

**CITY OF FRUITLAND, IOWA**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2006**

City of Fruitland, Iowa

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City of Fruitland  
Officials

June 30, 2006

Name	Title	Term Expires
<b>City Council</b>		
William Brockert	Mayor	1-1-07
Judy Knouse	Council Member	1-2-09
Marty Hills	Council Member	1-2-07
Michael Hahnbaum	Council Member	1-2-09
Rick Honts	Council Member	1-2-07
Jerry Miller	Council Member	1-2-09

**School Officials**

John McCormick	City Clerk/Treasurer	Appointed	1-2-07
Jerry Denning	Attorney		Indefinite

# Kay L. Chapman, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

## 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, each major fund and the aggregate remaining fund information of City of Fruitland, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Fruitland's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that 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 management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my 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, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2005.

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, 2001, 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, each major fund and the aggregate remaining fund information of City of Fruitland as of June 30, 2006, 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.

In accordance with Government Auditing Standards, I have also issued my report dated December 18, 2006 on my consideration of City of Fruitland's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an

audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 17 through 18 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Fruitland's basic financial statements.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
December 18, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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City of Fruitland 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 3.76%, or \$10,964 from fiscal 2005 to fiscal 2006. Property tax increased \$5,518 due to increased property value. Other city taxes increased \$6,029 and use of money and property increased \$4,014 due to increased funds received from local option sales tax and interest received on those funds. License and permits decreased \$2,875 due to a slow down in housing starts and less funds received for building permits.
- Disbursements of the City's governmental activities decreased 7.56%, or \$18,210 in fiscal 2006 from fiscal 2005. Public works disbursements increased by \$27,481, largely due to the construction of the North Street bike path in fiscal 2005. Capital projects disbursements decreased by \$18,754 due to the purchase of a new truck and box in fiscal 2005. These decreases were off-set in part by an increase in general government disbursements of \$17,192. The insurance carrier changed billing to annual from quarterly, resulting in an additional 75% in insurance premiums included in the 2006 fiscal year. Due to the slow down in housing starts mentioned above, there were more sidewalk deposits paid out than taken in during fiscal 2006.
- The City's total cash basis net assets increased 10.5%, or \$79,571 from fiscal 2005 to fiscal 2006. Of this amount, \$8,462 or 4.2% was in General Fund and \$71,109 or 12.7% were in the Local Option Sales Tax Fund.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, 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, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information 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 one kind of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

### *Fund Financial Statements*

The City only has governmental funds, which consist of the General Fund and Special Revenue Funds. 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 General Fund is the basic source of receipts and disbursements for normal City functions and services. This fund is supplemented by the Road Use Tax Fund which receives funds from the State of Iowa for use to maintain and improve streets and roadways. This fund is normally used in its entirety for streets and roadways, which any additional needed disbursements paid out of the General Fund. The Local Option Sales Tax Fund has been accumulating for several years for specific purposes contained in the ballots voted on to provide these funds from sales tax receipts. During the first ten years, the bulk of these funds have been put aside to be used for future sewer and/or water projects. The last ballot put 70% of these receipts aside for a new city hall. While a small percent of these funds have been delegated for infrastructure needs, very little has been used to date, none in fiscal 2006.

**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 by \$79,571 during fiscal year 2006, of which \$71,109 was from local options revenues and interest received from investments on local option funds. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
Receipts	<u>2006</u>
Program receipts	
Charges for service and sales	\$ 65,317
Operating grants	58,859
General receipts	
Property tax	105,049
Sales and services tax	57,173
Unrestricted investment earnings	15,559
Gain on sale of real property	<u>300</u>
Total receipts	<u>302,257</u>
Disbursements	
Public safety	43,529
Public works	99,575
Culture and recreation	17,863
Community and economic development	788
General government	51,702
Capital projects	<u>9,229</u>
Total disbursements	<u>222,686</u>
Increase in cash basis net assets	79,571
Cash basis net assets, beginning of year	<u>760,224</u>
Cash basis net assets, end of year	<u>\$ 839,795</u>

The City’s total receipts for governmental activities increased by 3.8%, or \$10,964. The total cost of all programs and services decreased by approximately \$18,210, or 7.6%. The increase in receipts was primarily the result of proceeds of local option sales tax. The City’s property tax revenue also increased for 2006 due to increase property values.

The cost of all governmental activities this year was \$222,686 compared to \$240,896 last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$98,510 because some of the cost was paid by those directly benefited from the programs (\$65,317) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$58,859).

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As City of Fruitland completed the year, its governmental funds reported a combined fund balance of \$839,795 an increase of \$79,571 above last year's total of \$760,224. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$8,462 from the prior year to \$209,707. The majority of this increase was due to increased property taxes and other city taxes.
- The Road Use Tax Fund cash balance remained the same as in fiscal 2005, with receipts matching disbursements, resulting in a balance of 0.
- The Local Option Sales Tax cash balance increased by \$71,109 from fiscal 2005 to \$630,088 due to increased local option tax receipts and none of the receipts being disbursed during 2006.

