



Susan Montee, CPA
Missouri State Auditor

City of Union Star



October 2008
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Office of
Missouri State Auditor
Susan Montee, CPA

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The following findings were included in our audit report on the City of Union Star, Missouri.

The Board of Aldermen provided little oversight or supervision of the work performed by the City Clerk, who performs the duties of both Collector and Treasurer for the city and is responsible for all city accounting functions. While a former City Clerk maintained ledgers of receipts and disbursements and available cash balances for each fund during the first half of 2007, this fund accounting system was apparently not utilized after June 2007 when a new City Clerk was hired. While there is evidence that monthly financial reports were prepared during the first half of 2007, it does not appear these financial reports were ever formally presented to and approved by the board. In January 2008, the city's computer system crashed and a significant amount of the accounting data was lost. Since back ups of this data were not performed, city staff could not compile any monthly financial reports for the last half of 2007 and no records of receipts, disbursements, accounts receivable, or accounts payable were available. In addition, many other financial documents, such as bank statements, cancelled checks, and deposits slips, were not readily available for our review and had to be requested from the bank in some instances.

It is unclear whether street related revenues, including a property tax for street lights as well as motor vehicle fees received from the state, are being used as required by state law. In addition, bank reconciliations have not been performed for any city bank accounts for some time and those that were performed can not be located. Budgets were not prepared the last two years and some semi-annual financial reports were not published as required by state law.

Receipt slips are not issued for some monies received and an independent review of the composition of receipts to deposits is not performed. Checks and money orders received are not restrictively endorsed and receipts are not posted to the city's accounting system until a deposit is prepared. The City Clerk is not bonded and controls over subsidiary accounts receivable records for water and sewer accounts and property taxes need to be improved.

Formal reviews of water and sewer rates have not been performed for several years although there have been several rate increases, and the water and sewer ordinance has not been updated since 2000. Controls over water deposits need to be improved. There is a \$3,388 difference between the meter deposit list and the bank balance in the water deposit account. The city does not formally document a reconciliation of the total gallons of water billed to customers to the gallons of water purchased by the city. In addition, the city was unable to produce a copy of the bond agreement and was not aware of the bond covenants. Bond covenants requiring the city to obtain an audit of the accounts, books,

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and records of the sewer system, and to maintain adequate records of the operation have not been met.

There was no evidence that the board provided adequate controls over disbursements. The city does not have formal bidding or purchasing policies and the board does not properly monitor city disbursements. Documentation was not retained to support some disbursements and controls over the use of numerous city credit cards have not been established. Some invoices were not paid timely and payroll taxes have not been remitted to the Internal Revenue Service (IRS) on a timely basis. In addition, records of time worked are not maintained for some city employees and some disbursements do not appear to be necessary or prudent uses of city funds.

City procedures for conducting and documenting closed meetings are not in compliance with state law, and improvement is needed in the organization of the city's ordinances. Additionally, improvement is needed in the policies and procedures related to information requested by the public.

Although the authorized bonds have never been issued, the city has accumulated approximately \$19,200 in the General Obligation Street Bond Fund, and another \$4,280 is due this fund from the General Fund. Voters authorized \$47,000 in bonds to be issued for street related projects in 2005 and the city assessed a debt retirement levy in both 2005 and 2006. While this tax was not levied in 2007, the board has had no significant discussions regarding this issue and has not formally documented its plans for the accumulated funds. In addition, a formal plan for maintenance of city streets has not been prepared. Further, a significant cash balance, approximately \$22,600 at June 30, 2007, has accumulated in the Street Lighting Fund and the city should consider this information when setting the street light levy in the future.

Also included in the audit were recommendations related to the property tax system and capital assets.

All reports are available on our Web site: www.auditor.mo.gov

CITY OF UNION STAR

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

To the Honorable Mayor
and
Board of Aldermen
City of Union Star
Union Star, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Union Star. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2007. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the city has adequate internal controls over significant management and financial functions.
3. Determine if the city has complied with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. 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. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in our audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Union Star.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Todd M. Schuler, CPA
In-Charge Auditor: Tania Williams

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF UNION STAR
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Accounting Controls, Records, and Procedures

Accounting duties cannot be segregated due to the number of personnel working for the city and the Mayor and Board of Aldermen do not adequately oversee the work performed by the City Clerk, who also performs the duties of Treasurer and Collector for the city. A fund accounting system was maintained the first half of 2007, but was abandoned when personnel changed in July 2007. The city cannot ensure restricted receipts are used for the intended purpose due to the lack of a fund accounting system. Bank reconciliations have not been performed for the city's bank accounts and controls over city records need improvement. The city lost a significant amount of accounting data when its computer system crashed in January 2008 due to failure to properly perform backups of the accounting data. Numerous concerns over the handling of receipts were identified and the City Clerk, who handles the majority of the city funds, is not bonded. Additionally, controls and procedures for maintaining subsidiary account information for utility and tax accounts need improvement.

- A. There was no evidence the Board of Aldermen provided adequate supervision or review of the work performed by the City Clerk. The City Clerk also performs the duties of Collector and Treasurer for the city and is responsible for city accounting functions including receiving and depositing monies, posting transactions, preparing and distributing checks, maintaining payroll records, preparing and distributing monthly utility billings, collecting, billing, and posting property tax payments, and preparing monthly bank reconciliations. While a former City Clerk maintained ledgers of receipts, disbursements, and available cash balances for each fund during the first half of 2007, this fund accounting system was apparently not utilized after June 2007 when a new City Clerk was hired. While there is evidence that monthly financial reports were prepared during the first half of 2007, it does not appear these financial reports were ever formally presented to and approved by the board. Due to this lack of oversight, the board was apparently unaware of the changes and lack of record keeping. There was no evidence that any financial information related to city operations was presented to or requested by the Board of Aldermen during our audit period. In addition, while checks do require three signatures, the signors other than the City Clerk do not review supporting documentation for each check before signing. The city has appointed one of the board members as Treasurer, but it does not appear this person serves any role in the handling of funds or accounting records.

