basis net assets	<u>85,249</u>
Cash basis net assets beginning of year	<u>239,889</u>
Cash basis net assets end of year	<u>\$ 325,138</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Victor, Iowa completed the year, its governmental funds reported a combined fund balance of \$782,980, which is a decrease of \$85,362. Major reasons for changes in balances from fiscal year 2004 are:

- ❖ Construction expenses from the Third Street Project in the amount of \$291,648.
- ❖ Expenses in the Special Revenue Fund, Fire Department Account for the purchase of a new fire truck. The City paid \$58,193 in Fiscal Year 2004 for the truck chassis and the City paid \$138,806 in Fiscal Year 2005 for the equipment that goes on the chassis.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Utility Fund balance increased by \$37,321 and the Sewer Utility Fund balance increased by \$47,928 from fiscal year 2004 due to an increase in sewer rates two years ago with the plan to build up a cash reserve in the sewer fund to help pay for a \$1,000,000 Iowa Department of Natural Resources mandated sewer plant construction project.

BUDGETARY HIGHLIGHTS

The City did not amend its budget during Fiscal Year 2005.

DEBT ADMINISTRATION

At June 30, 2005, the City had an interfund loan from the Tax Incremental Fund to the Capital Projects Fund, KUBU Account in the amount of \$142,377. This is an internal debt and will be paid with future TIF income.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of Victor's elected and appointed officials considered factors such as tax rates and fees that will be charged for various City activities when they adopted the 2005 budget.

Additional items related to the city

- ❖ The City Council wants to keep property taxes steady. For many years the tax rate has been \$9.49 per \$1,000 of valuation.
- ❖ Regarding the Tax Incremental Financing (TIF) district, originally the City established the TIF district in connection with the expansion at Victor Manufacturing, the city's largest employer. The City provided a cash grant to the factory in exchange for the factory's commitment to create new jobs. The City uses TIF money to repay the city for the cash grant.
- ❖ In addition, the City enlarged the TIF district to pay for street, water and sewer improvements to encourage the building of new houses. The city uses the TIF money to repay the City for the costs of the infrastructure improvements.
- ❖ The City has a \$.01 Local Option Sales Tax. The City commits this money for property tax relief. The property tax would be significantly higher without the Local Option Sales Tax money.
- ❖ Each property owner pays a monthly garbage fee. The City uses this money to pay the garbage hauler (an independent contractor). The garbage fees collected equal the cost paid to the garbage hauler.
- ❖ The City has separate boards to operate the cemetery and the library. The board members are volunteers appointed by the mayor with council approval.
- ❖ The City transfers money each year to the cemetery to help with cemetery maintenance. The cemetery also uses the bank interest from the perpetual care money for maintenance purposes.
- ❖ The City transfers money each year to the library to help with library operations. The library also receives income from rent on the library farm, and from Iowa County.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for all money received. If you have questions about this report or need additional information, please contact Fred Stiefel, City Clerk/Treasurer, PO Box Drawer R, Victor, Iowa 52347 or call 319-647-2241.

City of Victor
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2005

	Disbursements	Charges for Service
Functions/Programs:		
Governmental activities:		
Public safety	\$ 239,563	-
Public works	565,418	46,000
Culture and recreation	43,177	-
General government	34,783	3,453
Capital projects	-	-
Total governmental activities	882,941	49,453
Business type activities		
Water	36,581	73,000
Sewer	35,072	83,000
Total business type activities	71,653	156,000
Total	\$ 954,594	205,453

General Receipts:

Property tax levied for:

- General purposes
- Tax increment financing
- Local option sales tax
- Grants and contributions not restricted to a specific purpose
- Unrestricted interest on investments
- Miscellaneous
- Sale of assets

