



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

April 4, 2006

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Murray, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2005, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$637,054 for the year ended June 30, 2005. The receipts included \$152,420 in property tax, \$239,975 from charges for service, \$134,582 from operating grants, contributions and restricted interest, \$57,692 from local option sales tax, \$8,764 from unrestricted interest on investments and \$43,621 from other general receipts.

Disbursements for the year totaled \$471,347, and included \$95,242 for general government, \$62,729 for public works and \$35,950 for debt service. Also, disbursements for business type activities totaled \$210,842.

A copy of the report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

###

CITY OF MURRAY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	19
Notes to Financial Statements		20-24
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		26-27
Notes to Required Supplementary Information – Budgetary Reporting		28
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Indebtedness	1	30-31
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		33-34
Schedule of Findings		35-40
Staff		41

City of Murray

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Joann Sickels	Mayor	Resigned May 2005
Terry Scroggie (Appointed)	Mayor	Nov 2005
Terry Scroggie	Council Member	Resigned June 2005
Scott Busick	Council Member	Jan 2006
Bruce Shannon	Council Member	Jan 2008
Sharon Miller	Council Member	Jan 2008
Richard Booth	Council Member	Jan 2008
Ritha Wolfe	Clerk/Treasurer	Indefinite
Marion James	Attorney	Indefinite

City of Murray



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Murray, Iowa, as of and for the year ended June 30, 2005, 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 Murray'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 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 is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2005 on our consideration of the City of Murray's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Murray's basic financial statements. Other supplementary information included in Schedule 1 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 7, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Murray 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, 2005. 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, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2005 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 44.4%, or approximately \$127,000, primarily due to a reduction in construction disbursements from the prior year for a community building project in the General Fund and a street resurfacing project in the Road Use Tax Fund.
- The cash basis net assets of the City's business type activities increased 13.7%, or approximately \$39,000, primarily due to the addition of an industrial customer which uses a large volume of water.

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 City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and garbage collection. These activities are financed primarily by user fees and related 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 Employee Benefits, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

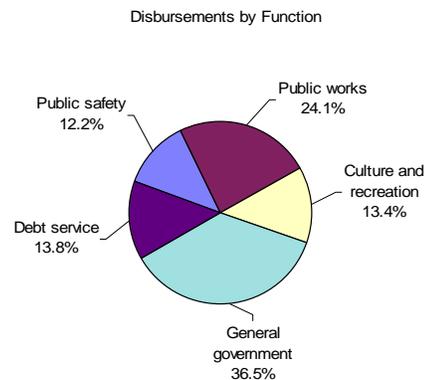
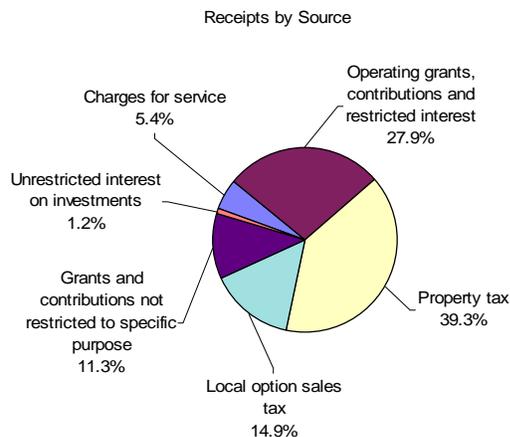
2) Proprietary funds account for the City's Enterprise Funds and are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Garbage Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$285,794 to \$412,769 during the year ended June 30, 2005. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service	\$ 21,042
Operating grants, contributions and restricted interest	108,155
General receipts:	
Property tax	152,420
Local option sales tax	57,692
Grants and contributions not restricted to specific purpose	43,621
Unrestricted interest on investments	4,550
Total receipts	<u>387,480</u>
Disbursements:	
Public safety	31,743
Public works	62,729
Culture and recreation	34,841
General government	95,242
Debt service	35,950
Total disbursements	<u>260,505</u>
Increase in cash basis net assets	126,975
Cash basis net assets beginning of year	<u>285,794</u>
Cash basis net assets end of year	<u>\$ 412,769</u>



The cash basis net assets for the City's governmental activities increased primarily due to completion of community center and street improvement projects during fiscal 2004.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 117,834
Sewer	44,844
Garbage	56,255
Miscellaneous	26,427
General receipts:	
Unrestricted interest on investments	4,214
Total receipts	<u>249,574</u>
Disbursements:	
Water	120,527
Sewer	33,234
Garbage	57,081
Total disbursements	<u>210,842</u>
Increase in cash basis net assets	38,732
Cash basis net assets beginning of year	<u>281,838</u>
Cash basis net assets end of year	<u>\$ 320,570</u>