The Board of Aldermen needs to take steps to ensure it is adequately monitoring the activities of city personnel, as well as the financial position of the city funds. Good management practices require extensive and detailed oversight by the board. To safeguard against possible loss or misuse of funds, internal controls

should provide reasonable assurance that all transactions are properly accounted for and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. If proper segregation of duties is not possible, timely supervisory or independent review of the work performed and investigation into unusual items and variances is necessary.

- B. Since June 2007, the city has not maintained an adequate fund accounting system to ensure restricted receipts are used for the intended purpose. The city has used a computer program to post receipts and disbursements for the last several years, and a fund accounting system appears to have been maintained through June 2007. At June 30, 2007, cash balances are available for all city funds, even though several funds are maintained within the same bank accounts. The activity of several city funds, including the Police Fund, Street Fund, Street Light Fund, Extraordinary Income Fund, Prior Years Tax Fund, and Current Tax Fund are accounted for within the General Fund. When a new clerk was hired in July 2007, activity was no longer maintained by fund and monthly financial reports detailing the fund activity were no longer prepared. As a result, it is unclear whether street related revenues, including a property tax for street lights as well as motor vehicle fees received from the state, are being used for the intended purpose. In addition, the activity of the Replacement/Extension Fund, Water Fund, and Sewer Fund is accounted for within two utility bank accounts, but since no separate fund tracking has been performed for these funds since June 2007, it is unclear what their cash balances are at year end. The city was unable to provide the cash balances at December 31, 2007, for any funds not maintained in a separate bank account.

Article IV, Section 30, of the Missouri Constitution, requires that motor vehicle-related revenues apportioned by the state of Missouri be expended for street related purposes. Section 250.150, RSMo, and the city's bond covenants require the revenues of a water and sewer system be segregated from all other revenues or funds of the city. Because the city is no longer separately accounting for restricted revenues, it is not able to demonstrate compliance with the related legal and contractual requirements.

- C. Bank reconciliations have not been performed for any city bank accounts for some time and those that were performed cannot be located. The mayor indicated the bank accounts had been reconciled through June 30, 2007, but that reconciliations have not been performed for any of the accounts since then. In January 2008, the city was unable to locate any bank reconciliations and indicated it had not received bank statements for several months. The city was able to obtain bank statements for its accounts, but reconciliations for these accounts have still not been performed. Due to the loss of financial data in the computer system, once the accounts are reconciled it is unclear how the city will determine the individual fund balances which had previously been maintained.

Monthly bank reconciliations are necessary to ensure the accounting records are in agreement with the bank records and to help detect errors on a timely basis.

- D. The city lost a significant amount of accounting data when its computer system crashed in January 2008 due to failure to properly perform backups of the accounting data. Utility and property tax billings are generated from a computerized system, payments received are posted to a computer billing application, and receipts and disbursements are posted to the accounting system. This computerized system was not periodically backed-up and all the information maintained on the system was lost. Thus, no records of receipts, disbursements, and accounts receivables or payables were available, and because fund accounting records were not maintained summarizing the receipt and disbursement activity by fund, little information related to the financial transactions for the second half of 2007 is available.

Computerized records are at risk of loss due to equipment failure or other electronic disaster. A backup record should be periodically prepared to provide a means of recreating destroyed master records. Backup files should be stored off-site to provide increased assurance that any lost data can be recreated.

- E. The following concerns were noted related to receipts:

- Receipt slips are not issued for some monies received and an independent review of the composition of receipts to deposits is not performed. The city's primary sources of receipts are utility payments, property taxes, and grants. Manual receipt slips are issued occasionally, but most payments are just posted to the accounting system. Per discussion with the former City Clerk, she indicated that receipts were posted to the computer when she had time, rather than immediately upon receipt. While utility stubs and property tax statements are retained for these types of payments, they are not reconciled to amounts posted to the accounting system and deposits. The City Clerk is primarily responsible for receiving and recording payments and preparing and making deposits. However, an independent comparison of the composition of monies received and posted to the accounting system to amounts deposited is not performed. While looking for some other records in the city clerk's office in January 2008, the Mayor found two checks, totaling approximately \$95, for water and sewer payments that had not been deposited. A deposit summary dated August 2007 indicated \$288 was deposited, which included these checks. The Board was not aware these checks were not deposited. Additionally, some receipt slips were not issued in numerical order.

To ensure receipts are handled properly, receipt slips should be issued in numerical sequence for all monies received. In addition, the method of payment should be indicated on each receipt slip and the composition

(cash and checks) should be reconciled to the composition of bank deposits.

- Checks and money orders received are not restrictively endorsed until the deposit is prepared. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- Receipts are not posted to the city's accounting system until a deposit is prepared. A cash count was performed on January 9, 2008, totaling \$419; however, these receipts were not posted to the city's accounting system timely. To ensure receipts are accounted for properly, all receipts should be posted to the city's accounting system when received.

F. The City Clerk is not bonded. The City Clerk is responsible for all financial records of the city (see finding number 1.A). The failure to properly bond the City Clerk exposes the city to risk of loss.

G. Controls over subsidiary accounts receivable records for water and sewer accounts and property taxes need improvement. Various reconciliations are not performed to ensure the accuracy of the subsidiary accounting records. In addition, there are no independent reviews of the various subsidiary accounting records to ensure that amounts the clerk is charged with collecting are appropriately received and recorded or that credit adjustments are proper.

- Periodic reconciliations are not performed of the subsidiary records for the water and sewer accounts to ensure the beginning receivable balance, adjusted for receipts, judgments/billings, and authorized adjustments, reconciles to the ending receivable balance.
- Periodic reconciliations of the property tax receivable balance are not performed, agreed to the detail account balances, and reviewed by an independent person.
- Written policies and procedures do not exist to provide for controls and independent approvals of adjustments to account balances.

