

**CITY OF WESLEY**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2012**

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CITY OF WESLEY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Duane Larson	Mayor	Jan 2012
Alex Eischen	Council Member	Jan 2012
Ben Smith	Council Member	Jan 2012
Sue Golwitzer	Council Member	Jan 2014
Craig Florea	Council Member	Jan 2014
Joella Leider	Council Member	Jan 2014
Marla Wingert	City Clerk	Jan 2012
Paul Doster	Attorney	Jan 2012
(After January 2012)		
Duane Larson	Mayor	Jan 2016
Mike Lentsch	Council Member	Jan 2016
Ben Smith	Council Member	Jan 2016
Sue Golwitzer	Council Member	Jan 2014
Craig Florea	Council Member	Jan 2014
Joella Leider	Council Member	Jan 2014
Marla Wingert	City Clerk	Jan 2013
Paul Doster	Attorney	Jan 2013



DENNIS L. RENNER, CPA  
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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Wesley, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Wesley's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, 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 Wesley as of June 30, 2012, 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, we have also issued our report dated January 17, 2013 on our consideration of the City of Wesley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wesley's basic financial statements. The supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Wesley's basic financial statements. Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 25 through 26 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

January 17, 2013

  
Renner & Birchem, P.C.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Wesley 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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 259.9% or \$960,290, from fiscal 2011 to fiscal 2012. Capital grants increased \$479,280, debt proceeds increased \$288,000 and short-term debt proceeds increased \$190,000.
- Disbursements increased 207.4% or \$792,472 in fiscal 2012 from fiscal 2011. Capital projects disbursements increased \$582,350, repayment of short-term debt increased \$254,601 and public works decreased \$44,652.
- The City's total cash basis net assets increased 2,929.5%, or \$167,392, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased \$155,205 and the assets of the business type activities increased by \$12,187.

### 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 financial 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.

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

Supplementary Information provides detailed information about the City's indebtedness.

### **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 that helps answer this question.

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

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

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

*Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City’s basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund and 4) the Capital Projects 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 statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City’s Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, garbage and utility deposits funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities increased from a year ago, increasing from \$1,316 to \$156,521. The analysis that follows focuses on the changes in cash balances for governmental activities.

	<b>Changes in Cash Basis Net Assets of Governmental Activities</b>	
	<b>Year ended June 30,</b>	
	<b>Audited</b>	<b>Unaudited</b>
	<b>2012</b>	<b>2011</b>
Receipts:		
Program receipts:		
Charges for service	\$11,090	9,075
Operating grants, contributions and restricted interest	48,044	51,461
Capital grants, contributions and restricted interest	551,005	71,725
General receipts:		
Property tax	154,864	138,401
Local option sales tax	39,180	49,540
Unrestricted investment earnings	437	1,340
Bond proceeds	288,000	
Short-term debt proceeds	215,000	25,000
Other general receipts	22,080	22,868
Total receipts	1,329,700	369,410

Disbursements:		
Public safety	7,657	7,665
Public works	83,541	128,193
Health and social services	843	512
Culture and recreation	91,688	91,893
Community & economic development	1,681	1,681
General government	45,169	43,934
Debt service	31,760	32,940
Repayment of short-term debt	254,601	
Capital projects	657,555	75,205
Total disbursements	<u>1,174,495</u>	<u>382,023</u>
Change in cash basis net assets	155,205	(12,613)
Cash basis net assets beginning of year	<u>1,316</u>	<u>13,929</u>
Cash basis net assets end of year	<u>\$156,521</u>	<u>1,316</u>

The City's total receipts for governmental activities increased by 259.9%, or \$960,290. The total cost of all programs and services increased by \$792,472, or 207.4%. The significant increase in receipts and disbursements were primarily the result of the monies for the storm water drainage project.

The City's property tax receipts increased by \$16,463 in 2012.

