

CITY OF LUVERNE, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants

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CITY OF LUVERNE, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Homles	Mayor	Jan 2006
James Carroll	Council Member	Jan 2006
Gene Frideres	Council Member	Jan 2008
Brian Hood	Council Member	Jan 2006
Doris Johns	Council Member	Jan 2008
Charles Patterson	Council Member	Jan 2008

T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

701 SUMNER, SUITE 200

HUMBOLDT, IOWA 50548

515-332-3466

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, and each major fund of the City of Luverne, 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 Luverne'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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U. S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at June 30, 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, and each major fund of the City of Luverne 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2006, on our consideration of the City of Luverne's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 18 through 19 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 inquires 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.

T.P. Anderson & Company, P.C.

January 5, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Luverne, Iowa 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 does not have and is not required to have an audit on an annual basis, much of the information is not easily comparable to prior years. Should the city choose to have audits in consecutive years comparisons would be more meaningful and go farther to explain the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities were approximately \$170,000. Property tax receipts were approximately \$70,000 and intergovernmental receipts were approximately \$51,000.
- Disbursements were approximately \$157,000 in fiscal 2005. 90% of total disbursements were incurred for the public works, culture and recreation, and general government functions.
- The City's total cash basis net assets decreased 5%, or approximately \$9,000 from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$13,000 and the assets of the business type activities decreased by approximately \$22,000.

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 cash basis Statement of Activities and Net Assets. This statement provides information about the cash basis activities of the City as a whole and presents an overview of the City's cash basis finances.

The cash basis 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.

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, and general government services. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the solid waste and the waterworks 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 service. 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) and the Special Revenue Funds, such as Road Use Tax. 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 cash basis financial statement 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 solid waste and waterworks funds.

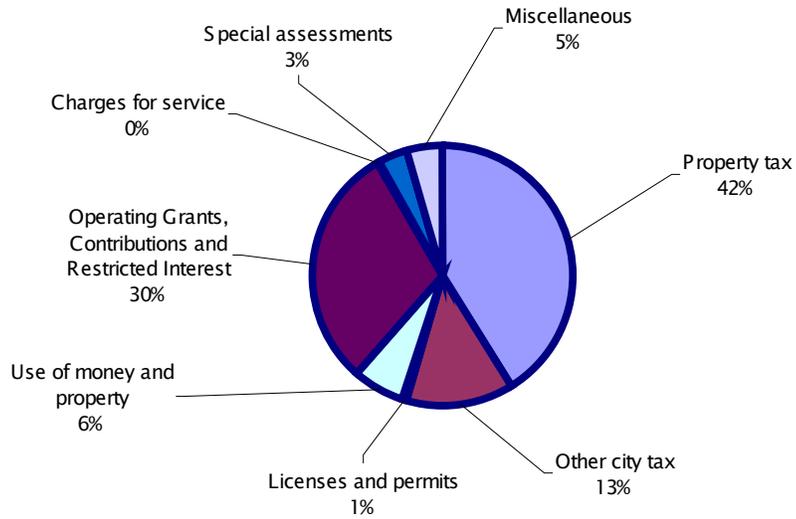
The required cash basis financial statement for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