To safeguard against possible loss or misuse of funds, various reports and reconciliations should be prepared for the city's subsidiary accounts receivable systems and reviewed by a person independent of the accounts receivable function.

WE RECOMMEND the Board of Aldermen:

- A. Require the City Clerk to provide financial reports and key information such as available budget and cash balances. The board should verify the accuracy of reports to ensure the reports include sufficient information to provide adequate monitoring of the city's financial activities and financial position. In addition, timely supervision or independent review of the work performed and investigation into unusual items and variances is necessary.
- B. Establish the necessary records to account for monies restricted for specified purposes.
- C. Ensure bank reconciliations are prepared monthly and retained for all city accounts.
- D. Develop backup procedures for data stored on computers to avoid a potential loss of information.
- E. Require the use of official prenumbered receipt slips for all monies received. The board should ensure the method of payment is recorded on each receipt slip and ensure the composition of receipts is reconciled to the composition of deposits. Also, the Board of Aldermen should ensure all checks are restrictively endorsed immediately upon receipt and all receipts are posted to the city's accounting system when received.
- F. Obtain bond coverage for the City Clerk.
- G. Ensure adequate reports and reconciliations are prepared for the city's subsidiary accounts receivable systems and provide for adequate supervision or independent review of the work performed.

AUDITEE'S RESPONSE

- A. *The board is currently receiving monthly reports and has implemented procedures to segregate duties to the extent possible. We are ensuring an independent review of records is performed.*
- B. *From January 1, 2008, we have re-established a fund accounting system. We are in the process of investigating and posting transactions from July 1 to December 31, 2007.*
- C. *Bank reconciliations have been performed and reviewed since January 2008 for all city accounts. We plan to review and reconcile all accounts for the period from July to December 2007 by October 31, 2008.*

- D. *Back-ups of computer records are performed daily, and all accounting records have been maintained since January 2008.*
- E. *We will begin issuing receipt slips for all monies received by September 1, 2008. We will begin reconciling receipts to deposits and are already restrictively endorsing checks.*
- F. *We will look into bonding our City Clerk as soon as possible.*
- G. *We will begin preparing monthly reconciliations for utility accounts and delinquent taxes monthly, and ensure they are reviewed by an independent person.*

2.	Budgets, Financial Monitoring, and Reporting
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Weaknesses were identified in the city's budgeting and financial monitoring and reporting. Budgets were not prepared for the last two years and some semi-annual financial reports were not published as required by state law.

- A. The city did not prepare budgets for the two years ended December 31, 2007, and while a budget was prepared for 2008, it was not prepared and approved until July 2008. Section 67.010, RSMo, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year.

Sections 67.010 through 67.080, RSMo, set specific guidelines as to the format, approval, and amendment of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations and provide a means to effectively monitor actual costs and revenues.

- B. The city has not published semi-annual financial statements as required by state law. While the city published financial statements for the six months ended June 30, 2007, a statement has not been prepared and published for the subsequent six months ended December 31, 2007. It appears at least part of the reason for this is the lack of financial records, such as bank statements, cancelled checks, and deposit slips, available for that period.

Section 79.160, RSMo, requires the Board of Aldermen to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and disbursements and indebtedness of the city for the preceding six month period. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statement is published.

- C. The city has not submitted annual financial reports to the State Auditor's Office since 2004. The city offered no explanation for the failure to submit these

required reports. Section 105.145, RSMo, requires political subdivisions to file annual reports of the financial transactions of the political subdivision with the State Auditor's Office within the time prescribed by the State Auditor (currently within four months of the end of the fiscal year for un-audited financial statements and within six months of the end of the fiscal year for audited financial statements).

WE RECOMMEND the Board of Aldermen:

- A. Prepare annual budgets which include all information required by state law and/or necessary to provide a complete financial plan for the city.
- B. Publish semi-annual financial statements as required by state law.
- C. Submit annual reports of financial transactions to the State Auditor's Office as required by state law.

AUDITEE'S RESPONSE

- A. *Budgets will be prepared for all funds for 2009 by January 1, 2009.*
- B&C. *We will ensure these are done in the future.*

3. Utility System

Formal reviews of utility rates have not been performed recently and the water rate increase in March 2007 was not supported by a cost analysis. Controls over water deposits need improvement and a comparison of the number of gallons sold to customers to the gallons purchased by the city is not performed. Additionally, the city does not comply with all bond covenants.

- A. The city has not performed a formal review of the water and sewer rates for several years. The water and sewer ordinance has not been updated since 2000; however, several water rate increases have been approved, including the most recent \$2 increase in the base rate, from \$15 to \$17, in March 2007. There is no documentation to support the board's decisions or justification for this rate increase. Without a current cost study to support the rate charged for water and sewer services, it is unclear whether the rate assessed for these services is set at an appropriate level.

Section 67.042, RSMo, provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of the service. Water and sewer fees are user charges which should cover the cost of providing the related services, but rates should not be set at a level which results in excessive fund balances. The city should perform and document a detailed review of its water

and sewer costs, including depreciation, and establish rates to cover the total costs of operations without generating excessive profits. Preparation of a statement of costs would allow the city to determine the rates necessary to support current and future operations, as well as provide documentation to customers of the rationale behind the rates.

- B. Controls over water deposits need to be improved. City residents are required to pay a refundable deposit for water and sewer service and the City Clerk maintains a list of deposits received in a notebook. These monies are deposited in the meter deposit account; however, there is no reconciliation between the deposit list and the bank balance. Furthermore, because the list has been maintained manually over the years, it is difficult to determine the amount being held for some customers. The Mayor indicated that each customer has a \$100 deposit; however, the amount of the deposit and the date paid may not be the same for long time customers. At our request, the city reviewed the listing for accuracy, and made corrections. At March 31, 2008, the corrected listing totaled \$16,006; however, the balance in the meter deposit account was \$19,394, resulting in a \$3,388 difference. During the review of the water deposit listing, the city apparently identified an \$800 deposit to the account which they believe was from the sale of a truck that should have been deposited into the General Fund.