## **BUDGETARY HIGHLIGHTS**

During fiscal 2006, the City amended the budget once. The amendment was due to bike path construction disbursements that carried over from fiscal 2005, a decision to seal coat the parking lot and put a new roof on the City hall building, and a decision by the insurance carrier to discontinue quarterly premium payments, causing an extra payment in 2006 equal to three-quarters of total premiums. With this amendment, all disbursements were within the budget, except the General Government area, which was \$93 over budget. This happened when, at the end of the year, there were more sidewalk deposits paid out than deposited. This was due to the slow down in housing starts. This amounted to a \$6,200 shortfall, put into disbursements rather than receipts as is done when there is a surplus of deposits.

## **DEBT ADMINISTRATION**

In fiscal 2006, the City was debt-free, as in several years preceding.

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

The 2007 budget was prepared with no tax rate increase. There has been no property tax increase in more than ten years, except for minor changes due to rounding of figures. With the slowing of new houses being built, there is danger that the rollback in the state tax formula will not be offset by additional valuation in the future. This could result in the future of an additional need for more tax money or a cut in services. A higher rate on less property taxable valuation would not necessarily mean higher taxes paid.

In 2006, a committee was formed to plan the new city hall building. The project is proceeding and could possibly begin in 2007. The local option sales tax, as projected, will pay for construction costs, if the local option sales tax is renewed when next on the ballot. Once in operation, there will be operating costs to be included in future budgets. The new building plans will satisfy the current space needs in the business office of the City and will provide for a nice community center for the public.

## **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 John M. McCormick, City Clerk, 136 North Street, Fruitland, Iowa 52749.

## Basic Financial Statements

City of Fruitland  
Statement of Activities and Net Assets - Cash Basis  
For the Year Ended June 30, 2006

Exhibit A

<b>Functions/Programs</b>	<u>Expenses</u>	<u>Program Revenues</u>		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets <u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	
Governmental activities				
Public safety	\$ 43,529	\$ 343	\$ -	\$ (43,186)
Public works	99,575	46,971	58,859	6,255
Culture and recreation	17,863	7,461	-	(10,402)
Community and economic development	788	-	-	(788)
General government	51,702	10,273	-	(41,429)
Capital projects	<u>9,229</u>	<u>269</u>	<u>-</u>	<u>(8,960)</u>
Total governmental activities	<u>222,686</u>	<u>65,317</u>	<u>58,859</u>	<u>(98,510)</u>
<b>General Receipts</b>				
Property tax levied for				
General purposes				91,139
Utility tax replacement excise tax				5,792
Utility franchise tax				8,118
Local option sales and services tax				57,173
Unrestricted investment earnings				15,559
Special item - gain on sale of real property				<u>300</u>
Total general receipts and special items				<u>178,081</u>
Change in cash basis net assets				79,571
Cash basis net assets, beginning of year				<u>760,224</u>
Cash basis net assets, end of year				<u>\$ 839,795</u>
<b>Cash Basis Net Assets</b>				
Restricted				
Local option sales tax				\$ 630,088
Unrestricted				<u>209,707</u>
Total cash basis net assets				<u>\$ 839,795</u>

See notes to financial statements and Independent Auditor's Report.

City of Fruitland  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds  
All Fund Types  
For the Year Ended June 30, 2006

Exhibit B

	Governmental Fund Types			
	General	Special Revenue		Total (Memorandum Only)
		Road Use Tax	Local Option Sales Tax	
Receipts				
Property tax and other city tax	\$ 105,049	\$ -	\$ -	\$ 105,049
Local option sales tax	-	-	57,173	57,173
Licenses and permits	3,797	-	-	3,797
Use of money and property	5,298	-	13,936	19,234
Intergovernmental	-	58,859	-	58,859
Charges for services	47,112	-	-	47,112
Special assessments	269	-	-	269
Miscellaneous	10,464	-	-	10,464
Total receipts	<u>171,989</u>	<u>58,859</u>	<u>71,109</u>	<u>301,957</u>
Disbursements, operating				
Public safety	43,529	-	-	43,529
Public works	46,483	53,092	-	99,575
Culture and recreation	17,863	-	-	17,863
Community and economic development	788	-	-	788
General government	51,427	275	-	51,702
Capital projects	3,737	5,492	-	9,229
Total disbursements	<u>163,827</u>	<u>58,859</u>	<u>-</u>	<u>222,686</u>
Excess of receipts over disbursements	8,162	-	71,109	79,271
Other financing sources				
Sale of fixed assets	300	-	-	300
Net change in cash balances	8,462	-	71,109	79,571
Cash balance, beginning of year	201,245	-	558,979	760,224
Cash balance, end of year	<u>\$ 209,707</u>	<u>\$ -</u>	<u>\$ 630,088</u>	<u>\$ 839,795</u>
<b>Cash Basis Fund Balances</b>				
Unreserved				
General fund	209,707	-	-	209,707
Special revenue funds	-	-	630,088	630,088
Total cash basis fund balances	<u>\$ 209,707</u>	<u>\$ -</u>	<u>\$ 630,088</u>	<u>\$ 839,795</u>

See notes to financial statements and Independent Auditor's Report.