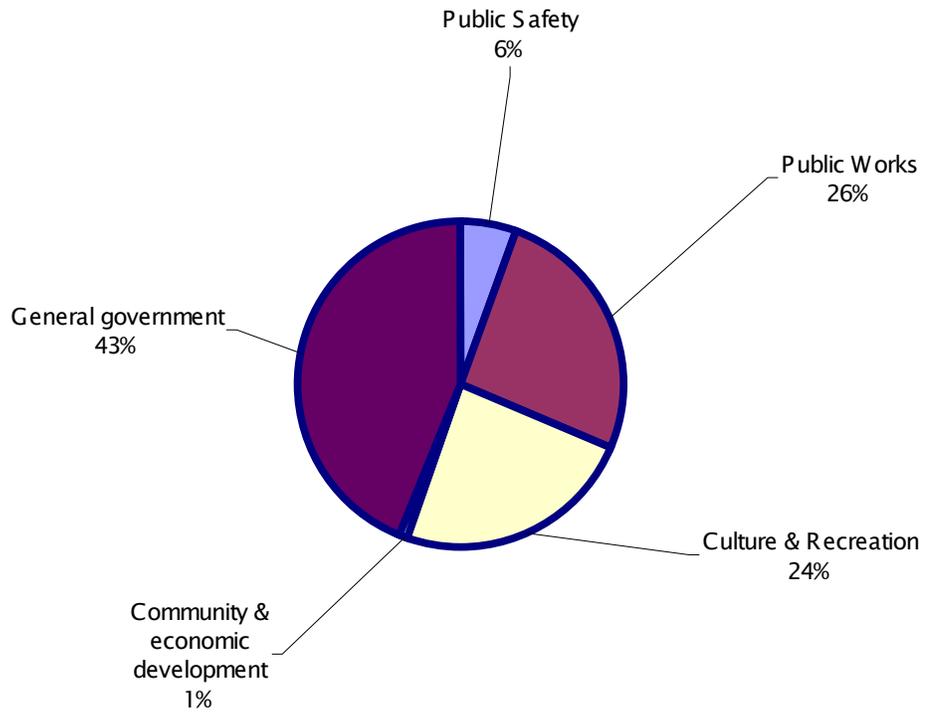
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$168,000 to \$181,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year Ended June 30, 2005
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 1
Operating grants, contributions and restricted interest	51
General receipts:	
Property tax	70
Local option sales tax	22
Unrestricted investment earnings	3
Other general receipts	23
Total receipts and transfers	<u>170</u>
Disbursements:	
Public safety	8
Public works	39
Culture and recreation	36
Community and economic development	1
General government	66
Transfers, net	7
Total disbursements	<u>157</u>
Decrease in cash basis net assets	13
Cash basis net assets beginning of year	<u>168</u>
Cash basis net assets end of year	<u>\$ 181</u>

Receipts by Source



Disbursements by Function



The cost of all governmental activities this year was \$157,000. However, as shown in the Statement of Activities and Net Assets on pages 10, the amount taxpayers ultimately financed for these activities was only \$98,000 because some of the cost was paid by those directly benefited from the programs (\$1,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$51,000). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$92,000 in tax (some of which could only be used for certain programs), 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, 2005
Receipts:	
Program receipts:	
Charges for service:	
Solid waste	\$ 19
Waterworks	29
General receipts:	
Transfers, net	7
Total receipts	<u>55</u>
Disbursements and transfers:	
Solid waste	39
Waterworks	38
Total disbursements and transfers	<u>77</u>
(Decrease) in cash balance	(22)
Cash basis net assets beginning of year	<u>31</u>
Cash basis net assets end of year	<u><u>\$ 9</u></u>

Total business type activities receipts for the fiscal year were \$55,000. The cash balance decreased by approximately \$22,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As The City of Luverne completed the year, its governmental funds reported a combined fund balance of \$181,000, an increase of \$13,000 above last year’s total of \$168,000. 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 \$13,000 from the prior year to \$167,000. The city increased its General Fund Balance while making expenditures to improve fire protection and improvements to the library including light and electrical work.
- The Road Use Tax Fund cash balance decreased by \$127 during the fiscal year which is in accordance with the budgeted results for the year.
- The Employee Benefits Fund increased \$50 during the fiscal year resulting from regular operations of the fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Solid Waste Fund cash balance decreased by approximately \$20,000 due primarily to the capital addition of a new garbage truck during the year.
- The Waterworks Fund cash balance decreased by \$1,942 to \$9,451 at June 30, 2005.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget. The City did over-expend its budget in the public works, culture and recreation, general government, and business type activities functions.