To ensure the city is properly holding water deposits from customers, an accurate list of water deposits held by the city should be maintained, which includes the deposit amounts, the dates received, and the dates and amounts of deposit refunds. The deposit list should be reconciled monthly to the monies held in the bank to ensure records are in balance and meter deposits are accounted for properly. In addition, any differences should be investigated and resolved.

- C. The city does not formally document a reconciliation of the total gallons of water billed to customers to the gallons of water purchased by the city. Additionally, this reconciliation should include bulk water sales from the water tank at city hall; however, this tank has no meter to track the gallons sold. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

To help detect significant water loss on a timely basis and ensure all water usage is properly billed, the city should reconcile gallons of water purchased to the gallons of water billed on a monthly basis. Significant differences should be investigated.

- D. The city does not monitor its compliance with bond covenants and some bond requirements were not met. In 1982, the city issued a revenue bond for improvements to its combined waterworks and sewerage system. The city was unable to produce a copy of the bond agreement and was not aware of the bond covenants; however, we obtained a copy of the bond agreement from the bond holder. The bond covenants require the city to obtain an audit of the accounts, books, and records of the sewer system, and to maintain adequate records and

books of the operation. All utility records, such as receipt and disbursement information, subsidiary client records, delinquent account information, etc. were lost in January 2008 when the computer system crashed. An annual audit of the utility system has not been performed for the past several years.

Section 250.150, RSMo, also requires the city to obtain annual audits of the combined waterworks and sewerage system, and provides the cost of the audit is to be paid from the revenues received from the system. In addition to being required by state law and the bond covenant, annual audits of the city funds would help ensure city financial transactions have been properly recorded. Additionally, the city must maintain adequate financial records of the utility system to provide assurance that adequate user fees are charged and to ensure utility monies are accounted for properly.

The failure of the city to comply with the bond covenants could allow the bondholders to take legal action to force compliance or immediate payment of all outstanding bonds.

WE RECOMMEND the Board of Aldermen:

- A. Perform and document formal reviews of water and sewer rates periodically to ensure revenues are sufficient to cover all costs of providing these services and to support any rate increases.
- B. Ensure adequate records of water meter deposits are maintained, including deposits received, disbursed, and the balance, which should be reconciled to the monies in the bank on a periodic basis. Additionally, the unidentified difference should be investigated and resolved.
- C. Ensure the gallons of water purchased is compared to the gallons billed on a monthly basis and investigate any significant differences.
- D. Ensure compliance with all bond covenants and state laws related to the utility system.

AUDITEE'S RESPONSE

- A. *This has been implemented.*
- B. *This has been resolved and the difference has been identified.*
- C. *This is being done.*

D. *These covenants will be met by March 31, 2008.*

4.

Disbursements

There was no evidence that the board provided adequate controls over disbursements. The city does not have formal bidding or purchasing policies and the board does not properly monitor city disbursements. Documentation was not retained to support some disbursements and controls over the use of numerous city credit cards have not been established. Some invoices are not paid timely and payroll taxes have not been remitted to the Internal Revenue Service (IRS) on a timely basis. In addition, petty cash monies are not controlled properly, a record of time worked is not maintained for some city employees, and some disbursements did not appear to be necessary or prudent uses of city funds.

A. The city does not have formal bidding policies and bid documentation is not always retained. As a result, the decision whether to solicit bids for a particular purchase is made on an item-by-item basis. Separate remodeling projects were completed at city hall in both 2006 and 2007, and while the minutes from late 2005 indicate bids were solicited for the city clerk's office remodeling, these bids were not retained. Bids were not solicited for the bathroom remodeling. While some supporting documentation was available to support the costs of these remodeling projects, the city was unable to provide sufficient records to determine the total amount spent for remodeling city hall. The city also purchased a 2001 pick up truck for \$3,500 in March 2007 without soliciting bids or documenting how they determined this was a reasonable price. Additionally, the minutes indicate the board approved the purchase of the truck in April 2007, a month after it was actually purchased.

While the city normally purchases only a few capital items each year, formal bidding and purchasing procedures would provide a framework for the economical management of city resources and help ensure the city receives fair value for all purchases. For purchases in which soliciting bids may not be practical, such as the purchase of used equipment, price quotes or other documentation of the fair market value of the item should be obtained to ensure a reasonable price is paid.

B. Adequate controls over disbursements do not exist. Checks are prepared by the City Clerk, but a listing of all disbursements made during the month, including the check numbers issued, was not provided to the Board of Aldermen. Additionally, while two signatures other than the City Clerk's are required on checks, the other two signors were not provided with invoices supporting payments and did not verify the actual check information agreed to the information posted to the accounting system.

To adequately document the review and approval of all disbursements, the numerical sequence of disbursements prepared by the city clerk's office should be accounted for; disbursements should be agreed with information in the accounting system; and a complete and detailed listing of bills should be prepared, signed or initialed by the aldermen to denote their approval, and retained with the official minutes.

- C. Adequate supporting documentation is not submitted and/or retained for some disbursements and adequate controls over the use of city issued credit cards have not been established. The city was unable to locate some original invoices supporting disbursements, including some payments on credit cards. The city has a VISA card, approximately 10 other credit cards from local vendors, and three fuel credit cards. Due to the lack of accounting records, the city was unable to determine the total amount charged to the various credit cards and did not have all the monthly statements from the vendors. We selected two payments to credit vendors during our audit period and original invoices were not available to support either payment.

