

CITY OF LARCHWOOD

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2004

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**CITY OF LARCHWOOD**

**OFFICIALS**

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<b>(Before January 2004)</b>		
Leonard VanderBosch	Mayor	January 1, 2004
Mike Metzger	Council Member	January 1, 2006
Ken Kerkvliet	Council Member	January 1, 2006
Dean Snyders	Council Member	January 1, 2004
Ted Underberg	Council Member	January 1, 2004
Terry Viereck	Council Member	January 1, 2004

**(After January 2004)**

Leonard VanderBosch	Mayor	January 1, 2006
Mike Metzger	Council Member	January 1, 2006
Ken Kerkvliet	Council Member	January 1, 2006
Dean Snyders	Council Member	January 1, 2008
Ted Underberg	Council Member	January 1, 2008
Betty Smith	Council Member	January 1, 2008
La Vonne Reinke	Clerk/Treasurer	January 1, 2005
Lachlan Murphy Bonader	Attorney	January 1, 2005

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710 SOUTH UNION STREET, P.O. BOX 108  
ROCK RAPIDS, IOWA 51246

**INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Larchwood, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Larchwood's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which are a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, 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 Larchwood as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 13, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State

and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated March 5, 2005 on our consideration of the City of Larchwood’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Larchwood’s basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on the June 30, 2003 and a qualified opinion on the June 30, 2002 financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wells Heard Halse & Co.

March 5, 2005

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Larchwood provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### 2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 12.2%, or approximately \$41,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$14,000 and charges for services increased \$11,000.
- Disbursements decreased 21.0%, or approximately \$101,000, in fiscal 2004 from fiscal 2003. Public works, culture and recreation, and general government disbursements decreased approximately \$36,000, \$76,000 and \$21,000, respectively.
- The City's total cash basis net assets increased 3.1%, or approximately \$11,000, from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$2,000 and the assets of the business type activities increased by approximately \$13,000.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the

nonmajor governmental funds.

### **Basis of Accounting**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information, which helps answer this question.

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric, garbage, water, and 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 and Urban Renewal Tax Increment. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide

separate information for the electric, garbage, water, and sanitary sewer system funds. Electric and water funds are considered to be major funds of the City.

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

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$(2,806) to \$(4,337). The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts and transfer:		
Program receipts:		
Charges for service	\$ 13	\$ 2
Operating grants, contributions and restricted interest	66	64
General receipts:		
Property tax	170	156
Local option sales tax	38	32
Grants and contributions not restricted to specific purposes	13	37
Unrestricted investment earnings	6	7
Other general receipts	71	48
Transfers, net	-	(10)
Total receipts and transfers	<u>377</u>	<u>336</u>
Disbursements:		
Public safety	35	34
Public works	81	117
Culture and recreation	87	163
General government	64	85
Capital projects	111	80
Total disbursements	<u>378</u>	<u>479</u>
Increase (decrease) in cash basis net assets	(1)	(143)
Cash basis net assets beginning of year	<u>(3)</u>	<u>140</u>
Cash basis net assets end of year	<u>\$ (4)</u>	<u>\$ (3)</u>

The City's total receipts for governmental activities increased by 12.2%, or \$41,000. The total cost of all programs and services decreased by approximately \$101,000, or 21.1%, with no new programs added this year. The significant increase in receipts was primarily the result of the sale of Commercial property during the current year.

The City increased property tax rates for 2004 by an average of 1 percent. This increase raised the City's property tax receipts by approximately \$14,000 in 2004. Based on decreases in the total assessed valuation, property tax receipts are budgeted to decrease by approximately \$12,000 next year.