The cost of all governmental activities this year was \$1,174,495 compared to \$382,023 last year. However, as shown in the Statement of Activities and Net Assets on page 14, the amount taxpayers ultimately financed for these activities was only \$564,356 because some of the cost was paid by those directly benefited from the programs (\$11,090) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$599,049). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service totaled \$610,139. The City paid for the remaining "public benefit" portion of governmental activities with \$564,356 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

<b>Changes in Cash Basis Net Assets of Business Type Activities</b>		
	<b>Year ended June 30,</b>	
	<b>Audited</b>	<b>Unaudited</b>
	<b>2012</b>	<b>2011</b>
<b>Receipts:</b>		
Program receipts:		
Charges for service:		
Water	\$54,903	43,573
Sewer	39,809	38,280
Garbage	54,491	50,379
General receipts:		
Unrestricted interest on investments	2	444
Other general receipts	2,671	7,007
<b>Total receipts</b>	<b>151,876</b>	<b>139,683</b>
<b>Disbursements:</b>		
Water	46,734	65,028
Sewer	37,973	38,737
Garbage	54,832	57,450
Utility deposits	150	
<b>Total disbursements</b>	<b>139,689</b>	<b>161,215</b>
 Change in cash basis net assets	 12,187	 (21,532)
 Cash basis net assets beginning of year	 4,398	 25,930
 Cash basis net assets end of year	 <u>\$16,585</u>	 <u>4,398</u>

Total business type activities receipts for the fiscal year were \$151,876 compared to \$139,683 last year. Total disbursements for the fiscal year decreased by 13.3 % to a total of \$139,689. The cash balance increased by \$12,187 during the fiscal year compared to a decrease of \$21,532 last year.

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

As the City of Wesley completed the year, its governmental funds reported a combined fund balance of \$156,521, an increase of \$155,205 above last year's total of \$1,316. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$12,219 from the prior year to (\$21,690).
- The Road Use Tax Fund cash balance increased by \$555 to \$19,220 during the fiscal year.
- The Employee Benefits Fund balance decreased by \$1,078 to \$4,302 during the fiscal year.

- There was an increase in the Debt Service Fund cash balance of \$49 for an ending balance of \$587.
- Capital Projects Fund cash balance increased from (\$13,796) to \$154,102. The increase is due to the receipt of capital grants and bond proceeds for the storm water drainage project.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$9,344 to (\$7,501) during the fiscal year.
- The Sewer Fund cash balance increased by \$1,837 to \$10,983 during the fiscal year.
- The Garbage Fund cash balance increased by \$706 to \$4,963 during the fiscal year.
- The Utility Deposits Fund cash balance increased by \$300 to \$8,140 during the fiscal year.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget. The amendment was approved on May 29, 2012 and resulted in an increase in operating disbursements to provide for additional costs in certain City departments.

The City exceeded the amounts budgeted in the general government function for the year ended June 30, 2012.

**DEBT ADMINISTRATION**

At June 30, 2012, the City had \$288,000 in bonds and other long-term debt outstanding, compared to \$30,000 last year, as shown below.

	<b>Outstanding Debt at Year-End</b>	
	<b>June 30,</b>	
	<b>Audited</b>	<b>Unaudited</b>
	<b>2012</b>	<b>2011</b>
General obligation bonds and short-term borrowing	\$ 288,000	30,000

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$288,000 is significantly below its constitutional debt limit of approximately \$843,760.

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

The City of Wesley's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates, and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are \$441,293, a decrease of 54.8 % from the final 2012 budget. Budgeted disbursements are expected to decrease by \$721,242.

If these estimates are realized, the City's budgeted cash balance is expected to decrease \$19,113 by the close of 2013. Actual amounts can and usually do differ from budgeted amounts.