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash Basis Net Assets

Unrestricted

Total cash basis net assets

Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
34,028	-	(205,535)	-	(205,535)
222,491	-	(296,927)	-	(296,927)
-	-	(43,177)	-	(43,177)
-	-	(31,330)	-	(31,330)
-	-	-	-	-
256,519	-	(576,969)	-	(576,969)
-	-	-	36,419	36,419
-	-	-	47,928	47,928
-	-	-	84,347	84,347
256,519	-	(576,969)	84,347	(492,622)
		\$ 185,934	-	185,934
		39,482	-	39,482
		98,635	-	98,635
		10,688	-	10,688
		2,071	530	2,601
		61,548	372	61,920
		8,000	-	8,000
		-	-	-
		406,358	902	407,260
		(170,611)	85,249	(85,362)
		628,453	239,889	868,342
		457,842	325,138	782,980
		457,842	325,138	782,980
		\$ 457,842	325,138	782,980

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

As of and for the year ended June 30, 2005

	General	Special Revenue		Other Nonmajor Governmental Funds	Total
		Road Use Tax	Fire Department		
Receipts:					
Property Tax	\$ 185,934	\$ -	\$ -	\$ -	\$ 185,934
Tax increment financing collections	39,482	-	-	-	39,482
Other City Tax	98,635	-	-	-	98,635
Use of money and property	3,642	-	637	-	4,279
Licenses and permits	1,245	-	-	-	1,245
Intergovernmental	10,688	222,491	34,028	-	267,207
Charges for services	46,000	-	-	-	46,000
Miscellaneous	19,882	-	-	49,666	69,548
Total Receipts	405,508	222,491	34,665	49,666	712,330
Disbursements:					
Operating:					
Public Safety	223,818	-	-	15,745	239,563
Public Works	69,631	348,503	147,284	-	565,418
Culture and recreation	-	-	-	43,177	43,177
Community and economic development	-	-	-	-	-
General government	34,783	-	-	-	34,783
Capital projects	-	-	-	-	-
Total Disbursements	328,232	348,503	147,284	58,922	882,941
Excess (deficiency) of receipts over (under) disbursements	<u>77,276</u>	<u>(126,012)</u>	<u>(112,619)</u>	<u>(9,256)</u>	<u>(170,611)</u>
Other financing sources (uses):					
Operating transfers in (out)	(40,386)	4,209	2,157	34,020	-
Total other financing sources (uses)	(40,386)	4,209	2,157	34,020	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses	<u>36,890</u>	<u>(121,803)</u>	<u>(110,462)</u>	<u>24,764</u>	<u>(170,611)</u>
Balance beginning of year	247,386	260,711	78,371	41,985	628,453
Balance end of year	<u>\$ 284,276</u>	<u>\$ 138,908</u>	<u>\$ (32,091)</u>	<u>\$ 66,749</u>	<u>\$ 457,842</u>
Cash Basis Fund Balances					
Unreserved:					
General Fund	284,276	-	-	-	284,276
Special Revenue Funds	-	138,908	-	66,749	205,657
Capital Project Fund	-	-	(32,091)	-	(32,091)
Total cash basis fund balances	284,276	138,908	(32,091)	66,749	457,842

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

As of and for the year ended June 30, 2005

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Receipts:			
Use of money and property	\$ 530	\$ -	\$ 530
Charges for services	73,000	83,000	156,000
Miscellaneous	372	-	372
Total Receipts	<u>73,902</u>	<u>83,000</u>	<u>156,902</u>
Disbursements:			
Business type activities	36,581	35,072	71,653
Total Disbursements	<u>36,581</u>	<u>35,072</u>	<u>71,653</u>
Excess (deficiency) of receipts over (under) disbursements	<u>37,321</u>	<u>47,928</u>	<u>85,249</u>
Balance beginning of year	191,689	48,200	239,889
Balance end of year	<u>\$ 229,010</u>	<u>\$ 96,128</u>	<u>\$ 325,138</u>
Cash Basis Fund Balances			
Unreserved	229,010	96,128	325,138
Total cash basis fund balances	<u>229,010</u>	<u>96,128</u>	<u>325,138</u>

City of Victor
Notes to Financial Statements
June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Victor is a political subdivision of the State of Iowa located in Iowa and Poweshiek Counties. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, City of Victor 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 of Victor 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: Iowa County Assessor's Conference Board, Iowa and Poweshiek County Emergency Management Commissions, and Iowa County Joint E-911 Service Board.