The cost of all governmental activities this year was \$378,000 compared to \$479,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$298,978 because some of the cost was paid by those directly benefited from the programs (\$211,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$78,669). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 from approximately \$66,000 to approximately \$79,000, principally due to increase in recreation membership fees and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts and transfer:		
Program receipts:		
Charges for service		
Electric	\$ 407	\$ 389
Water	77	76
Other nonmajor	103	94
General receipts:		
Unrestricted investment earnings	1	2
Miscellaneous income	40	58
Bond proceeds	-	282
Total receipts	<u>628</u>	<u>901</u>
Disbursements:		
Electric	329	305
Water	78	68
Other nonmajor	208	417
Transfers	-	(10)
Total disbursements	<u>615</u>	<u>780</u>
Increase (decrease) in cash basis net assets	13	121
Cash basis net assets beginning of year	<u>405</u>	<u>284</u>
Cash basis net assets end of year	<u>\$ 418</u>	<u>\$ 405</u>

Total business type activities receipts for the fiscal year were \$628,000 compared to \$901,000 last year. This significant decrease was due primarily to the loan proceeds for the construction of the sewer lagoon system. The cash balance increased by approximately \$13,000 from the prior year because of increased receipts from charges for services and reduction in disbursements in the current year. Total disbursements and transfers for the fiscal year decreased by 21.2% to a total of \$615,000.

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

As City of Larchwood completed the year, its governmental funds reported a combined fund balance of \$(4,337), a decrease of more than \$1,500 below last year's total of \$(2,806). The following are the major reasons for the changes in fund balances of the major

funds from the prior year.

- The General Fund cash balance increased \$32,118 from the prior year to \$74,219. This increase was due to general decreases in expenses during the fiscal year. The City intends to continue close monitoring of the expenditures to insure only necessary purchase is made.
- The Road Use Tax Fund cash balance decreased by \$57,160 to \$(117,360) during the fiscal year. This increase was attributable to increased capital projects in the current fiscal year.
- The Urban Renewal Tax Increment Fund was established to account for urban renewal projects within the City’s business district. At the end of the fiscal year, the cash balance was \$38,804, an increase of \$26,551 from the previous year. The increase was the result of a decrease in expenditures during the current fiscal year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Electric Fund cash balance increased by \$113,932 to \$441,766, due primarily to an increase in the receipts of charges for services.
- The Water Fund cash balance increased by \$3,048 to \$106,712, due primarily to an increase in the receipts of charges for services which will be used to pay for the Lyon and Sioux Rural Water System hook up.
- The Sewer Fund cash balance decreased by \$104,881 to \$(135,754), due primarily to the final expenses involving the construction of the sewer lagoon system.
- The Garbage Fund cash balance increased by \$499 to \$4,995, due primarily to the receipts in the current year being higher than the expenditures this year.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City need to reduce expenditures due to substantial reduction in intergovernmental revenues and revenues from charges for services. Even with the reduction of expenditures the City exceeded its budget.

**DEBT ADMINISTRATION**

At June 30, 2004, the City had approximately \$600,914 in bonds and other long-term debt, compared to approximately \$648,214 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
General obligation loans	\$ 20,300	\$ 40,600
Revenue notes	580,614	607,614
Total	<u>\$ 600,914</u>	<u>\$ 648,214</u>

Debt will increase approximately \$440,000 in the next year as a result of the completion of the water tower and the obligation of paying Lyon and Sioux Rural Water connection fees over the next 40 years. 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 \$600,914 is below its constitutional debt limit of \$810,399.

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

City of Larchwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's population growth during 1999-2004, averaging per year gains of four houses built each year bringing in about 20 new people.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$1.1 million, a decrease of 20% over the final 2004 budget. Budgeted disbursements are expected to go down approximately \$275,000. Decreases in construction projects represent the largest decreases. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$10,000 by the close of 2005.

## **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 LaVonne Reinke, City Clerk, 1020 Broadway, Larchwood, Iowa, 51241-0216.

**City of Larchwood, Iowa**

## **Basic Financial Statements**

City of Larchwood  
Statement of Activities and Net Assets - Cash Basis  
As of and for the year ended June 30, 2004

Functions/Programs	Disbursements	Program Revenues		
		Charges for Service	Operating Grants and Restricted Contributions Interest	Capital Grants and Restricted Contributions Interest
Governmental activities:				
Public safety	\$ 35,023	\$ -	\$ -	\$ -
Public works	80,830	-	65,631	-
Health and social services	-	-	-	-
Culture and recreation	86,577	11,093	-	-
Community and economic developm	-	-	-	-
General government	64,093	1,945	-	-
Debt service	-	-	-	-
Capital projects	111,124	-	-	-
Total governmental activities	377,647	13,038	65,631	-
Business type activities:				
Electric	328,734	407,084	-	-
Water	78,405	76,645	-	-
Other nonmajor	208,090	103,197	-	-
Total business type activities	615,229	586,926	-	-
Total	992,876	599,964	65,631	-
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Tax incremental financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investment				
Bond proceeds				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Exhibit A