The city has not established formal policies and procedures for the use of credit cards or for the reconciliation of individual credit slips and invoices to the monthly statements.

To ensure the validity and propriety of disbursements, adequate supporting documentation should be obtained for all payments to allow the board a basis for adequately monitoring disbursements and determining whether the amount paid is reasonable. Given the lack of controls over credit cards, the board should closely evaluate the need for each credit card. In addition, complete and detailed written credit card policies and procedures are necessary to provide guidance to employees, and help ensure credit cards are used only for city business. The city should develop policies which require all credit slips be submitted and reconciled to billing statements prior to payment, and require purchases to be approved by someone other than the cardholder. The city needs to perform an adequate review of all credit card purchases to ensure expenses paid are necessary, reasonable, and adequately documented.

- D. The city does not ensure payments are made timely to vendors and payroll tax withholdings are not remitted to the federal government as required. In January 2008, city officials determined they had failed to file the Employer's Quarterly Federal Tax Return (Form 941) and remit payroll taxes totaling approximately \$3,200 for the third and fourth quarters of 2007. In addition, upon further review, the city identified approximately \$18,700 in unpaid bills due to vendors. Over \$15,000 of these bills were between 30 to 120 days past due.

Unpaid invoices should be monitored and appropriate follow up action taken. In addition, the city should monitor its liabilities to properly plan and budget its expenses. The Internal Revenue Code requires employers to submit Form 941 on

a quarterly basis. Forms 941 should be filed timely and payroll and accounting records reconciled with amounts reported to the state and federal authorities. The unpaid payroll taxes should be submitted to the proper authorities immediately and future tax withholdings should be remitted to the appropriate parties on a timely basis.

- E. The petty cash fund is not operated on an imprest basis and a ledger is not maintained to record the receipts, disbursements, and balance of the petty cash fund. The City Clerk periodically requests reimbursement from the board to replenish the petty cash fund; however, purchase receipts or other documentation are not submitted to support the amount being requested to replenish the fund. Also, the fund is not reviewed by a person independent of the accounting process. Although the balance of the fund is established at \$100, a cash count in January 2008 found a total of \$106 consisting of cash and a check written to petty cash issued on December 19, 2007, for \$60 which was never cashed.

Without adequate supporting documentation, the board cannot evaluate the necessity and reasonableness of petty cash disbursements. The petty cash fund should be operated on an imprest basis, meaning that cash and the invoices should always total the established balance, and checks issued to replenish the fund should equal the amount of the invoices. Petty cash invoices should be retained to support disbursements and submitted with the request for replenishment of petty cash. In addition, the city should maintain a petty cash ledger documenting receipts, disbursements, and the balance of the petty cash fund. Periodically, the fund should be counted and reconciled to the imprest balance by an independent person to ensure the funds are being accounted for properly, to detect errors, and to prevent these monies from being misused.

- F. Payroll disbursements are not always properly supported by time cards. While all city employees are required to use a time clock to record time worked, six of eight time cards selected for one employee were not available. Time records are necessary for all employees to document hours actually worked, substantiate payroll disbursements, and provide the board with a method to monitor hours worked.
- G. The Board of Aldermen approved disbursements which appear questionable or unnecessary for city operations. During 2006 and 2005, the board approved \$400 in Christmas bonuses for employees, along with turkeys and hams for various employees. During December 2006, the board also approved adopting a family, which involved paying the family's December water bill and 2006 property taxes from the General Fund. Such purchases do not appear to be necessary or prudent uses of public funds.

City officials should ensure city funds are spent only on items which are necessary and beneficial to city operations. In addition, the bonuses appear to represent additional compensation for services previously rendered and, as such

are in violation of Article III, Section 39 of the Missouri Constitution and Attorney General's Opinion No. 72, 1955 to Pray, which states, "...a government agency deriving its power and authority from the constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

WE RECOMMEND the Board of Aldermen:

- A. Establish formal bidding and purchasing policies and maintain bid documentation to ensure the city receives fair value for all major purchases.
- B. Verify the numerical sequence of disbursements, ensure disbursements agree to the accounting records and are supported by documentation, and sign off on a complete and detailed listing of approved bills. This listing should be maintained with the official board minutes.
- C. Ensure documentation is maintained to support all disbursements, evaluate the need for each credit card, and cancel any cards which are determined unnecessary. Formal policies and procedures should be adopted for credit card use, including policies which require all credit slips be submitted and reconciled to billing statements prior to payment, and purchases to be approved by someone other than the cardholder.
- D. Develop procedures to ensure the timely payment of invoices from vendors and timely remit all required tax payments to the appropriate parties in the future. In addition, Form 941 tax returns should be filed timely.
- E. Maintain the petty cash fund on an imprest basis and ensure the fund is periodically counted and reconciled to the imprest balance by an independent person. A log of petty cash fund transactions should be maintained to properly document the financial activity of the fund.
- F. Require all city employees to submit time cards documenting actual time worked. These time cards should be signed by the employee, approved by the Board of Aldermen, and filed with the City Clerk.
- G. Ensure disbursements made with city funds are reasonable and prudent uses of those funds and are necessary for city operations. In addition, the Board of Aldermen should discontinue granting one time pay increases to elected city officials and employees.

AUDITEE'S RESPONSE

- A. *We will develop a policy by January 1, 2008, and retain bid documentation in the future.*
- B. *We will ensure this is done by October 1, 2008.*
- C. *We have reduced the number of cards significantly and will monitor their use very closely in the future.*
- D. *This has been implemented. All bills are now paid in full.*
- E&F. *These recommendations have been implemented.*
- G. *These types of disbursements have been discontinued.*

5.

Property Tax System

Significant problems were identified in the city's property tax system. The 2007 tax book was not printed and verification of the tax book information or totals was not performed. The former City Clerk employed during the last half of 2007, did not prepare any monthly or annual reports of tax collections and did not post tax payments to the system or deposit tax payments timely.