DEBT ADMINISTRATION

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 has no outstanding general obligation debt and a constitutional debt limit of \$236,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's council considered many factors when establishing the 2006 FY budget. A conservative approach was used and a balanced budget is anticipated.

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 Luverne's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Marilyn Johnson, City Clerk, 109 Dewitt Street, Luverne, Iowa 50560.

Basic Financial Statements

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Receipts				Net(Disbursements)Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants	Capital Grants	Governmental Activities	Business type Activities	Total
			Contributions and Restricted Interest	Contributions and Restricted Interest			
Governmental activities:							
Public safety	\$ 8,507	-	10,052	-	1,545	-	\$ 1,545
Public works	38,727	-	18,813	-	(19,914)	-	(19,914)
Culture and recreation	35,689	519	22,715	-	(12,455)	-	(12,455)
Community and economic development	1,094	-	-	-	(1,094)	-	(1,094)
General government	66,004	-	-	-	(66,004)	-	(66,004)
Total governmental activities	150,021	519	51,580	-	(97,922)	-	(97,922)
Business type activities							
Waterworks	37,355	28,613	-	-	-	(8,742)	(8,742)
Solid Waste	39,492	19,496	-	-	-	(19,996)	(19,996)
Total business type activities	76,847	48,109	-	-	-	(28,738)	(28,738)
Total	\$ 226,868	48,628	51,580	-	(97,922)	(28,738)	(126,660)
General Receipts:							
Property tax levied for:							
General purposes					\$ 69,923	-	69,923
Local option sales tax					22,322	-	22,322
Unrestricted interest on investments					2,853	-	2,853
Miscellaneous					22,579	-	22,579
Transfers					(6,800)	6,800	-
Total general receipts and transfers					110,877	6,800	117,677
Change in cash basis net assets					12,955	(21,938)	(8,983)
Cash beginning of year					167,923	31,393	199,316
Cash end of year					180,878	9,455	190,333
Cash Basis Net Assets:							
Restricted							
Streets					13,515	-	13,515
Other Purposes					50	-	50
Unrestricted					167,313	9,455	176,768
					\$ 180,878	9,455	190,333

See Notes to Financial Statements

CITY OF LUVERNE, IOWA

Exhibit B

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE			Total
	General	Road Use Tax	Employee Benefits	
Receipts:				
Property tax	\$ 59,873	-	10,050	69,923
Other city tax	22,322	-	-	22,322
Licenses and permits	1,145	-	-	1,145
Use of money and property	10,684	-	-	10,684
Intergovernmental	32,767	18,813	-	51,580
Charges for service	519	-	-	519
Special assessments	5,839	-	-	5,839
Miscellaneous	7,764	-	-	7,764
Total receipts	140,913	18,813	10,050	169,776
Disbursements:				
Operating:				
Public Safety	8,507	-	-	8,507
Public Works	19,787	18,940	-	38,727
Culture & Recreation	35,689	-	-	35,689
Community & economic development	1,094	-	-	1,094
General government	66,004	-	-	66,004
Total Disbursements	131,081	18,940	-	150,021
Excess of receipts over disbursements	9,832	(127)	10,050	19,755
Other financing sources (uses):				
Operating transfers in	10,000	-	-	10,000
Operating transfers out	(6,800)	-	(10,000)	(16,800)
Total other financing sources (uses)	3,200	-	(10,000)	(6,800)
Net change in cash balances	13,032	(127)	50	12,955
Cash balances beginning of year	154,281	13,642	-	167,923
Cash balances end of year	\$ 167,313	13,515	50	180,878
Cash Basis Fund Balances				
Unreserved:				
General fund	167,313	-	-	167,313
Special revenue funds	-	13,515	50	13,565
Total cash basis fund balances	\$ 167,313	13,515	50	180,878

