

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

JUNE 30, 2005 and 2004

Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, Iowa 50265

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City of Lucas

Officials

<u>Name</u>	<u>Title</u> (Before January, 2004)	<u>Term</u> <u>Expires</u>
Hellen Allen	Mayor	January, 2004
Dan Allen	Council Member	January, 2004
Dan Crooks	Council Member	January, 2004
Radley Seufferer	Council Member	January, 2004
Janice Deemer	Council Member	January, 2004
Bev Dixon	Council Member	January, 2004
Sherri Lucas	City Clerk	January, 2004
Paul Goldsmith	Attorney	January, 2004
	(After January 2004)	
Helen Allen	Mayor	January, 2006
Dan Allen	Council Member	January, 2008
Dan Crooks*	Council Member	January, 2008
Kami Welch**	Council Member	January, 2008
Radley Seufferer	Council Member	January, 2006
Bev Dixon	Council Member	January, 2008
Robert Gobeve	Council Member	January, 2006
Sherri Lucas	City Clerk	January, 2006
Paul Goldsmith	Attorney	January, 2006

* Resigned in January, 2005.

** Appointed in March, 2005.

City of Lucas

PEAK & GERDES, LLP
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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Lucas, Iowa, as of and for the years ended June 30, 2005 and June 30, 2004, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Lucas 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.

The financial statements referred to above include only the primary government of the City of Lucas, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial data do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Lucas as of June 30, 2005 and June 30, 2004, and the changes in its cash basis financial position for the two years then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of the City of Lucas as of June 30, 2005 and June 30, 2004, and the respective changes in cash basis financial position for the two years then ended in conformity with the basis of accounting described in Note 1.

As described in Note 10, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2005 on our consideration of the City of Lucas internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 18 through 20 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

City of Lucas, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lucas basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

October 5, 2005

Basic Financial Statements

City of Lucas

Exhibit A

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			Governmental Activities
			Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest		
Primary Government:						
Governmental activities:						
Public safety	\$ 21,634	1,704	12,924	-	(7,006)	
Public works	19,976	233	16,200	3,826	283	
Culture and recreation	12,430	-	-	-	(12,430)	
General government	35,797	475	6,704	-	(28,618)	
Capital projects	171,953	-	-	61,211	(110,742)	
Total governmental activities	<u>\$ 261,790</u>	<u>2,412</u>	<u>35,828</u>	<u>65,037</u>	<u>(158,513)</u>	
General Receipts:						
Property tax levied for:						
General purposes					24,492	
Local option sales tax					18,488	
Grants and contributions not restricted to specific purpose					118	
Unrestricted interest on investments					771	
Line of credit proceeds					70,000	
Miscellaneous					1,848	
Sale of assets					1,125	
Total general receipts					<u>116,842</u>	
Change in cash basis net assets					(41,671)	
Cash basis net assets beginning of year					125,039	
Cash basis net assets end of year					<u>\$ 83,368</u>	
Cash Basis Net Assets						
Restricted:						
Streets					\$ (6,437)	
Other purposes					30,485	
Unrestricted					59,320	
Total cash basis net assets					<u>\$ 83,368</u>	

See notes to financial statements.

City of Lucas

Exhibit A

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2004

Functions / Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
	Disbursements	Charges for Service	Operating			Governmental Activities
			Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest		
Primary Government:						
Governmental activities:						
Public safety	\$ 9,654	1,020	13,383	-	4,749	
Public works	74,217	279	20,664	-	(53,274)	
Culture and recreation	10,394	-	-	-	(10,394)	
General government	39,091	465	6,536	-	(32,090)	
Capital projects	13,909	-	-	42,158	28,249	
Total governmental activities	<u>\$ 147,265</u>	<u>1,764</u>	<u>40,583</u>	<u>42,158</u>	<u>(62,760)</u>	
General Receipts:						
Property tax levied for:						
General purposes					22,588	
Local option sales tax					16,268	
Grants and contributions not restricted to specific purpose					1,297	
Unrestricted interest on investments					1,565	
Miscellaneous					3,844	
Sale of assets					2,125	
Total general receipts					<u>47,687</u>	
Change in cash basis net assets					(15,073)	
Cash basis net assets beginning of year					140,112	
Cash basis net assets end of year					<u>\$ 125,039</u>	
Cash Basis Net Assets						
Restricted:						
Streets					\$ (5,989)	
Other purposes					53,489	
Unrestricted					77,539	
Total cash basis net assets					<u>\$ 125,039</u>	

See notes to financial statements.