City of Fruitland

Notes to Financial Statements

June 30, 2006

**(1) Summary of Significant Accounting Policies**

City of Fruitland is a political subdivision of the State of Iowa located in Muscatine County. It was first incorporated in 1972 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, City of Fruitland 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.

The District does not participate in any jointly governed organizations or have any component units requiring disclosure.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service. The District does not have any business type activities.

The Statement of Activities and Net Assets presents the City's 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 – Financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 Local Option Sales Tax Fund is used to account for the collection and use of the local option sales tax.

C. Measurement Focus and Basis of Accounting

City of Fruitland 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted

cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the general government function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 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 has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006 was \$1,596 equal to the required contributions for the year.

**(4) 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.

## Required Supplementary Information

City of Fruitland  
 Budgetary Comparison Schedule of Receipts, Disbursements and  
 Changes in Balances - Budget and Actual (Cash Basis)  
 All Governmental Funds  
 Required Supplementary Information  
 For the Year Ended June 30, 2006

	Governmental Funds <u>Actual</u>	<u>Budgeted Amounts</u>		Final to Actual <u>Variance</u>
		<u>Original</u>	<u>Final</u>	
Receipts				
Property tax and other city tax	\$ 105,049	\$ 103,621	\$ 103,621	\$ 1,428
Local option sales tax	57,173	56,000	56,000	1,173
Licenses and permits	3,797	6,477	6,477	(2,680)
Use of money and property	19,234	17,800	17,800	1,434
Intergovernmental	58,859	60,100	60,100	(1,241)
Charges for service	47,112	49,200	49,200	(2,088)
Special assessments	269	-	-	269
Miscellaneous	10,464	5,100	5,100	5,364
Total receipts	<u>301,957</u>	<u>298,298</u>	<u>298,298</u>	<u>3,659</u>
Disbursements				
Public safety	43,529	44,520	44,520	991
Public works	99,575	101,640	125,640	26,065
Culture and recreation	17,863	11,300	20,800	2,937
Community and economic development	788	800	800	12
General government	51,702	44,038	51,609	(93)
Capital projects	9,229	27,000	25,000	15,771
Total disbursements	<u>222,686</u>	<u>229,298</u>	<u>268,369</u>	<u>45,683</u>
Excess of receipts over disbursements	79,271	69,000	29,929	49,342
Other financing sources, net	<u>300</u>	<u>-</u>	<u>-</u>	<u>300</u>
Excess of receipts and other financing source over disbursements	79,571	69,000	29,929	49,642
Balance, beginning of year	<u>760,224</u>	<u>726,348</u>	<u>726,348</u>	<u>33,876</u>
Balance, end of year	<u>\$ 839,795</u>	<u>\$ 795,348</u>	<u>\$ 756,277</u>	<u>\$ 83,518</u>

See accompanying Independent Auditor's Report.

City of Fruitland

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund and the Special Revenue 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, one budget amendment increased budgeted disbursements by \$39,071. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the general government function.

# Kay L. Chapman, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

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

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of City of Fruitland, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated December 18, 2006. My report on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2005. Except as noted in the Independent Auditor's Report, I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, I considered City of Fruitland's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion 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 Fruitland's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My 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, I believe items A and B are material weaknesses.

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Fruitland and other parties to whom City of Fruitland may report including federal awarding agencies and pass-through entities. 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 personnel of City of Fruitland during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Kay L. Chapman, CPA PC

December 18, 2006

City of Fruitland  
Schedule of Findings  
Year Ended June 30, 2006

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

- A. Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response – We will consider this.

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

**Other Findings Related to Statutory Reporting:**

1. Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the general government function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – The budget will be sufficiently amended in the future, if applicable.

Conclusion – Response accepted.

2. Questionable Disbursements – No disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

City of Fruitland  
Schedule of Findings  
Year Ended June 30, 2006

3. Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
4. Business Transactions – No business transactions between the City and City officials or employees were noted.
5. Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
7. Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Fruitland

Audit Staff

For the Year Ended June 30, 2006

This audit was performed by:

Kay L. Chapman, CPA