## **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 Marla Wingert, City Clerk, PO Box 215, Wesley, Iowa.

**BASIC FINANCIAL STATEMENTS**

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2012

Functions / Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges	Operating Grants,	Capital Grants,	Governmental Activities	Business Type Activities	Total
		for Service	Contributions and Restricted Interest	Contributions and Restricted Interest			
<b>Governmental activities:</b>							
Public safety	\$ 7,657				(7,657)		(7,657)
Public works	83,541		33,393		(50,148)		(50,148)
Health and social services	843				(843)		(843)
Culture and recreation	91,688	11,090	14,651		(65,947)		(65,947)
Community and economic development	1,681				(1,681)		(1,681)
General government	45,169				(45,169)		(45,169)
Debt service	31,760				(31,760)		(31,760)
Repayment of short term debt	254,601				(254,601)		(254,601)
Capital projects	657,555			551,005	(106,550)		(106,550)
<b>Total governmental activities</b>	<b>1,174,495</b>	<b>11,090</b>	<b>48,044</b>	<b>551,005</b>	<b>(564,356)</b>		<b>(564,356)</b>
<b>Business type activities:</b>							
Water	46,734	54,903				8,169	8,169
Sewer	37,973	39,809				1,836	1,836
Garbage	54,832	54,491				(341)	(341)
Utility deposits	150					(150)	(150)
<b>Total business type activities</b>	<b>139,689</b>	<b>149,203</b>				<b>9,514</b>	<b>9,514</b>
<b>Total</b>	<b>\$ 1,314,184</b>	<b>160,293</b>	<b>48,044</b>	<b>551,005</b>	<b>(564,356)</b>	<b>9,514</b>	<b>(554,842)</b>
<b>General Receipts:</b>							
Property tax levied for:							
General purposes					\$ 102,157		102,157
Employee benefits and insurance					17,583		17,583
Debt service					31,805		31,805
Local option sales tax					39,180		39,180
Other city tax					3,319		3,319
Unrestricted interest on investments					437	2	439
Miscellaneous					21,341	2,671	24,012
Bond proceeds					288,000		288,000
Short-term debt proceeds					215,000		215,000
Sale of capital assets					739		739
<b>Total general receipts and transfers</b>					<b>719,561</b>	<b>2,673</b>	<b>722,234</b>
Change in cash basis net assets					155,205	12,187	167,392
Cash basis net assets beginning of year					1,316	4,398	5,714
Cash basis net assets end of year					<b>\$ 156,521</b>	<b>16,585</b>	<b>173,106</b>
<b>Cash Basis Net Assets</b>							
Restricted:							
Expendable:							
Streets					\$ 19,220		19,220
Debt service					587		587
Other purposes					158,404		158,404
Unrestricted					(21,690)	16,585	(5,105)
<b>Total cash basis net assets</b>					<b>\$ 156,521</b>	<b>16,585</b>	<b>173,106</b>

See notes to financial statements.

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

As of and for the year ended June 30, 2012

	<u>Special Revenue</u>					Total
	General	Road Use Tax	Employee Benefits	Debt Service	Capital Projects	
<b>Receipts:</b>						
Property tax	\$ 102,157		17,583	31,805		151,545
Other city tax	42,499					42,499
Licenses and permits	970					970
Use of money and property	433			4	9	446
Intergovernmental	14,651	33,393			550,996	599,040
Charges for services	11,090					11,090
Miscellaneous	20,371					20,371
Total receipts	<u>192,171</u>	<u>33,393</u>	<u>17,583</u>	<u>31,809</u>	<u>551,005</u>	<u>825,961</u>
<b>Disbursements:</b>						
<b>Operating:</b>						
Public safety	7,657					7,657
Public works	41,716	32,838	8,987			83,541
Health and social services	843					843
Culture and recreation	85,329		6,359			91,688
Community and economic development	1,681					1,681
General government	41,854		3,315			45,169
Debt service				31,760		31,760
Capital projects					657,555	657,555
Total disbursements	<u>179,080</u>	<u>32,838</u>	<u>18,661</u>	<u>31,760</u>	<u>657,555</u>	<u>919,894</u>
Excess (deficiency) of receipts over (under) disbursements	<u>13,091</u>	<u>555</u>	<u>(1,078)</u>	<u>49</u>	<u>(106,550)</u>	<u>(93,933)</u>
<b>Other financing sources (uses):</b>						
Bond proceeds					288,000	288,000
Short-term debt proceeds	25,000				190,000	215,000
Repayment of short-term debt	(51,049)				(203,552)	(254,601)
Sale of assets	739					739
Total other financing sources (uses)	<u>(25,310)</u>				<u>274,448</u>	<u>249,138</u>
Net change in cash balances	(12,219)	555	(1,078)	49	167,898	155,205
Cash balances beginning of year	(9,471)	18,665	5,380	538	(13,796)	1,316
Cash balances end of year	<u>\$ (21,690)</u>	<u>19,220</u>	<u>4,302</u>	<u>587</u>	<u>154,102</u>	<u>156,521</u>
<b>Cash Basis Fund Balances</b>						
<b>Restricted For:</b>						
Debt service				587		587
Streets		19,220				19,220
Other purposes			4,302		154,102	158,404
Unassigned	(21,690)					(21,690)
Total cash basis fund balances	<u>\$ (21,690)</u>	<u>19,220</u>	<u>4,302</u>	<u>587</u>	<u>154,102</u>	<u>156,521</u>

See notes to financial statements.