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

As of and for the year ended June 30, 2005

	Special Revenue			Capital Projects	Other Nonmajor Special Revenue Fund Employee Benefits	Total
	General	Road Use Tax	Local Option Sales Tax	Fire Station		
Receipts:						
Property tax	\$ 21,294	-	-	-	3,198	24,492
Other city tax	-	-	16,200	-	-	16,200
Licenses and permits	85	-	-	-	-	85
Use of money and property	6,943	-	-	111	-	7,054
Intergovernmental	17,257	18,488	-	48,600	-	84,345
Miscellaneous	4,318	-	-	12,500	-	16,818
Total receipts	49,897	18,488	16,200	61,211	3,198	148,994
Disbursements:						
Operating:						
Public safety	17,910	-	2,610	-	1,114	21,634
Public works	501	18,936	-	-	539	19,976
Culture and recreation	4,458	-	7,972	-	-	12,430
General government	35,247	-	-	-	550	35,797
Capital projects	-	-	-	171,953	-	171,953
Total disbursements	58,116	18,936	10,582	171,953	2,203	261,790
Excess (deficiency) of receipts over (under) disbursements	(8,219)	(448)	5,618	(110,742)	995	(112,796)
Other financing sources (uses):						
Line of credit proceeds	-	-	-	70,000	-	70,000
Sale of capital assets	-	-	-	1,125	-	1,125
Operating transfers in	-	-	-	10,000	-	10,000
Operating transfers out	(10,000)	-	-	-	-	(10,000)
Total other financing sources (uses)	(10,000)	-	-	81,125	-	71,125
Net change in cash balances	(18,219)	(448)	5,618	(29,617)	995	(41,671)
Cash balances beginning of year	77,539	(5,989)	8,894	39,374	5,221	125,039
Cash balances end of year	\$ 59,320	(6,437)	14,512	9,757	6,216	83,368
Cash Basis Fund Balances						
Unreserved:						
General fund	\$ 59,320	-	-	-	-	59,320
Special revenue funds	-	(6,437)	14,512	-	6,216	14,291
Capital projects fund	-	-	-	9,757	-	9,757
Total cash basis fund balances	\$ 59,320	(6,437)	14,512	9,757	6,216	83,368

See notes to financial statements.

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

As of and for the year ended June 30, 2004

	Special Revenue			Capital Projects	Other Nonmajor Special Revenue Fund- Employee Benefits	Total
	General	Road Use Tax	Local Option Sales Tax	Fire Station		
Receipts:						
Property tax	\$ 19,812	-	-	-	2,776	22,588
Other city tax	-	-	16,268	-	-	16,268
Licenses and permits	75	-	-	-	-	75
Use of money and property	8,101	-	-	158	-	8,259
Intergovernmental	14,837	20,239	-	-	-	35,076
Miscellaneous	5,801	-	-	42,000	-	47,801
Total receipts	48,626	20,239	16,268	42,158	2,776	130,067
Disbursements:						
Operating:						
Public safety	8,851	-	-	-	803	9,654
Public works	47,733	26,228	-	-	256	74,217
Culture and recreation	3,020	-	7,374	-	-	10,394
General government	38,696	-	-	-	395	39,091
Capital projects	-	-	-	13,909	-	13,909
Total disbursements	98,300	26,228	7,374	13,909	1,454	147,265
Excess (deficiency) of receipts over (under) disbursements	(49,674)	(5,989)	8,894	28,249	1,322	(17,198)
Other financing sources (uses):						
Sale of capital assets	1,000	-	-	1,125	-	2,125
Operating transfers in	-	-	-	10,000	-	10,000
Operating transfers out	(10,000)	-	-	-	-	(10,000)
Total other financing sources (uses)	(9,000)	-	-	11,125	-	2,125
Net change in cash balances	(58,674)	(5,989)	8,894	39,374	1,322	(15,073)
Cash balances beginning of year	136,213	-	-	-	3,899	140,112
Cash balances end of year	\$ 77,539	(5,989)	8,894	39,374	5,221	125,039
Cash Basis Fund Balances						
Unreserved:						
General fund	\$ 77,539	-	-	-	-	77,539
Special revenue funds	-	(5,989)	8,894	-	5,221	8,126
Capital projects fund	-	-	-	39,374	-	39,374
Total cash basis fund balances	\$ 77,539	(5,989)	8,894	39,374	5,221	125,039

See notes to financial statements.