See Notes of Financial Statements

CITY OF LUVERNE, IOWA

Exhibit C

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Waterworks</u>	<u>Solid Waste</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 28,613	\$ 19,496	\$ 48,109
Total operating receipts	<u>28,613</u>	<u>19,496</u>	<u>48,109</u>
Operating disbursements:			
Business type activities	<u>37,355</u>	<u>39,492</u>	<u>76,847</u>
Total operating disbursements	<u>37,355</u>	<u>39,492</u>	<u>76,847</u>
Excess of operating receipts over operating disbursements	(8,742)	(19,996)	(28,738)
Other financing sources (uses):			
Operating transfers in	<u>6,800</u>	<u>-</u>	<u>6,800</u>
Total other financing sources (uses)	<u>6,800</u>	<u>-</u>	<u>6,800</u>
Net change in cash balances	(1,942)	(19,996)	(21,938)
Cash balances beginning of year	<u>11,393</u>	<u>20,000</u>	<u>31,393</u>
Cash balances end of year	<u>\$ 9,451</u>	<u>\$ 4</u>	<u>\$ 9,455</u>
Cash Basis Fund Balances			
Unreserved	<u>9,451</u>	<u>4</u>	<u>9,455</u>
Total cash basis fund balances	<u>\$ 9,451</u>	<u>\$ 4</u>	<u>\$ 9,455</u>

See Notes of Financial Statements

CITY OF LUVERNE, IOWA

NOTES TO FINANCIAL STATEMENTS

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

The City of Luverne is a political subdivision of the State of Iowa located in Kossuth and Humboldt Counties. It was first incorporated in 1881 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, community and economic development and general government services. The City also provides water, solid waste and landfill services for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Luverne has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all other 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 has no component units which meet the Government Accounting Standards Board Criteria.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets – Cash Basis reports information on all 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.

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

Restricted net assets result when constraints placed on net assets 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.

CITY OF LUVERNE, IOWA

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies - continued

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

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

The City 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 Employee Benefits Fund is utilized to account for the property taxes received specifically for paying for employee benefits.

The City reports the following major proprietary funds:

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste disposal system.

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

CITY OF LUVERNE, IOWA

NOTES TO FINANCIAL STATEMENTS

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

C. Measurement Focus and Basis of Accounting

The City of Luverne 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 the U.S. generally accepted accounting principals.

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 exceeded the amounts budgeted in the public works, culture and recreation, general government and business type activities functions.

(2) **Cash and Investments**

The City's deposits at June 30, 2005 (which include certificates of deposit totaling \$122,314) 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; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

CITY OF LUVERNE, IOWA

NOTES TO FINANCIAL STATEMENTS

(2) Cash and Investments - continued

The City had no investments as of June 30, 2005.

Interest received on cash balances of the City of Luverne amounted to \$2,852 for the year ended June 30, 2005. These receipts are included under Use of Money and Property for Governmental Funds.

(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 salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$3,036, \$2,624, and \$2,421 respectively, equal to the required contributions for each year.

(4) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use at varying rates based on their position with the city. Earned vacation is paid when used or when employment is terminated.

These accumulations are not recognized as expenditures by the City until they are paid. The City's approximate maximum liability for unrecognized accrued employee benefits, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u> <u>6-30-05</u>
Sick pay & personal days	\$ 3,137
Vacation pay	<u>1,210</u>
TOTAL	<u>\$ 4,347</u>

(5) Contracts

The City contracted for the 2006 Street Project in June 2006. The total contract for the project was for \$13,123.79.

CITY OF LUVERNE, IOWA

NOTES TO FINANCIAL STATEMENTS

(6) Interfund Transfers

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

<u>Transfer In</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue Fund Employee Benefits	<u>\$ 10,000</u>
Enterprise Fund Waterworks	General	<u>\$ 6,800</u>

(7) Risk Management

The City of Luverne 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Property Taxes

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Luverne. Property taxes become liens on property as of July 1, 2004 and are payable in September and March of the fiscal year. The valuation for the taxes was based on January 1, 2003 assessed property valuations, and are based on a certified budget from March of 2004.