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.

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, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

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

The Fire Department Account is used to account for the tax dollars received from the townships.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Victor maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The

cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

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

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentality's; 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.

(3) Interfund Notes Payable

The City has an interfund loan between the Kubu Subdivision Capital Projects Fund and the General Fund for the construction of sewer and roads for the Kubu Subdivision and expansion of Victor Manufacturing. The City advanced \$225,000 to Victor Manufacturing to be paid back with Tax Incremental Financing Taxes. Additionally, the City financed the construction of sewer, and water lines, and streets in the Kubu Subdivision, in the amount of \$452,241 to be paid back with Tax Incremental Financing Taxes. Currently the Tax Incremental Financing Taxes are being recorded as revenue into the General Fund until the advance to Victor Manufacturing is paid in full and then will be recorded as revenue into the Capital Projects Fund, KUBU Account. Total interfund Note Payable was \$452,241. Additionally, it has been noted that a Special Revenue Fund for the Tax Incremental Financing monies has not been established.

(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, 2005, was \$6,968, equal to the required contributions for the year.

(5) Risk Management

The City of Victor 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.

(6) Deficit Fund Balances

The Capital Projects Fund, KUBU Subdivision Project Account had a deficit balance of \$142,377. The deficit balance was a result of the City using the account to keep track of the TIF balance owing the General Fund, see Note #3.

The Permanent Fund, Library Account had a deficit balance of \$1,879. The deficit balance was a result of the City using the account as a clearing account for payments to the library for their payroll and is refunded each month.

The Permanent Fund, Fire Department Account had a deficit balance of \$32,091. The deficit balance was a result of the purchase of a fire truck during fiscal year 2005 and will be repaid by township monies during the years following.

(7) 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, 2005. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. 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 Victor

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

Required Supplementary Information

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not required to be Budgeted	Net	Budgeted Original	Original to Net Variance
Receipts:						
Property Tax	\$ 185,934	\$ -	\$ -	\$ 185,934	\$ 185,613	\$ 321
Tax increment financing collections	39,482	-	-	39,482	14,387	25,095
Other City Tax	98,635	-	-	98,635	80,000	18,635
Use of money and property	4,279	530	-	4,809	3,000	1,809
Licenses and permits	1,245	-	-	1,245	1,000	245
Intergovernmental	267,207	-	-	267,207	217,000	50,207
Charges for services	46,000	156,000	-	202,000	192,000	10,000
Miscellaneous	69,548	372	1,197	68,723	137,000	(68,277)
Total Receipts	<u>712,330</u>	<u>156,902</u>	<u>1,197</u>	<u>868,035</u>	<u>830,000</u>	<u>38,035</u>
Disbursements:						
Public Safety	239,563	-	-	239,563	310,000	70,437
Public Works	565,418	-	-	565,418	614,000	48,582
Culture and recreation	43,177	-	1	43,176	54,000	10,824
General government	34,783	-	-	34,783	49,000	14,217
Business Type	-	71,653	-	71,653	909,000	837,347
Total Disbursements	<u>882,941</u>	<u>71,653</u>	<u>1</u>	<u>954,593</u>	<u>1,936,000</u>	<u>981,407</u>
Excess (deficiency) of receipts over (under) disbursements	(170,611)	85,249	1,196	(86,558)	(1,106,000)	
Other financing sources (uses):						
Bond Proceeds						
General Obligation Bond	-	-	-	-	700,000	
Operating transfers in (out)	-	-	-	-	-	
Total other financing sources (uses)	-	-	-	-	700,000	
Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses	(170,611)	85,249	1,196	(86,558)	(406,000)	
Balance beginning of year	628,453	239,889	55,332	813,010	636,484	
Balance end of year	<u>\$ 457,842</u>	<u>\$ 325,138</u>	<u>\$ 56,528</u>	<u>\$ 726,452</u>	<u>\$ 230,484</u>	

City of Victor

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 included disbursements for the General Fund, Special Revenue Funds, 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.