## City of Wesley

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

As of and for the year ended June 30, 2012

	Enterprise Funds				
	Water	Sewer	Garbage	Utility Deposits	Total
<b>Operating receipts:</b>					
Charges for service	\$ 54,903	39,809	54,491		149,203
Total operating receipts	54,903	39,809	54,491		149,203
<b>Operating disbursements:</b>					
Business type activities	46,734	37,973	54,832	150	139,689
Total operating disbursements	46,734	37,973	54,832	150	139,689
<b>Excess (deficiency) of receipts over (under) disbursements</b>	8,169	1,836	(341)	(150)	9,514
<b>Non-operating receipts:</b>					
Interest on investments		1	1		2
Miscellaneous	1,175		1,046	450	2,671
Net non-operating receipts	1,175	1	1,047	450	2,673
<b>Net change in cash balances</b>	9,344	1,837	706	300	12,187
<b>Cash balances beginning of year</b>	(16,845)	9,146	4,257	7,840	4,398
<b>Cash balances end of year</b>	\$ (7,501)	10,983	4,963	8,140	16,585
<b>Cash Basis Fund Balances</b>					
Unreserved	\$ (7,501)	10,983	4,963	8,140	16,585
Total cash basis fund balances	\$ (7,501)	10,983	4,963	8,140	16,585

See notes to financial statements.

CITY OF WESLEY  
Notes to Financial Statements  
June 30, 2012

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

The City of Wesley is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City of Wesley also provides water, sewer, and garbage utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, City of Wesley has included all funds, organizations, agencies, bonds, 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 Wesley 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: Kossuth County Assessor's Conference Board, Kossuth County Landfill and Kossuth County Disaster/911.

**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 the following categories/components:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City.

CITY OF WESLEY

Notes to Financial Statements (continued)

June 30, 2012

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

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. 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. The City has elected to report all governmental and enterprise funds as major 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits fund is used to account for property tax collected and payment of employee benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

## CITY OF WESLEY

### Notes to Financial Statements (continued)

June 30, 2012

The City reports the following major proprietary funds:

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

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

The Enterprise, Garbage Fund accounts for the operation and maintenance of the City's garbage utility system.

The City also reports the following additional proprietary funds:

The Utility Deposit Fund accounts for residents deposits to obtain utilities.

#### C. Measurement Focus and Basis of Accounting

The City of Wesley 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

CITY OF WESLEY

Notes to Financial Statements (continued)

June 30, 2012

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012 disbursements exceeded the amounts budgeted in the general government function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 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.

At June 30, 2012, the City had no investments.

(3) **Bonds Payable**

Annual debt service requirements to maturity for general obligation and revenue bonded indebtedness are as follows:

Year Ending June 30,	General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest
2013	\$ 28,800	11,376	28,800	11,376
2014	28,800	10,239	28,800	10,239
2015	28,800	9,101	28,800	9,101
2016	28,800	7,964	28,800	7,964
2017	28,800	6,826	28,800	6,826
2018-2022	144,000	17,066	144,000	17,066
	<u>\$ 288,000</u>	<u>62,572</u>	<u>288,000</u>	<u>62,572</u>

CITY OF WESLEY

Notes to Financial Statements (continued)

June 30, 2012

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% 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 contribution to IPERS for the year ended June 30, 2012, was \$10,009 equal to the required contribution for the year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2012</u>
Vacation and Comp Time	\$ <u>13,190</u>

This liability has been computed based on rates of pay as of June 30, 2012.

**(6) Related Party Transactions**

No transactions between the City and City officials occurred during the year ended June 30, 2012.