Required Supplementary Information

CITY OF LUVERNE, IOWA

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

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005

	Governmental Funds Activity	Proprietary Funds Activity	Net	Budgeted Amounts	
				Original/Final	Final to Net Variance
Receipts:					
Property tax	\$ 69,923	-	69,923	78,000	(8,077)
Other city tax	22,322	-	22,322	-	22,322
Licenses and permits	1,145	-	1,145	10,000	(8,855)
Use of money and property	10,684	-	10,684	24,000	(13,316)
Intergovernmental	51,580	-	51,580	20,000	31,580
Charges for service	519	48,109	48,628	50,000	(1,372)
Special assessments	5,839	-	5,839	-	5,839
Miscellaneous	7,764	-	7,764	6,000	1,764
Total receipts	169,776	48,109	217,885	188,000	29,885
Disbursements:					
Program					
Public Safety	8,507	-	8,507	17,000	8,493
Public Works	38,727	-	38,727	22,000	(16,727)
Health and Social Services	-	-	-	1,500	1,500
Culture & Recreation	35,689	-	35,689	17,000	(18,689)
Community & economic development	1,094	-	1,094	1,800	706
General government	66,004	-	66,004	40,000	(26,004)
Business-type activities	-	76,847	76,847	50,000	(26,847)
Total Disbursements	150,021	76,847	226,868	149,300	(77,568)
Excess (deficiency) of receipts over disbursements	19,755	(28,738)	(8,983)	38,700	(47,683)
Other financing sources (uses)	(6,800)	6,800	-	-	-
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	12,955	(21,938)	(8,983)	38,700	(47,683)
Balance - beginning of year	167,923	31,393	199,316	38,700	160,616
Balance - end of year	\$ 180,878	9,455	190,333	77,400	112,933

See Accompanying Independent Auditor's Report

CITY OF LUVERNE, IOWA

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, each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except 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.

The City overspent it's budget in the Public Works, Culture and Recreation, General Government and Business-type activities functional areas.

T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

701 SUMNER, SUITE 200
HUMBOLDT, IOWA 50548
515-332-3466

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 Governmental 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 and the aggregate remaining fund information of the City of Luverne, 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 January 5, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 Luverne'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 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 Luverne'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 Part II of 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, the reportable condition described at II-A-05, II-B-05, and II-C-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Luverne's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance 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 noncompliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Luverne'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 Luverne and other parties to whom the City of Luverne may report including federal awarding agencies and pass-through entities. This report is not intended for 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 Luverne during the course of our audit. Should you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

T.P. Anderson & Company, P.C.

January 5, 2006

City of Luverne, Iowa

Schedule of Findings

Year Ended June 30, 2005

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

- (a) An qualified opinion was issued on financial statements because the distribution of fund balance had not been audited for all prior years. The 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 principals.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Luverne, Iowa

Schedule of Findings

Year Ended June 30, 2005

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05 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. We noted that the cash receipt function and the recording of the cash receipts is on occasion handled by the same person.

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

Response - We believe that we are close to the maximum degree of segregation of duties possible with the limited number of office employees. We will investigate additional procedures to cost effectively improve internal control.

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

II-B-05 Reconciliation of utility Billings and Collections – Utility billings and collections were not reconciled monthly throughout the whole year.

Recommendation – Procedures should be established to reconcile utility billings and collections for each billing period. The Council or a Council designated independent person should review the accuracy and timeliness of the reconciliation's.

Response – We will implement procedures to reconcile our utility billings and collections in a timely manner.

Conclusion – Response accepted.

City of Luverne, Iowa

Schedule of Findings

Year Ended June 30, 2005

REPORTABLE CONDITIONS - continued

II-C-05 Payroll – We noted that not all payroll checks were supported by an approved time sheet. We also noted that the accrued vacation, sick leave, and comp time earned and used by employees were not tracked and reviewed regularly.

Recommendation – For each pay period, a completed time sheet should be approved by the city council along with the use of any vacation time, comp time or sick leave. All time sheets should be maintained in the city hall office as support for the paychecks issued by the City.