City of Lucas

Notes to Financial Statements

June 30, 2005 and 2004

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

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

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City of Lucas 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.

These financial statements present the City of Lucas (the primary government) and exclude all component units. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Unit

The Lucas Volunteer Fire Department Association was established under the non-profit laws of the Code of Iowa, and is legally separate from the City. The purpose of the Lucas Volunteer Fire Department Association is to support the activities of the Lucas Volunteer Fire Department. The Lucas Volunteer Fire Department was established by City ordinance, and its purpose is to provide fire and rescue services to the surrounding area.

Jointly Governed Organizations

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities are supported by tax and intergovernmental revenues.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets.

Net assets are reported in two categories:

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax receipts and disbursements.

Capital Projects:

The Fire Station Fund is used to account for the construction of the new fire station.

C. Measurement Focus and Basis of Accounting

The City of Lucas 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.

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 safety, culture and recreation, and capital projects functions. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public works, general government and capital projects functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the Sate Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Because the City did not have a depository agreement in effect at June 30, 2004, it is unclear if the City's deposits were 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 the 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 no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 3.

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) in 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) **Bank Loans Payable**

The City had three bank loans payable during the audit period. Details of these loans are as follows:

The City was indebted to Community State Bank for the purchase of a grader. This loan was paid off in fiscal year 2004.

The City is indebted to the United States Department of Agriculture. At June 30, 2005, \$7,928 is outstanding. The note is due in 10 annual installments of \$2,303 including interest at 4 ¾ % per annum. The final payment, consisting of unpaid principal and interest, is due on July 1, 2009. The resolution for this loan requires the City to set aside \$192 a month in a sinking account for the purpose of making the note principal and interest payments when due. In addition, the resolution for this loan also requires the City to set aside \$100 per month in a reserve account. The City has not established the sinking or reserve account.

The City is indebted to Community State Bank. At June 30, 2005, \$70,000 is outstanding. The note is considered a line of credit, is due and payable by October 8, 2005, with an interest rate of 5.5%.

Future principal requirements of the bank loans payable are as follows:

Year Ending June 30,	Amount
2006	\$70,000
2007	1,913
2008	2,004
2009	2,099
2010	1,912
	<u>\$77,928</u>

(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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year end June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$1,077, \$921 and \$433 respectively, equal to the required contributions for each year.

(5) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2005, disbursements in the Public Safety, Culture and Recreation and Capital Projects functions exceeded the amounts budgeted. During the year ended June 30, 2004, disbursements in the Public Works, General Government and Capital Projects functions exceeded the amounts budgeted.

(6) Interfund Transfers

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

Transfer to	Transfer From	Amount
Capital Projects:		
Fire Station	General	<u>\$10,000</u>

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer From	Amount
Capital Projects:		
Fire Station	General	<u>\$10,000</u>

The above transfers represents the City's commitment in the construction of a new fire station.

(7) Risk Management

The City of Lucas 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.

(8) Deficit Fund Balance

The Special Revenue, Road Use Tax Fund had a deficit balance of \$6,437 at June 30, 2005, and a deficit balance of \$5,989 at June 30, 2004. This deficit will be eliminated through subsequent collection of road use tax funds.

(9) Subsequent Event

In September 2005, the \$70,000 line of credit, as discussed in note 3 of the financial statements, was refinanced. The loan was refinanced and converted to permanent financing by the United States Department of Agriculture.

(10) 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, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Non major funds are presented in total in one column. The government-wide financial statement reports the City’s governmental type activities.

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

Required Supplementary Information

City of Lucas

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Property tax	\$ 24,492	21,613	21,613	2,879
Other city tax	16,200	17,300	17,300	(1,100)
Licenses and permits	85	500	-	85
Use of money and property	7,054	3,500	-	7,054
Intergovernmental	84,345	33,800	29,000	55,345
Miscellaneous	16,818	-	-	16,818
Total receipts	148,994	76,713	67,913	81,081
Disbursements:				
Public safety	21,634	23,500	8,700	(12,934)
Public works	19,976	22,100	33,600	13,624
Culture and recreation	12,430	12,000	10,000	(2,430)
General government	35,797	19,113	37,193	1,396
Capital projects	171,953	-	-	(171,953)
Total disbursements	261,790	76,713	89,493	(172,297)
Excess (deficiency) of receipts over (under) disbursements	(112,796)	-	(21,580)	(91,216)
Other financing sources, net	71,125	-	-	71,125
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(41,671)	-	(21,580)	(20,091)
Balances beginning of year	125,039	140,113	140,113	(15,074)
Balances end of year	\$ 83,368	140,113	118,533	(35,165)

See accompanying independent auditor's report.