**(7) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

## CITY OF WESLEY

### Notes to Financial Statements (continued)

June 30, 2012

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$12,139.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for the period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

CITY OF WESLEY

Notes to Financial Statements (continued)

June 30, 2012

The City also carries commercial insurance purchased from other insurers for coverage associated with fidelity bonding. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Deficit Balance**

The General Fund and Water Fund had a deficit balance of \$21,690 and \$7,501, respectively at June 30, 2012.

**OTHER INFORMATION**

City of Wesley

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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
<b>Receipts:</b>						
Property tax	\$ 151,545		151,545	149,495	149,495	2,050
Other city tax	42,499		42,499	49,901	39,401	3,098
Licenses and permits	970		970	1,030	1,030	(60)
Use of money and property	446	2	448	225	225	223
Intergovernmental	599,040		599,040	694,281	614,829	(15,789)
Charges for services	11,090	149,203	160,293	155,850	158,500	1,793
Miscellaneous	20,371	2,671	23,042	15,150	12,120	10,922
Total receipts	825,961	151,876	977,837	1,065,932	975,600	2,237
<b>Disbursements:</b>						
Public safety	7,657		7,657	7,721	7,721	64
Public works	83,541		83,541	102,714	102,714	19,173
Health and social services	843		843	967	967	124
Culture and recreation	91,688		91,688	101,391	101,391	9,703
Community and economic development	1,681		1,681	1,682	1,682	1
General government	45,169		45,169	39,658	44,558	(611)
Debt service	31,760		31,760	31,660	37,448	5,688
Capital projects	657,555		657,555	728,700	744,109	86,554
Business type activities		139,689	139,689	136,040	141,058	1,369
Total disbursements	919,894	139,689	1,059,583	1,150,533	1,181,648	122,065
Excess (deficiency) of receipts over (under) disbursements	(93,933)	12,187	(81,746)	(84,601)	(206,048)	124,302
Other financing sources, net	249,138		249,138	100,000	288,000	(38,862)
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements and other financing uses	155,205	12,187	167,392	15,399	81,952	85,440
Balances beginning of year	1,316	4,398	5,714	17,454	17,454	(11,740)
Cash balances end of year	\$ 156,521	16,585	173,106	32,853	99,406	73,700

See accompanying independent auditor's report.

City of Wesley

Notes to Other Information – Budgetary Reporting

June 30, 2012

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise 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 the budgeted disbursements by \$31,115. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the general government function.

**SUPPLEMENTARY INFORMATION**

## City of Wesley

## Schedule of Indebtedness

Year ended June 30, 2012

<b>Obligation</b>	<b>Date of Issue</b>	<b>Interest Rate</b>	<b>Amount Originally Issued</b>	<b>Balance Beginning of Year</b>	<b>Issued During the Year</b>	<b>Redeemed During Year</b>	<b>Balance End of Year</b>	<b>Interest Paid</b>
<b>General Obligation Bonds:</b>								
General corporate purpose	2-7-01	6.50%	\$ 333,000	30,000		30,000		1,260
Storm water improvement	11-18-11	3.95%	288,000		288,000		288,000	
<b>Total</b>				<b>\$ 30,000</b>	<b>288,000</b>	<b>30,000</b>	<b>288,000</b>	<b>1,260</b>

See accompanying independent auditor's report.

City of Wesley  
Bond and Note Maturities

June 30, 2012

Year Ending June 30,	General Obligation Bond Storm Water Improvements Issued November 18, 2011	
	Interest Rates	Amount
2013	3.95%	\$ 28,800
2014	3.95	28,800
2015	3.95	28,800
2016	3.95	28,800
2017	3.95	28,800
2018	3.95	28,800
2019	3.95	28,800
2020	3.95	28,800
2021	3.95	28,800
2022	3.95	28,800
<b>Total</b>		<b>\$ 288,000</b>

See accompanying independent auditor's report.

## City of Wesley

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, Disaster Recovery Infrastructure Contract	14.228	08-DRI-027	\$ <u>599,968</u>
Total indirect			\$ <u>599,968</u>

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Wesley and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Wesley, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 17, 2013. Our report expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011, on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Wesley is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Wesley's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Wesley's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Wesley's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Wesley's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 through II-C-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-D-12 to be a significant deficiency.

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Wesley's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Wesley's responses and, accordingly, we express no opinion of them.