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (35,023)	\$ -	\$ (35,023)
(15,199)	-	(15,199)
-	-	-
(75,484)	-	(75,484)
-	-	-
(62,148)	-	(62,148)
-	-	-
(111,124)	-	(111,124)
(298,978)	-	(298,978)
-	78,350	78,350
-	(1,760)	(1,760)
-	(104,893)	(104,893)
-	(28,303)	(28,303)
(298,978)	(28,303)	(327,281)
99,407	-	99,407
70,327	-	70,327
-	-	-
37,911	-	37,911
13,490	-	13,490
6,309	1,305	7,614
-	-	-
12,674	39,596	52,270
57,329	-	57,329
-	-	-
297,447	40,901	338,348
(1,531)	12,598	11,067
(2,806)	405,121	402,315
\$ (4,337)	\$ 417,719	\$ 413,382
\$ (117,360)		\$ (117,360)
38,804		38,804
-	-	-
-	-	-
74,219	417,719	491,938
\$ (4,337)	\$ 417,719	\$ 413,382

See notes to financial statements.

City of Larchwood  
Statement of Cash Receipts, Disbursements and Changes in  
Cash Balances - Governmental Funds  
As of and for the year ended June 30, 2004

Exhibit B

	General	Road Use Tax	Urban Renewal Tax Increment	Total
<b>Receipts:</b>				
Property tax	\$ 99,407	\$ -	\$ -	\$ 99,407
Tax increment financing collections	-	-	70,327	70,327
Other city tax	37,911	-	-	37,911
Licenses and permits	1,945	-	-	1,945
Use of money and property	6,309	-	-	6,309
Intergovernmental	13,490	65,631	-	79,121
Charges for service	11,093	-	-	11,093
Miscellaneous	12,674	-	-	12,674
Total Receipts	<u>182,829</u>	<u>65,631</u>	<u>70,327</u>	<u>318,787</u>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	35,023	-	-	35,023
Public works	-	37,054	43,776	80,830
Culture and recreation	86,577	-	-	86,577
General government	64,093	-	-	64,093
Capital projects	22,347	88,777	-	111,124
Total Disbursements	<u>208,040</u>	<u>125,831</u>	<u>43,776</u>	<u>377,647</u>
Excess of receipts over disbursements	<u>(25,211)</u>	<u>(60,200)</u>	<u>26,551</u>	<u>(58,860)</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets	57,329	-	-	57,329
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>57,329</u>	<u>-</u>	<u>-</u>	<u>57,329</u>
Net change in cash balances	<u>32,118</u>	<u>(60,200)</u>	<u>26,551</u>	<u>(1,531)</u>
Cash balances beginning of year	<u>42,101</u>	<u>(57,160)</u>	<u>12,253</u>	<u>(2,806)</u>
Cash balances end of year	<u>\$ 74,219</u>	<u>\$ (117,360)</u>	<u>\$ 38,804</u>	<u>\$ (4,337)</u>
<b>Cash Basis Fund Balances</b>				
<b>Unreserved:</b>				
General fund	74,219	-	-	74,219
Special revenue funds	-	(117,360)	38,804	(78,556)
Total cash basis fund balances	<u>74,219</u>	<u>(117,360)</u>	<u>38,804</u>	<u>(4,337)</u>

See notes to financial statements.

City of Larchwood, Iowa  
 Reconciliation of the Statement of Cash Receipts, Disbursements and  
 Changes in Cash Balances to the Statement of Activities and  
 Net Assets - Governmental Funds  
 As of and for the year ended June 30, 2004

Exhibit C

**Total governmental funds cash balances (page 17)** \$(4,337)

**Amounts reported for governmental activities in the  
 Statements of Net Assets are different because:**

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

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**Cash basis net assets of governmental activities (page 15)** \$(4,337)

**Net change in cash balances (page 17)** \$(1,531)

**Amounts reported for governmental activities in the  
 Statements of Net Assets are different because:**

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities

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**Change in cash balance of governmental activities (page 15)** \$(1,531)

See notes to financial statements.