City of Lucas

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Property tax	\$ 22,588	22,350	22,350	238
Other city tax	16,268	16,519	16,519	(251)
Licenses and permits	75	500	500	(425)
Use of money and property	8,259	7,000	7,000	1,259
Intergovernmental	35,076	27,510	27,510	7,566
Miscellaneous	47,801	831	831	46,970
Total receipts	130,067	74,710	74,710	55,357
Disbursements:				
Public safety	9,654	14,300	16,400	6,746
Public works	74,217	31,960	47,360	(26,857)
Culture and recreation	10,394	9,500	11,400	1,006
General government	39,091	18,950	35,450	(3,641)
Capital projects	13,909	-	-	(13,909)
Total disbursements	147,265	74,710	110,610	(36,655)
Excess (deficiency) of receipts over (under) disbursements	(17,198)	-	(35,900)	18,702
Other financing sources, net	2,125	-	-	2,125
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(15,073)	-	(35,900)	20,827
Balances beginning of year	140,112	149,376	149,376	(9,264)
Balances end of year	\$ 125,039	149,376	113,476	11,563

See accompanying independent auditor's report.

City of Lucas

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2005 and 2004

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 except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During fiscal year 2005, one budget amendment increased budgeted disbursements by \$12,780. During fiscal year 2004, one budget amendment increased budgeted disbursements by \$35,900. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, and capital projects functions. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public works, general government, and capital projects functions.

Other Supplementary Information

City of Lucas

Schedule 1

Schedule of Indebtedness

Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
Bank Loans - Truck	August 18, 1999	4.75%	\$ 18,000	9,741	-	1,813	7,928	490	-
Line of Credit	March 8, 2005	5.50%	\$ 70,000	-	70,000	-	70,000	-	-
Total			\$ 88,000	\$ 9,741	70,000	1,813	77,928	490	-

See accompanying independent auditor's report.

City of Lucas

Schedule 1

Schedule of Indebtedness

Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
Bank Loans - Truck	August 18, 1999	4.75%	\$ 18,000	11,502	-	1,761	9,741	542	-
Motorgrader	March 12, 2002	7.50%	\$ 35,616	30,547	-	30,547	-	554	-
Total			\$ 42,049	\$ 42,049	-	\$ 32,308	\$ 9,741	\$ 1,096	-

See accompanying independent auditor's report.

City of Lucas

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

Schedule 2

For the Last Two Years

	2005	2004
Receipts:		
Property tax	\$ 24,492	22,588
Other city tax	16,200	16,268
Licenses and permits	85	75
Use of money and property	7,054	8,259
Intergovernmental	84,345	35,076
Miscellaneous	16,818	47,801
Total	\$ 148,994	130,067
Disbursements:		
Operating:		
Public safety	\$ 21,634	9,654
Public works	19,976	74,217
Culture and recreation	12,430	10,394
General government	35,797	39,091
Capital projects	171,953	13,909
Total	\$ 261,790	147,265

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the primary government of the City of Lucas, Iowa, as of and for the years ended June 30, 2005 and June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 5, 2005. 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 Lucas internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 Lucas 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 I of the accompanying Schedule of Findings.

A material weakness is a 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, B, and C are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the years ended June 30, 2005 and June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit 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 for the information and use of the officials, employees and citizens of the City of Lucas and other parties to whom the City of Lucas 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 Lucas 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.

Peak & Gerdes, LLP
Certified Public Accountants

October 5, 2005

CITY OF LUCAS

SCHEDULE OF FINDINGS
Years ended June 30, 2005 and 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- A. **Segregation of Duties** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done 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 control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

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

- B. **Receipt Procedures** - Instances were noted where receipts were not timely deposited. In addition, the City may not be receiving all monies for fire protection from the townships.