The City's cash balance for business type activities increased from \$281,838 to \$320,570 during the year ended June 30, 2005. The increase was primarily due to an additional industrial water customer during fiscal 2005.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Murray completed the year, its governmental funds reported a combined fund balance of \$412,769, an increase of 44%, or \$126,975, from last year's total of \$285,794. 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 was \$165,346 at the end of the fiscal year, compared to an ending balance of \$101,590 at the end of last fiscal year. This increase is due to the reduction of expenditures from fiscal 2004 for the community center project.
- The Road Use Tax Fund cash balance increased \$8,513 to a year-end balance of \$19,017. This increase was attributable to spending approximately \$71,000 on street improvements in fiscal year 2004 and spending less than the total road use tax allocations received in fiscal year 2005.
- The Employee Benefits Fund cash balance increased by \$25,576 to a year-end balance of \$183,579. The increase was attributable to levying more property taxes than needed.
- The Debt Service Fund cash balance increased by \$2,908 to a year-end balance of \$18,605 at June 30, 2005.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance was \$117,756 at the end of the fiscal year, compared to an ending balance of \$94,701 at the end of last fiscal year. This increase was due primarily to the sale of water to an additional industrial customer which uses a large volume of water, offset partially by additional charges for electricity to run the water pumps for this business.
- The Sewer Fund cash balance was \$128,353 at the end of the fiscal year, compared to an ending balance of \$113,626 at the end of last fiscal year. Receipts and disbursements did not change significantly from the prior year.
- The Garbage Fund cash balance increased by \$950 to the year-end balance of \$74,461 at June 30, 2005.

BUDGETARY HIGHLIGHTS

Disbursements exceeded amounts budgeted in the public safety, culture and recreation, general government and debt service functions. The certified budget was not amended in fiscal year 2005.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$181,214 in general obligation notes and other long term debt, compared to \$207,569 at the end of last fiscal year. This represents a 12.7% decrease from last year. The chart below segregates the City's debt into its component parts.

Outstanding Debt at Year-End	
	June 30, 2005
General obligation notes	\$ 140,000
SIRWA water tower loan	41,214
Total	<u>\$ 181,214</u>

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 \$140,000 is well below its constitutional debt limit of \$412,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Murray's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees charged for various City activities. The City's fiscal year 2006 assessed valuation increased \$80,407 from the previous year.

The proposed fiscal year 2006 budget includes receipts of \$508,322 and disbursements of \$458,768. The fiscal year 2006 budget is comparable to the fiscal year 2005 budget which included receipts of \$509,702 and disbursements of \$451,912.

The proposed fiscal year 2006 property tax levy is \$18.56388 per \$1,000 of taxable property valuation, a decrease from the \$18.70905 per \$1,000 of taxable property valuation in fiscal year 2005. The decrease is due to a decrease in the debt service levy from \$4.75680 to \$4.04986 per \$1,000 of taxable property valuation and a decrease in the employee benefits levy from \$3.39789 to \$3.00451 per \$1,000 taxable property valuation.

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 Ritha Wolfe, City Clerk, 495 Maple, Murray, Iowa 50174-0186.

Basic Financial Statements

City of Murray

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 31,743	483	-
Public works	62,729	6,655	72,113
Culture and recreation	34,841	7,167	35,680
General government	95,242	6,737	-
Debt service	35,950	-	362
Total governmental activities	260,505	21,042	108,155
Business type activities:			
Water	120,527	117,834	24,323
Sewer	33,234	44,844	1,393
Garbage	57,081	56,255	711
Total business type activities	210,842	218,933	26,427
Total	\$ 471,347	239,975	134,582

General Receipts:

- Property tax levied for:
 - General purposes
 - Debt service
- Local option sales tax
- Grants and contributions not restricted to specific purpose
- Unrestricted interest on investments

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

- Streets
- Debt service
- Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(31,260)	-	(31,260)
16,039	-	16,039
8,006	-	8,006
(88,505)	-	(88,505)
(35,588)	-	(35,588)
(131,308)	-	(131,308)
-	21,630	21,630
-	13,003	13,003
-	(115)	(115)
-	34,518	34,518
(131,308)	34,518	(96,790)
113,924	-	113,924
38,496	-	38,496
57,692	-	57,692
43,621	-	43,621
4,550	4,214	8,764
258,283	4,214	262,497
126,975	38,732	165,707
285,794	281,838	567,632
\$ 412,769	320,570	733,339
\$ 19,017	-	19,017
18,605	-	18,605
209,801	-	209,801
165,346	320,570	485,916
\$ 412,769	320,570	733,339