City of Larchwood, Iowa  
Statement of Cash Receipts, Disbursements and Changes in  
Cash Balances - Proprietary Funds  
As of and for the year ended June 30, 2004

Exhibit D

	Enterprise Funds			
			Other Nonmajor Enterprise	Total
	Electric	Water		
Operating receipts:				
Use of money and property	\$ 1,086	\$ 49	\$ 170	\$ 1,305
Licenses and permits	-	400	460	860
Charge for service	407,084	76,245	102,737	586,066
Miscellaneous	34,497	4,759	340	39,596
Total operating receipts	<u>442,667</u>	<u>81,453</u>	<u>103,707</u>	<u>627,827</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	-
Public works	-	-	-	-
Health and social services	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	-	-
General government	-	-	-	-
Capital projects	-	-	-	-
Business type activities	328,734	78,405	208,090	615,229
Total operating disbursements	<u>328,734</u>	<u>78,405</u>	<u>208,090</u>	<u>615,229</u>
Excess (deficiency) of operating receipts over (under)	<u>113,933</u>	<u>3,048</u>	<u>(104,383)</u>	<u>12,598</u>
Non-operating receipts (disbursements):				
Intergovernmental	-	-	-	-
Interest on investments	-	-	-	-
Miscellaneous	-	-	-	-
General obligation bond proceeds	-	-	-	-
Debt service	-	-	-	-
Total non-operating receipts (disbursements)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursement	<u>113,933</u>	<u>3,048</u>	<u>(104,383)</u>	<u>12,598</u>
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	113,933	3,048	(104,383)	12,598
Cash balances beginning of year	327,834	103,664	(26,377)	405,121
Cash balances end of year	<u>\$ 441,767</u>	<u>\$ 106,712</u>	<u>\$ (130,760)</u>	<u>\$ 417,719</u>
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	\$ -	\$ -	\$ -
Unreserved	441,766	106,712	(130,759)	417,719
Total cash basis fund balances	<u>\$ 441,766</u>	<u>\$ 106,712</u>	<u>\$ (130,759)</u>	<u>\$ 417,719</u>

See notes to financial statements.  
City of Larchwood, Iowa  
Reconciliation of the Statement of Cash Receipts, Disbursements and  
Changes in Cash Balances to the Statement of Activities and  
Net Assets - Proprietary Funds  
Year ended June 30, 2004

Exhibit E

**Total enterprise funds cash balances (page 21)** \$417,719

**Amounts reported for business type activities in the Statement of  
Activities and Net Assets are different because:**

The Internal Service Fund is used by management to charge the costs of  
partial self funding of the City's health insurance benefit plan to individual funds.  
The assets of the Internal Service Fund are included in business type activities in  
the Statement of Net Assets.

-

**Cash basis net assets of business type activities (page 15)** \$417,719

**Net change in cash balances (page 21)** \$ 12,598

**Amounts reported for business type activities in the  
Statements of Net Assets are different because:**

The Internal Service Fund is used by management to charge the costs of partial  
self funding of the City's health insurance benefit to individual funds. The change  
on net assets of the Internal Service Fund is reported with business type  
activities.

-

**Change in cash balance of business type activities (page 15)** \$ 12,598

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

The City of Larchwood is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, City of Larchwood has included all funds. 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 Larchwood had no component units that were included in the period covered by this audit.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely, to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

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

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

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

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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

The City reports the following major proprietary funds:

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

The Electric Fund accounts for the operation and maintenance of the City's electricity and generator substation system.

The City also reports the following additional proprietary funds:

A Sewer and Garbage Funds are utilized to account for the sewer and garbage services provided by the City.

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

The City of Larchwood maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of

operations of the funds in accordance with U.S. generally accepted accounting principles.