Recommendation - Receipts should be deposited more timely, and the City should also implement procedures to ensure all monies due to them from the townships are received.

Response - We will implement this recommendation.

Conclusion - Response accepted.

- C. **Accounting Records** - The City does perform bank reconciliations. However, there are no procedures in place to ensure the book (general ledger) receipts and disbursements are accurate. Consequently, the City is unable to determine the completeness and accuracy of the general ledger. We noted some receipts and disbursements which were either not recorded or were incorrectly recorded on the general ledger. For example, the City used part of the proceeds of a cashed certificate of deposit to pay off a loan. This transaction was not recorded on the general ledger.

Recommendation - The City implement procedures to ensure the general ledger is accurate, and that the amount on the general ledger reconciles with the book balance on a monthly basis.

Response - We will review this and take action as necessary.

Conclusion - Response accepted.

CITY OF LUCAS

SCHEDULE OF FINDINGS
Years ended June 30, 2005 and 2004

- D. Chart of Accounts and Funds – The City does not have an established chart of accounts or funds. The accounting system consisted of a listing of receipts and disbursements, grouped by category, but not consistently by fund.

Recommendation – To provide better financial information and control, a chart of accounts and fund structure, such as the one endorsed by the City Finance Committee should be established.

Response – We will review this and take action as necessary.

Conclusion – Response accepted.

- E. Local Option Sales Tax – The ballot for the local option sales tax requires that the sales taxes collected be used for the swimming pool project in Chariton and for road use. During fiscal year 2005, it appears the City paid for some law enforcement expenses out of this fund. It would not appear that these types of expenses meet the intent of the ballot requirements.

Recommendation – The City should review this, and implement procedure to ensure compliance with the local option sales tax ballot requirements.

Response – We will review this.

Conclusion – Response accepted.

CITY OF LUCAS

SCHEDULE OF FINDINGS
Years ended June 30, 2005 and 2004

Other Findings Related to Statutory Reporting:

- (1) **Official Depositories** - A resolution naming official depositories was not been approved by the City Council until July 2004, even though one was required by Chapter 12C.2 of the Code of Iowa. Once the resolution was approved, the maximum deposit amounts stated in the resolution was exceeded during the year ended June 30, 2005.

Recommendation – The City implement procedures to ensure the maximum depository amounts stated in the resolution are not exceeded.

Response – We will review this and take action as necessary.

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 and capital projects functions. Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public works, general government and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

The notice of the public hearing on the fiscal year 2004 budget amendment was not published between ten and twenty days before the hearing in accordance with Chapter 384.16 of the Code of Iowa. The beginning balances on the fiscal year 2005 budget amendment did not agree to the ending balances as recorded on the original fiscal year 2005 budget.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, procedures should be implemented to ensure publication requirements related to the budget are met, and that the beginning balances on the budget amendment agree to the ending balances of the original budget.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- (3) **Questionable Disbursements** – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (4) **Travel Expense** – No disbursement of City money for travel expenses of spouses of City officials or employees were noted.
- (5) **Business Transactions** – No business transactions between the City and City officials or employees were noted.
- (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 that the coverage is adequate for current operations.

CITY OF LUCAS

SCHEDULE OF FINDINGS
Years ended June 30, 2005 and 2004

- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not. Some of the Council minutes were not signed, pursuant to Chapter 380.7 of the Code of Iowa.

Total expenditures from each City fund and a summary of all receipts was not consistently published in the newspaper. Some council minutes were not timely published. All of the above are required by Chapter 372.13 of the Code of Iowa.

The specific vote of each member and the specific reason for entering into a closed session was not documented in the Council minutes as required by Chapter 21.5 of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City implement procedures to ensure compliance with the Code of Iowa in regards to the signing of the Council minutes, publications, closed sessions and salaries.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- (8) Deposits and Investments – Until July 2004, the City did not have an investment policy, as required by Chapter 12B of the Code of Iowa. In addition, as noted at (1) above, an instance of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City's investment policy was noted.

- (9) Loans – The City borrowed money from the bank, with the proceeds used for interim financing for the construction of a new fire station. Chapters 384.25, 384.24A, and 362.3 of the Code of Iowa documents the guidelines that must be followed prior to borrowing funds on behalf of the City. We noted that a notice of proposed action for the issuance of the debt, and a public hearing was not held, as required by the above Code sections.