The City Clerk is also the City Collector and is responsible for billing, collecting, and posting property tax payments to city records; and depositing property tax receipts. The city assesses property taxes on real estate and personal property, and tax charges totaled approximately \$23,000 during the tax year ended February 28, 2008.

- A. The 2007 tax book was not printed by the City Clerk and used to verify the total taxes charged. The personal and real estate tax books are prepared electronically by the City Clerk from assessment data received from the county. In addition, as a result of not printing the 2007 tax book, no independent verification of the tax book information or totals appears to have been performed.

Without the tax book, the city can not ensure the proper amount of taxes charged and billed to city residents is complete and accurate. Retention of original records is necessary to ensure the validity of transactions and help account for all monies received.

- B. While the city's property tax system is capable of generating monthly and annual reports, none were prepared by the City Clerk summarizing the amount of property taxes collected as well as those that remain delinquent.

Sections 79.310, 94.320, and 94.330, RSMo, require the City Collector to prepare and submit monthly and annual reports to the Board of Aldermen of the amount of taxes collected and annual lists of delinquent taxes, including a detailed list of persons who have not paid. The board is to examine and approve the reports and charge the City Collector with collection of the amounts due.

Monthly and annual reports which comply with state law would help provide assurance taxes have been properly collected, written off, or determined to be delinquent. Without such reports, examined by the board, any errors or irregularities that might occur are likely to go undetected.

- C. Property tax receipts are not always deposited timely and posted to the tax system. The former City Clerk indicated that she typically held property tax receipts in the drop box or a locked safe until she had collected a significant amount of taxes. The former City Clerk deposited tax receipts dated from December 2, 2007 through January 7, 2008, totaling over \$14,230 on January 9, 2008. Apparently these payments had not been posted to the system. A volunteer chosen by the board started entering these tax receipts into the system between February 2008 and March 2008.

To adequately account for collections and reduce the risk of loss or misuse of funds, deposits should be made on a timely basis and kept in a secure location until deposited. Deposits should be more frequent if significant amounts of cash are collected. In addition, to ensure property tax receipts are accounted for properly, all property tax receipts should be posted to the property tax system when received and the property tax system should indicate the date property tax receipts are posted.

WE RECOMMEND the Board of Aldermen:

- A. Require the City Clerk to print and retain the tax books. In addition, the Board of Aldermen should ensure procedures are performed and documented to verify the accuracy of the tax book totals.
- B. Require the City Clerk to prepare and maintain detailed monthly and annual reports of taxes collected and delinquent taxes due, which should be reviewed and approved by the Board of Aldermen.
- C. Ensure property tax receipts are deposited in a timely manner, receipts are kept in a secure location until deposited, and property tax receipts are posted to the property tax system when received.

AUDITEE'S RESPONSE

- A. *We will ensure this is done in the future.*

- B. *We are in the process of developing control procedures for collection of taxes and will ensure these procedures are in place for the 2008 tax season.*
- C. *We agree and will implement this.*

6. Minutes, Ordinances, and Public Records

City procedures for conducting and documenting closed meetings are not in compliance with state law, and improvement is needed in the organization of the city's ordinances. Also, the city needs to improve its policies and procedures for documenting information requested by the public.

- A. Reasons for closing meetings and the corresponding vote to close the meeting are not always documented and minutes of closed meetings held by the Board of Aldermen are not always taken. The board held numerous closed sessions over the past several years. Open session minutes typically will indicate that the meeting is being closed, but the specific reason and a vote to close the meeting are not always documented. Without minutes of closed sessions, there is no record of the discussions held or support for the decisions made, and less assurance to the public that the various statutory provisions are being followed.

Furthermore, while minutes of only a few closed meetings were available, the city was unable to demonstrate how some topics discussed in those meetings complied with the law and decisions made in closed session were not always disclosed in open session. For example, the board approved the purchase of a digital meter reader in closed session, as well as approving Christmas bonuses for employees. Neither of these decisions was subsequently disclosed in open session. By discussing and voting on unallowable topics in closed session, the public is denied the right to provide input on those decisions.

The Sunshine Law, Chapter 610, RSMo, states the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open meeting and requires minutes be kept for all closed meetings. In addition, the Sunshine Law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote. The minutes should provide sufficient details of discussions to demonstrate compliance with statutory provisions and support important decisions. In addition, the law requires certain votes taken in closed session to be disclosed in open session.

- B. The city ordinances do not appear complete and up-to-date. Additionally, the city has not adopted ordinances required by state law and/or needed to govern the city. Many of the city ordinances appear old and outdated and it does not appear the ordinance book has ever been codified. Some required ordinances were not in the ordinance book, such as compensation of city officials and employees, trash rates,

and water and sewer shut-off procedures. In addition, the city does not maintain a summary listing of ordinances passed, rescinded, or superseded by a subsequent ordinance. Thus, it is difficult to determine which city ordinances are currently in effect.

Since the ordinances represent the legislation passed by the Board of Aldermen to govern the city and its residents, it is important that the city's ordinances be maintained in a complete, well-organized, and up-to-date manner. An index of all ordinances passed and repealed by the city could help keep track of additions and changes made to the city ordinances. In addition, such items as compensation of city officials and employees and trash rates should be set forth in the ordinances to give taxpayers information on how the city is to be governed. Sections 79.270 and 79.290, RSMo, require the Board of Aldermen to fix the salaries of all city officials and employees by ordinance. To avoid misunderstandings, the board should adopt ordinances which specify the compensation of all city officials and employees.

- C. The city does not have adequate controls to ensure information requests from the public are handled in compliance with the Sunshine Law. The city has not adopted a policy establishing a records custodian and setting forth policies for documenting requests, responding to requests, or fees to be charged for researching and providing copies of requested public documents.