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

#### D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government and business type activities functions.

### (2) **Cash and Pooled Investments**

The City's deposits at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments consist of savings accounts and certificates of deposits.

### (3) **Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City

were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$4,385, \$4,431 and \$3,014, respectively, equal to the required contributions for each year.

**(4) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation leave termination payments payable to employees at June 30, 2004, is \$17,983. The City's approximate liability for sick leave termination payments payable to employees at June 30, 2004, is \$1,625. These liabilities have been computed based on rates of pay as of June 30, 2004.

**(5) Related Party Transactions**

The City had business transactions between the City and City officials or spouses totaling \$ 0 during the year ended June 30, 2004.

**(6) Notes Payable**

Annual debt service requirements to maturity for the installment land purchase from Katharine & Lowell Summa is as follows:

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 20,300	\$ 2,436
2005	20,300	1,218
<b>Totals</b>	<b>\$ 40,600</b>	<b>\$ 3,654</b>

On June 20, 2004, the City obtained a 20-year loan note to cover construction costs of a sewer lagoon system with Sewer Revenue Capital Loan Note Series 2004 was entered into with Iowa Finance Authority. The interest rate is 3% and requires semi-annual interest payments and annual principal payments as follows:

Year Ending June 30,	Capital Loan Notes		Totals	
	Principal	Interest	Principal	Interest
2005	\$ 28,000	\$ 17,418	\$ 28,000	\$ 17,418
2006	29,000	16,579	29,000	16,579
2007	29,000	15,708	29,000	15,708
2008	30,000	14,839	30,000	14,839
2009	31,000	13,938	31,000	13,938
2010 - 2014	170,000	55,142	170,000	55,142
2015 - 2021	263,614	30,819	263,614	30,819
<b>Totals</b>	<b>\$ 580,614</b>	<b>\$164,443</b>	<b>\$ 580,614</b>	<b>\$164,443</b>

**(7) Risk Management**

The City of Larchwood is exposed to various risks of loss related to torts; theft, damage to and destruction of assets, errors and omissions; injuries to employee; and natural disasters. These risks are covered by purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the current fiscal year

**(8) Water Purchase Agreement**

The City has entered into an agreement with Lyon and Sioux Rural Water System, Inc. to provide water to the City. The System will provide potable treated water not to exceed 200,000 gallons per day. The City transferred their city well and other considerations. The City will be paying a connection fee of \$441,869 starting October 1, 2004 making monthly payments of \$1,916 until 2044. The annual payments are as follows:

Year Ending June 30,	Connection Fee	
	Principal	Interest
2005	\$ 3,205	\$ 14,039
2006	4,434	18,558
2007	4,627	18,365
2008	4,827	18,165
2009	5,036	17,956
2010 - 2014	28,651	86,309
2015 - 2019	35,422	79,538
2020 - 2024	43,792	71,168
2025 - 2029	54,140	60,820
2030 - 2034	66,933	48,027
2035 - 2039	82,750	32,210
2040 - 2045	108,052	12,698
Totals	<u>\$ 441,869</u>	<u>\$ 477,853</u>

**(9) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 3003, disbursements in the Capital Projects exceeded the amounts budgeted.

**(10) Deficit Fund Balance**

The Special Fund – Road Use Tax had a deficit balance of \$117,360 and Sewer fund had a deficit balance of \$135,754 at June 30, 2004.

**(11) Accounting Change and Restatements**

Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and

Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statement, which present for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities.

	<u>Governmental</u>	<u>Business</u>
	<u>Activities</u>	<u>Type Activities</u>
Cash basis net assets June 30, 2003, as previously reported	\$ (2,806)	\$ 405,121
Internal Service Fund	-	-
Cash basis net assets July 1, 2003, as restated	<u>\$ (2,806)</u>	<u>\$ 405,121</u>