Response – We will make the submission of time sheets mandatory prior to issuing paychecks to the city employees. We will also track the earned and used vacation sick leave and comp time for all city employees.

Conclusion – Response accepted.

City of Luverne, Iowa

Schedule of Findings

Year Ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting:

III-A-05 Official Depositories – A resolution naming official depositories has been approved by the City. However, the resolution had not been updated to reflect the name change undertaken by the local bank. The resolution did not make note of the maximum that could be held on deposit in the bank either.

Response – Chapter 12C.2 of the Code of Iowa states in part “the approval of a financial institution as a depository of public funds for a public body shall be by written resolution” and it should “distinctly name each depository approved, and specify the maximum amount that may be kept on deposit in each depository.” The city should adopt a written depository resolution in accordance with the Code of Iowa.

Response – We will adopt a depository resolution.

Conclusion – Response accepted.

III-B-05 Certified Budget – The City exceeded budgeted disbursement limits in the Public Works, Culture and Recreation, General Government, and Business Type Activities functional areas.

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

Response – The budget will be amended in accordance with the Code of Iowa in the future, if applicable.

Conclusion – Response accepted.

III-C-05 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-05 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

III-E-05 Business Transactions - No business transactions between the City and its officials or employees were noted.

City of Luverne, Iowa

Schedule of Findings

Year Ended June 30, 2005

III-F-05 Bond Coverage – The City did not have any bond coverage in place covering the clerk or mayor as of 6/30/05.

Recommendation – Chapter 64 of the Code of Iowa requires the clerk be bonded at an amount as established by the city council.

Response – We will consult with our agent and put the proper insurance in effect.

Conclusion – Response accepted.

III-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. We noted that the minutes of the council meetings were posted in three locations rather than published in the City’s official newspaper. We also noted that the city did not publish the gross wages for city employees.

Recommendation - Chapter 372.13(6) requires in part that for cities with a population of more than 200 “Within fifteen days following a regular or special meeting of the council, the clerk shall cause the minutes of the proceedings of the council including the total expenditure from each city fund, to be published in a newspaper of general circulation in the city.” The city should consult with its attorney to determine the proper way to handle minutes that should have been published but were not. The city should also publish all minutes for council meetings in the future to comply with the Code of Iowa. Gross wages for all city employees should also be published at least on an annual basis.

Response – We will consult with the City attorney regarding council minutes which were not published and publish all council proceedings in the future.

Conclusion – Response accepted.

City of Luverne, Iowa

Schedule of Findings

Year Ended June 30, 2005

III-H-05 Deposits and Investments – The City of Luverne has not adopted a written investment policy.

Recommendation - Chapter 12B.10B of the Code of Iowa states “Political subdivisions shall approve written investment policies which incorporate the guidelines specified in section 12B.10, sections 12B.10A through 12B.10C, and any other provisions deemed necessary to adequately safeguard invested public funds.” The city should adopt a written investment policy to comply with the Code of Iowa and to implement added controls over city funds.

Response – We will adopt a written investment policy.

Conclusion – Response accepted.

III-I-05 Annual Financial Report – The City’s Annual Financial Report was completed and filed by December 1, 2005. We noted that the budget figures on the report did not tie to the budget figures as published with the proposed budget on March 24, 2004.

Recommendation – When preparing and approving the annual financial report, the actual and budget figures should be reviewed to verify their accuracy prior to publishing.

Response – We will implement review procedures to verify the accuracy of the annual financial report.

Conclusion – Response accepted.

III-J-05 Code of Ordinance – It was not determinable the last time the City of Luverne compiled it’s Code of Ordinances.

Recommendation – Chapter 380.8(2) of the Code of Iowa requires that at least every five years the City’s Code of Ordinances be compiled.

Response – We will have our ordinances compiled to comply with the Code of Iowa.

Conclusion – Response accepted.