OTHER SUPPLEMENTARY INFORMATION

City of Victor

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

As of and for the year ended June 30, 2005

	Special Revenue Fund	Capital Projects	
	Library Fund	KUBU	Library
Receipts:			
Miscellaneous	\$ -	\$ -	\$ 32,065
Total receipts	-	-	32,065
Disbursements:			
Public Safety	-	-	-
Culture and recreation	23,365	-	12,131
Total disbursements	23,365	-	12,131
Deficiency of receipts under disbursements	(23,365)	-	19,934
Other financing sources (uses):			
Transfers in (out):	25,211	-	(3,211)
Total Transfers	25,211	-	(3,211)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financial uses	1,846	-	16,723
Balance, beginning of year	(3,725)	(142,377)	66,159
Balance, end of year	<u>\$ (1,879)</u>	<u>\$ (142,377)</u>	<u>\$ 82,882</u>
Cash Basis Fund Balances			
Unreserved:			
Capital Project Fund	(1,879)	(142,377)	82,882
Total cash basis fund balances	<u>(1,879)</u>	<u>(142,377)</u>	<u>82,882</u>

Permanent Funds				
Fire Department	First Responders	Cemetery	Cemetery Perpetual Care	Total
\$ 14,035	\$ 233	\$ 2,137	\$ 1,197	\$ 49,667
14,035	233	2,137	1,197	49,667
15,745	-	-	-	15,745
-	-	7,680	1	43,177
15,745	-	7,680	1	58,922
(1,710)	233	(5,543)	1,196	(9,255)
5,758	1,262	5,000	-	34,020
5,758	1,262	5,000	-	34,020
4,048	1,495	(543)	1,196	24,765
47,446	18,490	659	55,332	41,984
\$ 51,494	\$ 19,985	\$ 116	\$ 56,528	\$ 66,749
51,494	19,985	116	56,528	66,749
51,494	19,985	116	56,528	66,749

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

To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of Victor, Iowa, as of and for the year ended June 30, 2005, and have issued my report thereon dated November 8, 2005. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with United States generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

During the year ended June 30, 2005 the City of Victor 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Victor's financial statements are free of material misstatement, I 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Governmental Auditing Standards. Additionally, I noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

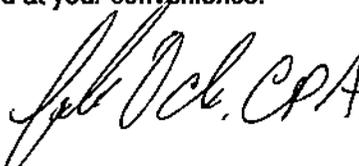
Comments involving statutory and other legal matters about the Entity's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the general purpose financial statements of the City of Victor. Since my audit was based on tests 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 item 12,13,14,16,18, and 19.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Victor's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Victor's ability to record, process, summarize and report financial data consistent with the assertions of city officials 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in 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, I believe item 1,2 and 20 are material weaknesses. Prior year reportable conditions have been resolved except for item 1,2,3,4,5,6,7,8, and 9. 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 Victor and other parties to whom the City of Victor may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the City of Victor during the course of my audit. Should you have any questions concerning any of the above matters, I would be pleased to discuss them with you at your convenience.



Juli Ochs, CPA, Principal

November 8, 2005

CITY OF VICTOR
Schedule of Findings
Year ended June 30, 2005

The following comments about the City of Victor operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City.

REPORTABLE CONDITIONS:

- (1) Segregation of Duties –One important element in designing an internal control structure that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another.

During our review of the city's control procedures, I noted that one or two persons have control over one or more of the following areas:

- | | |
|---|--|
| 1. Receipts- collecting, depositing, journalizing, posting and reconciling | City, Library, Cemetery, Fire Department, First Responders |
| 2. Disbursements – check writing, signing, posting and reconciling | City, Library, Cemetery, Fire Department, First Responders |
| 3. Payroll – preparation and distribution | City |
| 4. Investments – authorization and accounting functions | City, Cemetery, Fire Department |
| 5. Accounting procedures manual – I encourage the development of written office procedures and standardized accounting manuals. | City, Library, Cemetery, Fire Department, First Responders |
| 6. Bank accounts should be reconciled promptly at the end of each month by an individual who does not sign checks, handle or record cash. | City, Library, Cemetery, Fire Department, First Responders |

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

Responses:

City– Finding acceptable, will consider.