**City of Larchwood, Iowa**

## **Required Supplementary Information**

City of Larchwood, Iowa  
 Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 99,407	\$ -
Tax increment financing collections	70,327	-
Other city tax	37,911	-
Licenses and permits	1,945	860
Use of money and property	6,309	1,305
Intergovernmental	79,121	-
Charges for service	11,093	586,066
Special assessments	-	-
Miscellaneous	12,674	39,596
Total receipts	<u>318,787</u>	<u>627,827</u>
Disbursements:		
Public safety	35,023	-
Public works	80,830	-
Health and social services	-	-
Culture and recreation	86,577	-
Community and economic development	-	-
General government	64,093	-
Debt service	-	-
Capital projects	111,124	-
Business type activities	-	615,229
Total disbursements	<u>377,647</u>	<u>615,229</u>
Excess of receipts over disbursements	(58,860)	12,598
Other financing sources, net	<u>57,329</u>	
Excess of receipts and other financing sources over disbursements and other financing uses	(1,531)	12,598
Balances beginning of year	<u>(2,806)</u>	405,121
Balances end of year	<u>\$ (4,337)</u>	<u>\$ 417,719</u>

See accompanying independent auditor's report.

Less Funds not Required to be Budgeted	Total Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
\$ -	\$ 99,407	\$ 99,078	\$ 99,078	\$ 329
-	70,327	54,000	54,000	16,327
-	37,911	35,000	35,000	2,911
-	2,805	825	825	1,980
-	7,614	4,900	4,900	2,714
-	79,121	232,050	232,050	(152,929)
-	597,159	661,845	661,845	(64,686)
-	-	-	-	-
-	52,270	54,040	54,040	(1,770)
-	946,614	1,141,738	1,141,738	(195,124)
-	35,023	35,053	35,053	(30)
-	80,830	118,000	118,000	(37,170)
-	-	-	-	-
-	86,577	92,462	92,462	(5,885)
-	-	50,000	50,000	(50,000)
-	64,093	108,665	108,665	(44,572)
-	-	-	-	-
-	111,124	-	-	111,124
-	615,229	735,890	735,890	(120,661)
-	992,876	1,140,070	1,140,070	(147,194)
-	(46,262)	1,668	1,668	(47,930)
-	57,329	-	-	57,329
-	11,067	1,668	1,668	9,399
-	402,315	192,289	192,289	210,026
\$ -	\$ 413,382	\$ 193,957	\$ 193,957	\$ 219,425

See accompanying independent auditor's report.

City of Larchwood, Iowa  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the capital projects functions.

## **Other Supplementary Information**

City of Larchwood, Iowa  
Schedule of Indebtedness  
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year
General obligation debt:				
Summa Land Purchase	5/4/2001	6%	\$ 106,500	\$ 40,600
Total				<u>40,600</u>
Capital Revenue Loan Notes:				
Sewer Capital Loan	6/28/2002	3%	633,614	607,614
Totals				<u>\$ 607,614</u>

See accompanying independent auditor's report.

Schedule 1

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ -	\$ 20,300	\$ 20,300	\$ 2,443	\$ 305
-	20,300	20,300	2,443	305
-	27,000	580,614	18,228	2,661
\$ -	\$ 27,000	\$ 580,614	\$ 18,228	\$ 2,661

See accompanying independent auditor's report.

City of Larchwood, Iowa  
 Bond and Note Maturities  
 June 30, 2004

<b>General Obligation Debt</b>		
<b>Summa Land</b>		
<b>Issued May 4, 2001</b>		
<b>Year Ending June 30</b>	<b>Interest Rates</b>	<b>Amounts</b>
2005	6.00%	20,300
TOTAL		<u>\$ 20,300</u>
<b>Capital Loan Notes</b>		
<b>Sewer Project</b>		
<b>Issued June 28, 2002</b>		
<b>Year Ending June 30</b>	<b>Interest Rates</b>	<b>Amounts</b>
2005	3.00%	28,000
2006	3.00%	29,000
2007	3.00%	29,000
2008	3.00%	30,000
2009	3.00%	31,000
2010	3.00%	32,000
2011	3.00%	33,000
2012	3.00%	34,000
2013	3.00%	35,000
2014	3.00%	36,000
2015	3.00%	37,000
2016	3.00%	38,000
2017	3.00%	39,000
2018	3.00%	41,000
2019	3.00%	42,000
2020	3.00%	43,000
2021	3.00%	23,614
TOTAL		<u>\$ 580,614</u>