City of Murray

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

As of and for the year ended June 30, 2005

	Special Revenue		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 82,866	-	27,046
Other city tax	60,727	-	977
Licenses and permits	1,142	-	-
Use of money and property	2,575	72	2,725
Intergovernmental	47,710	63,690	-
Charges for service	20,748	72	5,105
Miscellaneous	32,981	-	-
Total receipts	248,749	63,834	35,853
Disbursements:			
Operating:			
Public safety	31,743	-	-
Public works	-	55,321	7,408
Culture and recreation	30,324	-	2,053
General government	94,426	-	816
Debt service	-	-	-
Total disbursements	156,493	55,321	10,277
Excess (deficiency) of receipts over (under) disbursements	92,256	8,513	25,576
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(28,500)	-	-
Total other financing sources (uses)	(28,500)	-	-
Net change in cash balances	63,756	8,513	25,576
Cash balances beginning of year	101,590	10,504	158,003
Cash balances end of year	\$ 165,346	19,017	183,579
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	165,346	-	-
Special revenue funds	-	19,017	183,579
Total cash basis fund balances	\$ 165,346	19,017	183,579

See notes to financial statements.

<u>Nonmajor</u>		
<u>Library</u>	<u>Debt</u>	
<u>Trust</u>	<u>Service</u>	<u>Total</u>
-	37,128	109,912
-	1,368	61,704
-	-	1,142
186	362	5,558
-	-	111,400
-	-	25,925
-	-	32,981
<u>186</u>	<u>38,858</u>	<u>348,622</u>
-	-	31,743
-	-	62,729
2,464	-	34,841
-	-	95,242
-	35,950	-
<u>2,464</u>	<u>35,950</u>	<u>224,555</u>
<u>(2,278)</u>	<u>2,908</u>	<u>124,067</u>
28,500	-	28,500
-	-	(28,500)
<u>28,500</u>	<u>-</u>	<u>-</u>
26,222	2,908	124,067
-	15,697	270,097
<u>26,222</u>	<u>18,605</u>	<u>394,164</u>
-	18,605	-
-	-	165,346
26,222	-	228,818
<u>26,222</u>	<u>18,605</u>	<u>394,164</u>

City of Murray

City of Murray

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

As of and for the year ended June 30, 2005

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 110,604	44,844	56,255	211,703
Miscellaneous	31,553	1,393	711	33,657
Total operating receipts	<u>142,157</u>	<u>46,237</u>	<u>56,966</u>	<u>245,360</u>
Operating disbursements:				
Business type activities	<u>116,900</u>	<u>33,234</u>	<u>57,081</u>	<u>207,215</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>25,257</u>	<u>13,003</u>	<u>(115)</u>	<u>38,145</u>
Non-operating receipts (disbursements):				
Interest on investments	1,425	1,724	1,065	4,214
Debt service	(3,627)	-	-	(3,627)
Total non-operating receipts (disbursements)	<u>(2,202)</u>	<u>1,724</u>	<u>1,065</u>	<u>587</u>
Net change in cash balances	23,055	14,727	950	38,732
Cash balances beginning of year	<u>94,701</u>	<u>113,626</u>	<u>73,511</u>	<u>281,838</u>
Cash balances end of year	<u>\$ 117,756</u>	<u>128,353</u>	<u>74,461</u>	<u>320,570</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 117,756</u>	<u>128,353</u>	<u>74,461</u>	<u>320,570</u>

See notes to financial statements.

City of Murray

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Murray is a political subdivision of the State of Iowa located in Clarke County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Murray has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and 1) the ability of the City to impose its will on that organization or 2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clarke County Assessor's Conference Board, Clarke County Emergency Management Commission and the Clarke County Joint E911 Service Board.

Joint Venture

The City also participates in the Murray Community Fire District (District), an Iowa 504A non-profit corporation pursuant to a verbal agreement whereby the City of Murray pays the annual cost of the District's insurance. In addition to the City of Murray, the District includes Doyle, Madison, Troy, Ward, Jones and Pleasant townships.

B. Basis of Presentation

Government-wide Financial Statement – 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 service.

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 not meeting 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 funds are aggregated and reported as nonmajor 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 not paid from other funds.

Special Revenue:

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

The Employee Benefits Fund is used to account for special tax levy collections to be used for employee benefits.