The loan agreement with the United States Department of Agriculture requires the City to establish a reserve account and sinking account as a condition of the loan. We noted that the City has not established these accounts.

Recommendation – The City should consult with their attorney regarding these issues. In addition, the City should also implement procedures to ensure the procurement of future debt on behalf of the City is in compliance with the requirements of the Code of Iowa. Also, the reserve and sinking accounts should be established, as required by the United States Department of Agriculture loan.

Response – We will analyze these issues and take action as necessary.

Conclusion – Response accepted.

CITY OF LUCAS

SCHEDULE OF FINDINGS
Years ended June 30, 2005 and 2004

- (10) **Ordinances** – Until April 2004, the Code of Ordinances have not been compiled since the 1980's. Chapter 380.8 of the Code of Iowa requires that the ordinances be compiled at least once every 5 years.
- Recommendation** – The City implement procedures to ensure compliance with the Code of Iowa in regards to the Code of Ordinances.
- Response** – This has been implemented and we will ensure compliance with this in the future.
- Conclusion** – Response accepted.
- (11) **IRS Form 1099** – We noted instances in which the City failed to file IRS 1099-Misc Forms.
- Recommendation** – The City implement procedures to ensure all IRS 1099-Misc Forms are filed in the future.
- Response** – We will implement the recommendation.
- Conclusion** – Response accepted.
- (12) **Reports** – The debt issues are not recorded on the City's annual financial report. The receipts, disbursements, and cash balances as recorded on the annual financial report do not agree to the accounting records of the City. On the street report, the debt and some disbursements which related to road use were not shown.
- Recommendation** – The City implement procedures to ensure the City's annual financial report agrees to the City's accounting records and that the debt issues are reported, as required by Chapter 384.22 of the Code of Iowa. In addition, the street report should include all street related debt and disbursements.
- Response** – We will make corrections next year to bring everything into balance.
- Conclusion** – Response accepted.
- (13) **Electronic Check Retention** – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.
- Recommendation** – The City should obtain and retain an image of both the front and back of each cancelled check as required.
- Response** – We will implement these recommendations.
- Conclusion** – Response accepted.

CITY OF LUCAS

SCHEDULE OF FINDINGS
Years ended June 30, 2005 and 2004

- (14) **Financial Condition** – The Special Revenue, Road Use Tax had a deficit balance of \$6,437 at June 30, 2005, and a deficit balance of \$5,989 at June 30, 2004. In addition, the balances in the Special Revenue, Employee Benefits Fund may be excessive.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position. In addition, procedures should be implemented to reduce the funds with excessive balances.

Response – We will continue to monitor this.

Conclusion – Response accepted.

- (15) **Disbursements** – The City paid \$1,000 to the John L. Lewis Commission, which may not be an appropriate expenditure of public funds.

In accordance with Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discuss specific criteria to be considered in documenting the public purpose.

The City sometimes pays off a statement and not an invoice.

Recommendation – The Council should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require the benefiting organizations to provide documentation of how the funds were used to accomplish economic development activities. The City should also obtain invoices prior to payments of the claims.

Response – We will do this.

Conclusion – Response accepted.

- (16) **Payroll** – An instance was noted where an I-9 form only documented one form of ID. No written authorization for rates of pay for City employees could be located. The Social Security and Medicare tax and withholdings amounts were incorrectly computed.

Recommendation – The City implement procedures to ensure all I-9 forms document two forms of ID as required, written authorization is obtained for all employee pay rates, and that the Social Security and Medicare tax and withholdings amounts are properly computed.

Response – We will implement this recommendation

Conclusion – Response accepted.

CITY OF LUCAS

SCHEDULE OF FINDINGS

Years ended June 30, 2005 and 2004

- (17) **Fire Station** – The City obtained bids for the sale of its old fire station. However, the City was unable to locate the actual bid documents. The City also constructed a new fire station during the year. The contractor did not finish the project in the required number of days. However, the City did not assess liquidated damages on the contractor as allowed for in the contract.

Recommendation – The City retain all bid documentation in the future, and assess liquidated damages on future construction projects, where applicable.

Response – We will retain the bid documentation in the future. In regards to the new fire station, due to extenuating circumstances, the project was not completed on time; however, because of these circumstances we feel it was appropriate to not assess the liquidated damages. In the future, we will ensure this type of action is approved by the City Council.

Conclusion – Response accepted.