See accompanying independent auditor's report.  
City of Larchwood, Iowa Schedule 4  
Schedule of Revenues by Source and Expenditures by Function -  
All Governmental Funds  
For the Last Four Years

	2004	2003	2002	2001
<b>Receipts:</b>				
Property tax	\$ 99,407	\$ 105,244	\$ 95,498	\$ 89,690
Tax increment financing collections	70,327	50,669	59,347	50,150
Other city tax	37,911	31,530	-	-
Licenses and permits	1,945	2,139	2,020	2,195
Use of money and property	6,309	6,614	8,453	6,804
Intergovernmental	79,121	100,788	76,488	81,235
Charges for service	11,093	29,346	-	7,139
Special assessments	-	-	-	-
Miscellaneous	12,674	19,098	22,232	7,840
Total	<u>318,787</u>	<u>345,428</u>	<u>264,038</u>	<u>245,053</u>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	35,023	34,372	25,963	24,625
Public works	80,830	116,844	88,042	-
Health and social services	-	-	-	-
Culture and recreation	86,577	162,917	27,907	44,625
Community and economic developmer	-	-	-	-
General government	64,093	84,750	104,316	48,099
Debt service	-	-	-	-
Capital projects	111,124	79,622	-	23,206
Total	<u>\$ 377,647</u>	<u>\$ 478,505</u>	<u>\$ 246,228</u>	<u>\$ 140,555</u>

See accompanying independent auditor's report.

*Dan Heard, CPA*  
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ROCK RAPIDS, IOWA 51246

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Larchwood, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated March 5, 2005. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Larchwood's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance that are required to be reported under Government Auditing Standards and which are described in Part I of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit is based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item I-A-04.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Larchwood's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as items II-A-04 in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens City of Larchwood and other parties to whom the City of Larchwood may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Larchwood 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.

Wells Heard Halse & Co.

March 5, 2005

City of Larchwood, Iowa  
Schedule of Findings  
Year ended June 30, 2004

**Part I: Findings Related to the General Purpose Financial Statements:**

**REPORTABLE CONDITION:**

I-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties, which are incompatible. The same employee performs all duties.

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

Response - We will investigate this.

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

City of Larchwood, Iowa  
Schedule of Findings  
Year ended June 30, 2004

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the fiscal year ended June 30, 2004.
- II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, exceeded the amount budgeted in the Capital Projects programs after budget was amended. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.  
Recommendation – The budget should have been 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.
- II-C-04 Questionable Disbursements - No disbursements of City money for questionable disbursements were noted.
- II-D-04 Travel and Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-E-04 Business Transaction – There were no business transactions between the City and City officials or employees during the year ending June 30, 2004.
- II-F-04 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.
- II-F-04 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not. The minutes of Council proceedings were published in accordance with Chapter 372.13(6) of the Code of Iowa.
- II-G-04 Deposits and Investments - We noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

City of Larchwood, Iowa  
Schedule of Findings  
Year ended June 30, 2004

- II-H-04 Financial Condition – The Special Fund - Road Use Tax, and Sewer Fund have a deficit fund balance of \$117,360 and \$135,754 respectively as of June 30, 2004.
- Recommendation - Fund balances should be periodically reviewed and appropriate transfers made to maintain adequate fund balances.
- Response - We will do this.
- Conclusion - Response accepted.
- II-I-04 Payment of General Obligation Debt – Certain general obligation debt were paid from the Enterprise Fund, Sewer Account. Chapter 384.4 of the Code of Iowa state in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.”
- Recommendation – The City should transfer from the Enterprise Fund, Sewer Account to the Debt Service Fund, General Obligation Bonds Account for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.
- Response - We will transfer in the future as recommended.
- Conclusion - Response accepted.
- II-J-04 Certified Budget – In accordance with Chapter 384.16(6) of the Code of Iowa the Budget needs to be certified by March 15 or the tax levy is limited to the prior year’s budget amounts. The budget was certified after April 7, 2003 meeting.
- Recommendation – The City should certify the budget by March 15 in the future or hold the tax levy to the prior year’s budget amounts.
- Response - We will certify in the future as recommended.
- Conclusion - Response accepted.