

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____

July 1, 2015

Contact: Andy Nielson
515-281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Luther, Iowa.

The City's receipts totaled \$85,773 for the year ended June 30, 2014. The receipts included \$24,085 in property tax, \$46 from charges for service, \$9,078 from operating grants, contributions and restricted interest, \$9,527 from local option sales tax, \$63 from unrestricted interest on investments, \$42,000 from note proceeds and \$974 from other general receipts.

Disbursements for the year ended June 30, 2014 totaled \$80,513, and included \$42,280 for capital projects, \$19,734 for general government and \$8,573 for public works.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1422-0060-B00F.pdf>.

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CITY OF LUTHER

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

JUNE 30, 2014

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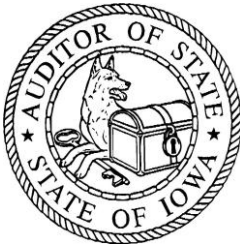
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City of Luther

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Mary Bergeson	Mayor	Jan 2014
Tim Herrstrom	Mayor Pro tem	Jan 2016
Frank Leopold	Council Member	Jan 2014
Tim Mitchell	Council Member	Jan 2014
Patricia Anderson	Council Member	Jan 2016
Robbie Isabell	Council Member	Jan 2016
Linda Benson	City Clerk	Indefinite
Dolores Severson	City Treasurer	Indefinite
Lee R. Johnson	Attorney	Indefinite
(After January 2014)		
Frank Duroy	Mayor	Jan 2018
Tim Herrstrom	Mayor Pro tem	Jan 2016
Patricia Anderson	Council Member	Jan 2016
Robbie Isabell	Council Member	Jan 2016
Erica Herold	Council Member	Jan 2018
Bob Owens	Council Member	Jan 2018
Linda Benson	City Clerk	Indefinite
Dolores Severson	City Treasurer	Indefinite
Lee R. Johnson	Attorney	Indefinite

City of Luther



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Luther, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinions

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 balances at July 1, 2013.

Qualified Opinions

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, 2013, 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, each major fund and the aggregate remaining fund information of the City of Luther as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Emphasis of a Matter

As discussed in Note 6 of the Notes to Financial Statements, the City is in the process of a citizens' petition for discontinuance as an incorporated city. Our opinions are not modified with respect to this matter.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Luther's basic financial statements. The supplementary information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements.


The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the budgetary comparison information on pages 20 and 21 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 8, 2015 on our consideration of the City of Luther's internal control over financial reporting and on 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Luther's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 8, 2015

City of Luther

Basic Financial Statements

Exhibit A

City of Luther

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Position
		Charges for Service	Operating Grants, Contributions and Restricted Interest	
Functions/Programs:				
Governmental activities:				
Public safety	\$ 4,418	46	-	(4,372)
Public works	8,573	-	7,918	(655)
Health and social services	1,465	-	-	(1,465)
Culture and recreation	2,927	-	1,160	(1,767)
Community and economic development	1,116	-	-	(1,116)
General government	19,734	-	-	(19,734)
Capital projects	42,280	-	-	(42,280)
Total	\$ 80,513	46	9,078	(71,389)
General Receipts:				
Property and other city tax levied for general purposes				24,085
Local option sales tax				9,527
Unrestricted interest on investments				63
Project anticipation note proceeds				42,000
Miscellaneous				974
Total general receipts				76,649
Change in cash basis net position				5,260
Cash basis net position beginning of year				87,970
Cash basis net position end of year				\$ 93,230
Cash Basis Net Position				
Restricted:				
Streets				\$ 11,060
Capital improvements				42,080
Unrestricted				40,090
Total cash basis net position				\$ 93,230

See notes to financial statements.