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

The City reports the following major proprietary funds:

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

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

The Garbage Fund accounts for the collection and disbursement of garbage collection and landfill fees.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are incurred, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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, 2005, disbursements exceed the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

(2) Cash

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

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and 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 had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$93,370 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Notes Payable and Joint Financing Agreement

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	Interest Rates	Street Improvement		
		Principal	Interest	Total
2006	6.25%	\$ 25,000	9,000	34,000
2007	6.35	25,000	7,438	32,438
2008	6.40	30,000	5,850	35,850
2009	6.50	30,000	3,930	33,930
2010	6.60	30,000	1,980	31,980
Total		\$ 140,000	28,198	168,198

Joint Financing Agreement

On July 5, 1994, the City entered into a joint financing agreement with the Southern Iowa Rural Water Association (SIRWA) to provide funding for the required matching contribution. The agreement established the City's share of the match at \$51,000 and SIRWA's share at \$74,000.

The City's share is payable to SIRWA in monthly installments of \$279, including interest at 5% per annum. The remaining balance on this agreement at June 30, 2005 was \$41,214.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005 was \$4,901, equal to the required contribution for the year.

(5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:		
Library Trust	General	\$ 28,500

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(6) Risk Management

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

(7) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 147,040	-
Other city tax	63,072	-
Licenses and permits	1,142	-
Use of money and property	5,920	4,214
Intergovernmental	111,400	-
Charges for service	25,925	211,703
Miscellaneous	32,981	33,657
Total receipts	387,480	249,574
Disbursements:		
Public safety	31,743	-
Public works	62,729	-
Culture and recreation	34,841	-
General government	95,242	-
Debt service	35,950	-
Business type activities	-	210,842
Total disbursements	260,505	210,842
Excess of receipts over disbursements	126,975	38,732
Balances beginning of year	285,794	281,838
Balances end of year	\$ 412,769	320,570

See accompanying independent auditor's report.

Total	Original and Final Budgeted Amounts	Final to Total Variance
147,040	148,584	(1,544)
63,072	54,054	9,018
1,142	1,500	(358)
10,134	1,300	8,834
111,400	60,000	51,400
237,628	244,264	(6,636)
66,638	-	66,638
637,054	509,702	127,352
31,743	29,500	(2,243)
62,729	71,200	8,471
34,841	23,750	(11,091)
95,242	77,000	(18,242)
35,950	35,850	(100)
210,842	214,612	3,770
471,347	451,912	(19,435)
165,707	57,790	107,917
567,632	648,885	(81,253)
733,339	706,675	26,664

City of Murray

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions. 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, the Special Revenue Funds, the Debt Service Fund and the 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, 2005, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

Other Supplementary Information

City of Murray
Schedule of Indebtedness
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes: Street improvement	Mar 1, 1995	5.40-6.60%	\$ 330,000
Joint financing agreement: Southern Iowa Rural Water Association (SIRWA) Water tower loan	Jul 5, 1994	5.00%	\$ 51,000

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
165,000	25,000	140,000	10,550
42,569	1,355	41,214	2,272

City of Murray



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Murray, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 7, 2005. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Murray'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 objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

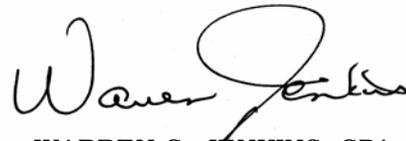
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Murray and other parties to whom the City of Murray 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 personnel of the City of Murray 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 7, 2005

City of Murray
Schedule of Findings
Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important element in designing internal control that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:
- (1) Cash – handling cash, reconciling and depositing.
 - (2) Investments – has custody of investments and performs all record keeping.
 - (3) Receipts – receiving, recording and custody.
 - (4) Utilities – billing, collecting, posting and reconciling.
 - (5) Disbursements – preparation, recording, check writing, check signing and reconciling.
 - (6) Payroll – preparation, recording and distribution.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer.

Response – We will review this and make changes to include documented reviews.

Conclusion – Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Reconciliations of utility billings to collections and delinquencies were prepared during the year. However, variances were not resolved and delinquent account listings were not retained each month.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. All of the information supporting the reconciliation process should be retained. The Council or a designee should review the reconciliations, monitor delinquencies and approve variances, if any occur.

City of Murray
Schedule of Findings
Year ended June 30, 2005

Response – We will have an independent person review reconciliations, will make sure that all supporting information is attached to the reconciliations and will monitor delinquent accounts. Variances, if any, will be approved by the Council.

Conclusion – Response accepted.