Library – Difficult to make changes with limited resources.

Cemetery - Very limited personnel to do this.

Fire Department – Due to limited number of personnel these will be difficult to improve upon.

First Responders – Due to limited number of volunteers we find these duties would be difficult to enforce, however check points in place provide adequate internal control.

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

- (2) Financial Statements – The financial statements and the bank accounts do not cut off at the end of the month.

The City's Annual Financial Report does not include the Water Files bank account.

Stock held by the City is not included in the City's Annual Financial Report.

Recommendation – The financial statements and the bank accounts should cut off on the last day of the month.

The Annual Financial Report should include all city money.

Response – Will consider.

Conclusion – Response accepted, however this should be an area of focus in the future fiscal years.

- (3) Vehicle Usage Policy – The city owns vehicles for use by employees conducting city business. The City has not established a formal policy to regulate the use of these vehicles.

Recommendation – The City should adopt a formal written policy regulating the use of City vehicles. The policy should include provisions for incidental personal use, commuting, assignment of vehicles, documentation required, restricted vehicle uses, reimbursement by employees for personal use, and additional compensation for employees.

Response – Our policy is that city vehicles and equipment are to be used for city business only, incidental personal use exempt.

Conclusion – I would like to see this policy formally adopted.

- (4) Payroll – The following concerns related to payroll were noted:

(A) Salaried personnel of the City do not prepare and file timesheets.

(B) FICA tax is not being withheld from the compensation paid to elected officials.

- (C) The City does not have personnel policies for the payment of vacation, sick leave, and compensated absences.
- (D) The City did not file a form 1099 with the Internal Revenue Service for contract labor paid in excess of \$600.

Recommendation –

- (A) Timesheets documenting time worked and leave taken should be prepared by all personnel and submitted to the City Clerk's office prior to the processing of payroll each pay period. The timesheets should be signed by the employee and employee's supervisor to document approval.
- (B) FICA tax should be withheld from the compensation paid to elected officials.
- (C) The City should establish personnel policies.
- (D) The City should insure that all 1099 forms are properly completed and filed.

Response –

- (A) Employees (Jeff and Tom) work 40 hours a week, if they work more, they take compensation time later. Jeff and Tom keep track of their hours and they are their own supervisors.
- (B) Will consider.
- (C) We have personnel policies, but they are not in written form.
- (D) Will consider.

Conclusion – Response accepted, however, the City should consider adopting formal policies.

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

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the City Clerk's records.

Response: We keep records required by law, but not all records are maintained by the city clerk. We consider the Library and Fire Department to be semi-independent.

Conclusion – I would like to see the City Clerk maintain all records related to the City per Chapter 384.20 of the Code of Iowa.

- (6) Library – The following concerns related to the Library were noted:

- (A) Receipts were not issued for all collections.

(B) No evidence of monthly bank reconciliation.

Recommendation –

- (A) Pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.
- (B) Although I know that the statements are being reconciled, I would like it to be documented and outstanding checks tracked.

Response:

- (A) We will consider using pre-numbered receipts.
- (B) Will perform.

Conclusion – Responses accepted.

(7) Fire Department – The following concern related to the Fire Department were noted:

Receipts were not issued for collections.

Recommendation –

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

Response – We feel we have adequate control in this area.

Conclusion – Response accepted.

(8) First Responders – The following concerns related to the First Responders were noted:

- (A) Pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.
- (B) Invoices or other supporting documentation should be retained for all disbursements.

Response:

- (A) We will consider this, however, due to limited staff and time restraints it may not be feasible.
- (B) We will work towards this.

Conclusion – Response accepted.

(9) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and also to reconcile collections to deposits.

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

Response – We believe we have accurate record and control of utility billings paid and unpaid.

Conclusion – The City should consider using a reconciliation to increase controls.

- (10) Credit Cards – The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card charges.

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

Response – Our formal policy is that credit cards are used for city purchases only – or incidental items.

Conclusion – Additional items, noted above, should be considered in a formal policy.