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 Wesley and other parties to whom the City of Wesley may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Wesley during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 17, 2013

  
Renner & Birchem, P.C.



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MICHAEL J. BIRCHEM, CPA, CFP®

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Independent Auditor's Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each  
Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited City of Wesley, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on City of Wesley's major federal programs for the year ended June 30, 2012. City of Wesley's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of City of Wesley's management. Our responsibility is to express an opinion on City of Wesley's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Wesley's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Wesley's compliance with those requirements.

In our opinion City of Wesley complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs, for the year ended June 30, 2012.

Internal Control Over Compliance

The management of City of Wesley is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Wesley's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Wesley's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

The City of Wesley's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Wesley's responses and, accordingly, we express no opinion on them.

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 Wesley and other parties to whom the City of Wesley may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Renner & Birchem, P.C.

January 17, 2013

City of Wesley

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified opinions were issued on the financial statements which 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.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management Budget Circular A-133, Section .510(a).
- (g) The major program is CFDA Number 14.228-Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Wesley did not qualify as a low-risk auditee.

City of Wesley

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part II: Findings Related to the Financial Statements:

**Internal Control Deficiencies:**

II-A-12 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The areas of cash receipts, cash disbursements, investments, and payroll under ideal conditions would be segregated.

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

Response - We will investigate this.

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

II-B-12 Preparation of Financial Statements – The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City of Wesley. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City’s management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – The city will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

City of Wesley  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2012

Part II: Findings Related to the Financial Statements (continued):

II-C-12 Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The City Council or a council-designated independent person should review the reconciliations.

Response – We will contact our technical support and implement the procedures as recommended.

Conclusion – Response accepted.

II-D-12 Posting of Financial Transactions – Receipts and disbursements were not always posted to the correct accounts.

Recommendation – More care should be exercised when posting transactions to reduce the incidence of mispostings.

Response – In the future, more care will be exercised when posting transactions.

Conclusion – Response accepted.

II-E-12 Authorized Signatures-One financial institution indicated that former mayor John Rassmussen was still listed as an authorized signer.

Recommendation-The City should immediately have a new signature card in place with only the correct authorized signers. Whenever a change in authorized signature occurs all financial institutions must be notified and a new signature card completed.

Response-We have notified the financial institution.

Conclusion-Response accepted.

**Instances of Non-compliance:**

No matters were noted.

City of Wesley

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part III: Findings and Questioned Costs For Federal Awards:

**Instances of Non-Compliance**

No matters were noted.

**Internal Control Deficiencies:**

CFDA Number 14.228-Community Development Block Grants/State's  
Program and Non-Entitlement Grants in Hawaii  
Federal Award Year: 2012  
U.S. Department of Housing and Urban Development

III-A-12 Segregation of Duties See Item II-A-12

City of Wesley

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part IV: Other Findings Related to Statutory Reporting:

IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the general government function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion - Response accepted.

IV-B-12 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 Business Transactions - No transactions between the City and City officials were noted.

IV-E-12 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.

IV-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-12 Deposits and Investments - We noted 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.

IV-H-12 Financial Condition – The General and Water Funds had deficit balances at June 30, 2012 of \$21,690 and \$7,501, respectively.

Recommendation – The City should investigate alternatives to eliminate the deficits in order to return these funds to a sound financial position.

Response – The deficits were due to costs incurred prior to receipt of funds.

Conclusion – Response accepted.

City of Wesley  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2012

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-I-12 Electronic Checks – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City did not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain check images as required.

Response – The bank will be notified that both sides of the checks will also be required on the bank statement for the City’s accounts.

Conclusion – Response accepted.

IV-J-12 Official Depositories – A resolution naming official depositories has been approved by the city. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2012.

Recommendation – We recommend the City increase the deposit limit to a sufficient amount so it will not be exceeded in the future.

Response – We will update the depository resolution.

Conclusion – Response accepted.

IV-K-12 Delinquent Utility Accounts – At June 30, 2012 six employees or council members had delinquent utility accounts.

Recommendation – We recommend that the City emphasizes to employees and council members that they are setting an example to the community by their actions.

Response – We will encourage employees and council members to pay their utility bills by their due date.

Conclusion – Response accepted.