- (C) Bank Reconciliations – Monthly reconciliations of the Clerk’s balances to the bank accounts and investments were not prepared.

Recommendation – To improve financial accountability and control, a monthly report should be prepared for Council review and approval, including fund balances, budget to actual information and a reconciliation of fund balances to the bank balances.

Response – We will have our software supplier develop a monthly financial report which includes all of this information and will require Council approval each month.

Conclusion – Response accepted.

- (D) Information System/Computer Controls – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality.
- Requiring computers to have a log off function when not in use.
- Ensuring only software licensed to the City is installed on computers.
- Internet usage.
- Requiring the use of an anti-virus program.
- Developing a disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems.

Response – We will establish policies for all of these recommendations.

Conclusion – Response accepted.

City of Murray

Schedule of Findings

Year ended June 30, 2005

- (E) Separately Maintained Records – The Library and Community Center maintain separate accounting records for their operations. The individual transaction activity and fund balances are not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose. . . .” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the Council on a monthly basis.

Response – We will require the Library and Community Center to submit periodic financial reports.

Conclusion – Response accepted.

City of Murray
 Schedule of Findings
 Year ended June 30, 2005

Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amount was not stated in the resolution for one depository and deposits exceeded FDIC coverage at that bank during the year ended June 30, 2005.

Recommendation – The City should adopt a depository resolution naming all depository banks in amounts sufficient to cover all deposits.

Response – We will adopt this resolution immediately and will establish maximum amounts for each depository used.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

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

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

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

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

- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Sharon Miller, Council Member, owner of Miller Grocery	Supplies	\$ 40
Danny Johnson, part-time City employee, son owns JJJJ Inc.	Sewer repair	1,260

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since the total transactions were less than \$2,500 per individual during the fiscal year.

City of Murray

Schedule of Findings

Year ended June 30, 2005

- (6) 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 the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not always published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.

The Council went into closed session on numerous occasions during the year. However, the minutes record authorizing four closed meetings did not indicate there was a vote of two-thirds of the City Council as a whole to hold a closed meeting, did not specify which exemption was being used to close the meeting and did not specify why the exemption was believed to be valid as required by Chapter 21 of the Code of Iowa, commonly known as the open meetings law.

Recommendation – The City should publish minutes as required and enter into closed sessions in accordance with Chapter 21 of the Code of Iowa.

Response – We will publish minutes as required and will document closed sessions.

Conclusion – Response accepted.

- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted. However, the City's investment policy refers to Chapter 452 of the Code of Iowa.

Recommendation – The City should adopt a new investment policy which refers to the investment provisions of Chapters 12B and 12C of the Code of Iowa.

Response – We will adopt a new policy, changing references to the new Code sections for investments.

Conclusion – Response accepted.

- (9) Excessive Balances – The balance in the Special Revenue, Employee Benefits Fund at June 30, 2005 was in excess of disbursements from the fund for the entire year.

Recommendation – The City should consider the necessity of maintaining this substantial balance and, where financially feasible, consider reducing the balance in an orderly manner through reducing or eliminating the tax levy for employee benefits until the excess balance is eliminated.

Response – We have made reductions in the tax levy for employee benefits in the last three years and will consider further reductions.

Conclusion – Response accepted.

City of Murray

Schedule of Findings

Year ended June 30, 2005

- (10) Insurance and Emergency Tax Levies – The City levies tax for insurance purposes. The insurance levy produced tax collections of \$17,622 recorded in the General Fund. Insurance premiums paid from the General Fund totaled \$6,460, indicating excess tax is being levied for this purpose.

The City also levies tax for emergency purposes. The tax collections were recorded in the General Fund.

Recommendation – The insurance tax levy should be reduced to the estimated expenses for insurance premiums. Amounts collected in excess of insurance premiums in the General Fund should be used only for insurance purposes.

An Emergency Account should be established as a Special Revenue Fund to properly account for the emergency levy to comply with the City Finance Committee Rules and to be consistent with the Uniform Chart of Accounts for City Governments in Iowa.

Response – We will reduce the insurance tax levy to a level which will more closely reflect actual insurance expenses. An emergency fund will be established as fund #119 in the Special Revenue Fund.

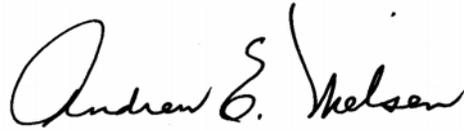
Conclusion – Response acknowledged. The City should also establish a subsidiary ledger account for monitoring the insurance tax levy.

City of Murray

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Donald J. Lewis, CPA, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State