Other Findings Related to Statutory Reporting:

- (11) Bond Coverage – Surety bond coverage of City officials and employees was not maintained for the year ended June 30, 2005. Chapter 64 of the Code of Iowa states that "all public officers, except as specifically provided, shall give bond."

Recommendation – The City should comply with the provisions contained in Chapter 64 of the Code of Iowa and periodically review its coverage for adequacy.

Response – We will consider.

Conclusion – This comment needs immediate attention as this is a repeat comment, will accept the response.

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

Minutes of the January, February, and April 2005, Council meetings were not published as required and a summary of all receipts was not published as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa.

Response – We will work towards this.

Conclusion – Response accepted.

- (13) Official Depositories – A resolution naming official depositories has not been approved by the City. A resolution would also allow for coverage up to a specified maximum amount of the City's deposits.

Recommendation – A resolution should be approved stating the official depository and the maximum amount allowed.

Response – We will consider

Conclusion – Response accepted.

- (14) 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>
Roger Pawlak, Council Member, owner of Pawlak Inc.	Supplies	\$ 309

In accordance with Chapter 362.5 of the Code of Iowa, the transactions for supplies do not appear to represent a conflict of interest since total transactions are less than \$2,500 and the related party is an owner in the corporation.

- (15) Deposits and Investments – No material instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, it was noted that the City's investment policy is not current and in compliance with the provisions of Chapter 12B.10B of the Code of Iowa.

A deposit agreement was not completed between the City and each depository in excess of federal insurance coverage, as required by Treasurer of State administrative rule number 781-13.4 for banks.

Recommendation – The City should adopt an investment policy to comply with the provisions of Chapter 12B.10B of the Code of Iowa.

The City should obtain a completed deposit agreement with each depository.

Response – We will consider.

Conclusion – Response accepted.

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

- (17) City Code – The City last had its city Code recodified in 1985. Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a City shall compile a code of ordinances containing all of the City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances and ordinances vacating streets and alleys."

Recommendation – The City should have its City Code recodified as required by the Code of Iowa.

Response – We will consider

Conclusion – Response accepted.

- (18) Special Revenue Funds – The City has not created a fund to account for the Employee Benefits tax levy.

The City has not set aside a fund to account for the amount of taxes levied on taxable property in an urban renewal area. Chapter 403.19(2) of the Code of Iowa states, in part, that "portion of the taxes each year...shall be allocated to and when collected be paid into a special fund of the municipality to pay the principal of and interest on loans...incurred by the municipality to finance or refinance, in whole or in part, an urban renewal project within the area."

The City has not set aside a fund to account for Local Option Sales Tax receipts.

Recommendation – The City should create a Special Revenue Fund for Employee Benefits and Local Option Sales Tax.

The City should create a Special Revenue fund for the Tax Incremental Financing Fund to account for these tax receipts from the county and payments of their interfund loan.

Response – The City will consider.

Conclusion – Response accepted.

- (19) Road Use Tax – The 3rd Street Grant was received into the Special Revenue, Road Use Tax Account. Only Road Use Tax should be deposited into the Road Use Tax Account.

Recommendation – Grant money should be deposited into the appropriate account.

Response – Finding accepted.

Conclusion – Response accepted

- (20) Financial Condition – The Capital Projects Fund, KUBU Subdivision Project Account, had a deficit balance of \$142,377 at June 30, 2005. Additionally, the Permanent Fund, Library Account, had a deficit balance of \$1,879 and the Permanent Fund, Fire Department Account had a deficit balance of \$32,091 at June 30, 2005.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response – The KUBU Subdivision Project Account will have a deficit balance until the Tax Incremental Fund pays the debt. The Permanent Fund, Library Account is merely an account for reimbursement of monthly payroll – it is always a month behind. The Permanent Fund, Fire Department Account results from the purchase of a new fire truck which the council agreed to finance with a "loan" using the General Fund monies until the Fire Department Tax Revenues make up the deficit.

Conclusion – Response accepted

- (21) Certified Budget – Disbursements during the year ended June 30, 2005, did not exceed the amounts budgeted.

- (22) Questionable Disbursements – I noted no disbursements that meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.