Section 610.023, RSMo, provides each request for access to public records shall be acted upon as soon as possible, but in no event later than the end of the third business day following the date the request was received by the custodian of records of a public governmental body. To ensure the city is complying with this statute, the city should document adequate information in a request log to determine if requests are completed timely and that all requests are adequately filled. In addition, the board should pass a resolution establishing the custodian's requirements and documentation request procedures, and setting the price for obtaining documentation, including a schedule for document search.

WE RECOMMEND the Board of Aldermen:

- A. Ensure minutes document the vote to go into closed session, state the reasons for going into closed meetings and publicly disclose the final disposition of applicable matters discussed in closed meetings. In addition, minutes should be maintained to support all closed meetings and only allowable topics should be discussed in closed meetings.
- B. Ensure a complete and up-to-date set of ordinances is maintained.
- C. Establish a records policy to ensure compliance with the Sunshine law. This policy should include appointing a records custodian, maintaining a central record

of documentation requests, procedures for handling requests, and a fee schedule for documentation retrieval, including research costs.

AUDITEE'S RESPONSE

- A. *We have taken action to improve our handling of closed sessions.*
- B. *We will implement this recommendation by January 1, 2009.*
- C. *We will implement this recommendation by October 1, 2008.*

7. Capital Assets

The city has not established formal policies and procedures for capital assets, including procedures for an annual physical inventory. In addition, controls over the use of city owned vehicles and fuel usage are not adequate.

- A. The city does not maintain complete and current records for its capital assets including land, buildings, equipment, and furniture. Also, property is not tagged for specific identification, and an annual physical inventory is not performed. Adequate capital asset records are necessary to ensure accountability for all items purchased and owned, for determining the proper amount of insurance coverage, and to provide a basis for proper financial reporting.

The city should maintain capital asset records on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a detailed description of the assets including the name, make and model numbers, asset identification numbers, the physical location of the assets, and the date and method of disposition of the assets. All capital assets should be identified with a tag or other similar device, and the city should conduct annual physical inventories and compare the inventories to capital asset records. All capital assets should be recorded at historical costs or estimated historical cost, if actual cost is not available.

- B. The city does not maintain usage logs for city vehicles and equipment. In addition, fuel purchases and usage are not tracked and monitored. The city owns two dump trucks, a pickup truck, and a lawn mower. Fuel is charged at the local gas station and a monthly billing is sent to the city. However, gas tickets are not turned in by city employees using these vehicles and equipment, so a comparison cannot be made to the fuel bill from the local vendor prior to approval for payment.

The city was unable to provide the amount spent on fuel during the year ended December 31, 2007, but the financial statement prepared and published in the

paper for the period January 1, 2007 to June 30, 2007, indicated approximately \$1,100 was spent on fuel from the Street Fund.

Vehicle logs are necessary to document appropriate use of the vehicles and equipment and to support fuel charges. The logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings (or hours of use for equipment), and the operation and maintenance costs. These logs should be reviewed by the Board of Aldermen to ensure vehicles and equipment are used only for city business, are being properly utilized, and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to fuel purchases and other maintenance costs. The failure to compare fuel usage records and gas tickets to vendor billings and analyze vehicle mileage compared to fuel usage increases the possibility the city may pay improper billing amounts and theft or misuse of fuel could occur and go undetected.

WE RECOMMEND the Board of Aldermen:

- A. Ensure property records are maintained which include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. These property records should be compared to the city's insurance coverage and vehicle titles on hand. The city should also properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory.
- B. Ensure usage logs are maintained for all vehicles and equipment. In addition, fuel usage and purchase records should be reviewed for completeness and reasonableness of usage, and reconciled to vendor billings.

AUDITEE'S RESPONSE

- A. *We are currently preparing capital asset records and tagging city property.*
- B. *We will develop procedures to account for vehicle usage and gas purchases.*

8.

Street Maintenance and Lighting

The city has accumulated approximately \$19,200 for debt retirement related to authorized bonds that have not yet been issued. A formal maintenance plan for city streets has not been prepared and a significant cash balance has accumulated in the Street Lighting Fund and a plan for these funds has not been adopted.

- A. In April 2005, city voters approved the issuance of bonds in the amount of \$47,000 for acquiring right of way, constructing, extending, and improving the streets. The city levied a property tax to pay for the principal and interest on the

bonds, but took no action to actually issue them. As of June 30, 2007, the city had accumulated approximately \$19,200, which is kept in a separate bank account designated for the general obligation bonds. In addition, \$4,280 in bond property taxes were deposited to the General Fund in early 2007, rather than the General Obligation (G.O.) Street Bond Fund. While the tax was not levied in 2007, the board has not had significant discussions recently on the bond issue and have not formally documented its plans for the accumulated funds.

It appears the city needs to perform a comprehensive review of this project to determine if it is feasible for the city to proceed. If determined to be feasible, a firm decision should be made regarding the direction of this project and city officials should commit the necessary efforts and resources to ensure its successful completion. If it is not feasible, the city should consult with legal counsel regarding how to handle the proceeds of this levy. In addition, these property taxes represent restricted revenues and the board should transfer \$4,280 from the General Fund to the G.O. Street Bond Fund.

- B. A formal maintenance plan for the city streets has not been prepared. Maintenance plans should be prepared in conjunction with the annual fiscal budget and include a description of the type of work to be performed, an estimate of quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents. Considering voters have already approved street bonds (see finding number 8.A), that improvement project should be included in the original maintenance plan developed by the board. At June 30, 2007, the Street Fund had a balance of approximately \$26,400, with reported disbursements for the previous six months totaling approximately \$8,600. While the year end balance for the Street Fund was not determinable (see finding number 1.B), city personnel indicated no significant street projects were completed in the latter half of 2007, indicating a cash balance still remains in the Street Fund at December 31, 2007.

Formal improvement plans would serve as a useful management tool and provide greater input into the overall budgeting process. Plans provide a means to continually and more effectively monitor and evaluate the progress made in the repair, maintenance, and improvement of the city streets throughout the year.

- C. The city has accumulated a significant cash balance in the Street Lighting Fund and should consider reducing the property tax levy. At June 30, 2007, the Street Lighting Fund had accumulated a cash balance of approximately \$21,850, with disbursements for the first six months of the year totaling \$2,595. Approximately \$7,000 was levied for the purpose of street lights in 2007. The city should consider the cash balance and future needs of the fund when setting the street light levy in the future.

WE RECOMMEND the Board of Aldermen:

- A. Perform a comprehensive review of this project and the various alternatives and related costs. The city should determine the feasibility of the project and if the bonds authorized by voters should be issued. Until such time that bonds are issued, a debt service levy should not be charged. In addition, \$4,280 should be transferred from the General Fund to the G.O. Street Bond Fund.
- B. Prepare a formal maintenance plan for the city streets at the beginning of the year and periodically update the plan throughout the year. The board should review the progress made to streets to make appropriate decisions on future projects.
- C. Review the cash balance of the Street Lighting Fund and consider reducing the property tax levy.

AUDITEE'S RESPONSE

- A&B. We are developing a street maintenance plan currently and will be making a decision on issuing bonds by year end.*
- C. We will be reducing this levy for the 2008 tax year.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF UNION STAR
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Union Star is located in Dekalb County. The city was incorporated in 1935 and is currently a fourth-class city. The population of the city in 2000 was 433.

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended December 31, 2007, are identified below. The Mayor and Board of Aldermen members are paid \$10 per month.

<u>Mayor and Board of Aldermen</u>	<u>Dates of Service During the Year Ended December 31, 2007</u>	
Debbie Pankau, Mayor	April 2007 – December 2007	
Mike Tritten, Mayor	January 2007 – March 2007	
Sharon Jenkins, Alderwoman	January 2007 – December 2007	
James Heine, Alderman (1)	June 2007 – December 2007	
Mike Lynn, Alderman	January 2007 – June 2007	
David Kariker, Alderman (2)	June 2007 – December 2007	
Sharon Karr, Alderwoman	January 2007 – June 2007	
Ronnie Marshall, Alderman(3)	June 2007- December 2007	
Mary Fuller, Alderwoman	January 2007 – June 2007	
		<u>Compensation Paid for the Year Ended December 31, 2007</u>
<u>Other Officials</u>	<u>Dates of Service During the Year Ended December 31, 2007</u>	
Sherri Mead, City Clerk (4)	July 2007 – December 2007	\$ 8,517
Pat Workman, City Clerk	January 2007 – July 2007	11,004

- (1) James Heine was elected April 2008 for a one-year term.
- (2) Chad Farmer was elected April 2008 for a two-year term.
- (3) Ronnie Marshall was elected April 2008 for a two-year term. He passed away in June 2008 and this position is currently vacant.
- (4) Sherri Mead resigned in January 2008 and Linda Pendleton was appointed to the position of City Clerk.

In addition to the officials identified above, the city employed 2 full-time employees on December 31, 2007.

Assessed valuations and tax rates for 2007 were as follows:

ASSESSED VALUATIONS

Real estate	\$	1,381,320
Personal property		631,005
Railroad and utility		78,140
Total	\$	<u>2,090,465</u>

TAX RATE(S) PER \$100 ASSESSED VALUATION

		<u>Rate</u>
General Fund	\$	0.4203
Lights		0.3556
Streets		0.3234

A summary of the city's financial activity for the six months ended June 30, 2007, is presented below:

CITY OF UNION STAR
 FINANCIAL SUMMARY
 SIX MONTH PERIOD ENDED JUNE 30, 2007

	General Fund	Water and Sewer Fund	Water Deposits Fund	Bond Reserve Fund	Police Fund	Street Fund	Street Lighting Fund	G.O Street Bond Fund	Extraordinary Income Fund	Park Fund	Cemetery Fund
Receipts											
Property Taxes	\$ 10,280					7,104	7,794	2,658			
Franchise Taxes	5,867										
Licenses and Permits	90					370					1,420
Water/Sewer Fees		45,671	695								
G.O. Street Bond Taxes	4,280										
Trash Fees		9,063									
Road Fees						9,156					
Interest	403	573	111	7	17		151	103	178		913
Miscellaneous	4,958	482			5,697	50				13,034	300
Transfers In					3,100						
Total Receipts	25,878	55,789	806	7	8,814	16,680	7,945	2,761	178	13,034	2,633
Disbursements											
Salaries and Fringe Benefits	8,352	10,120			3,810	381					519
Supplies	3,819	8,811			1,671	1,117					826
Insurance	404	768									
Trash Service		6,987									
Bond Payments		4,536									
Utilities	1,205	1,023					2,595				97
Payroll Taxes	1,100	2,095									
Repairs and Maintenance		909			466	1,595				5,510	161
Dues and Fees	544				1,680						
Water		14,920									
Equipment	557	211				5,540					
Elections	953										
Miscellaneous	924	1,214	150		4,018						
Transfers Out	3,100										
Total Disbursements	20,958	51,594	150	0	11,645	8,633	2,595	0	0	5,510	1,603
Receipts Over(Under) Disbursements	4,920	4,195	656	7	-2,831	8,047	5,350	2,761	178	7,524	1,030
Cash Balance January 1, 2007	9,500	49,770	17,567	9,214	5,010	18,363	16,502	16,485	357	4,468	37,294
Cash Balance June 30, 2007	\$ 14,420	\$ 53,965	\$ 18,223	\$ 9,221	\$ 2,179	\$ 26,410	\$ 21,852	\$ 19,246	\$ 535	\$ 11,992	\$ 38,324