City of Luther

City of Luther

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

As of and for the year ended June 30, 2014

	Special Revenue		Capital Projects
	General	Road Use Tax	
Receipts:			
Property tax	\$ 24,085	-	-
Other city tax	-	-	9,527
Licenses and permits	46	-	-
Use of money and property	1,223	-	-
Intergovernmental	-	7,918	-
Miscellaneous	974	-	-
Total receipts	26,328	7,918	9,527
Disbursements:			
Operating:			
Public safety	4,418	-	-
Public works	610	7,963	-
Health and social services	1,465	-	-
Culture and recreation	2,927	-	-
Community and economic development	-	-	-
General government	19,734	-	-
Capital projects	-	-	42,280
Total disbursements	29,154	7,963	42,280
Deficiency of receipts under disbursements	(2,826)	(45)	(32,753)
Other financing sources:			
Project anticipation note proceeds	-	-	42,000
Change in cash balances	(2,826)	(45)	9,247
Cash balances beginning of year	42,717	11,105	32,833
Cash balances end of year	\$ 39,891	11,060	42,080
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	11,060	-
Capital improvements	-	-	42,080
Assigned for Christmas decoration	-	-	-
Unassigned	39,891	-	-
Total cash basis fund balances	\$ 39,891	11,060	42,080

See notes to financial statements.

Nonmajor Christmas Decoration	Total
	24,085
-	9,527
-	46
-	1,223
-	7,918
-	974
-	43,773
-	4,418
-	8,573
-	1,465
-	2,927
1,116	1,116
-	19,734
-	42,280
1,116	80,513
(1,116)	(36,740)
-	42,000
(1,116)	5,260
1,315	87,970
199	93,230
-	11,060
-	42,080
199	199
-	39,891
199	93,230

City of Luther

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Luther is a political subdivision of the State of Iowa located in Boone County. It was first incorporated in 1893 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services.

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 – Major individual governmental funds are reported as separate columns in the fund financial statement. The remaining governmental fund is reported as a nonmajor governmental fund.

The City reports the following major governmental funds:

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

The Special Revenue, Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

C. Measurement Focus and 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.

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

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statement, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the capital projects function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 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 ensure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Project Anticipation Note

On April 29, 2011, the City entered into a sewer revenue loan and disbursement agreement project anticipation note with the Iowa Finance Authority. The note was issued for the purpose of providing funds to pay the engineering costs for a proposed sewer project. The note is not to exceed a maximum principal amount of \$115,000 and is interest free. The original maturity date was April 29, 2014. On April 24, 2014, the City passed a resolution to extend the maturity date of the project note to April 29, 2017. As of June 30, 2014, the City had drawn \$90,994 on the note.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2014 were \$619, equal to the required contributions for the year.

(5) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2014 were \$2,179.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each

occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Subsequent Events

As of October 22, 2014, the City has filed two citizens' petitions for discontinuance as permitted by Chapter 368.11 of the Code of Iowa. Pursuant to Chapter 368.15 of the Code of Iowa, the City Development Board's Local Committee held a public hearing on April 8, 2015 to consider the discontinuance petition. The Committee received comments for ten days after the hearing and will meet at a later date to render a decision to approve or deny the discontinuance petition. If the discontinuance petition is approved, a special election will be held for final determination by City voters.

The City approved an IJobs grant from the Iowa Finance Authority. Proceeds from the grant were used to pay the outstanding sewer revenue loan and disbursement agreement project anticipation note.

(7) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and other information.

Other Information

City of Luther

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

Other Information

Year ended June 30, 2014

	Governmental Funds Actual	Budgeted Amounts Original/Final	Final to Total Variance
Receipts:			
Property tax	\$ 24,085	23,370	715
Other city tax	9,527	8,315	1,212
Licenses and permits	46	-	46
Use of money and property	1,223	1,600	(377)
Intergovernmental	7,918	9,680	(1,762)
Special assessments	-	852	(852)
Miscellaneous	974	2,000	(1,026)
Total receipts	<u>43,773</u>	<u>45,817</u>	<u>(2,044)</u>
Disbursements:			
Public safety	4,418	8,220	3,802
Public works	8,573	20,000	11,427
Health and social services	1,465	3,500	2,035
Culture and recreation	2,927	5,000	2,073
Community and economic development	1,116	3,000	1,884
General government	19,734	35,000	15,266
Capital projects	42,280	-	(42,280)
Total disbursements	<u>80,513</u>	<u>74,720</u>	<u>(5,793)</u>
Deficiency of receipts under disbursements	(36,740)	(28,903)	(7,837)
Other financing sources:			
Project anticipation note proceeds	42,000	-	42,000
Change in cash balances	5,260	(28,903)	34,163
Balances beginning of year	<u>87,970</u>	<u>80,026</u>	<u>7,944</u>
Balances end of year	<u>\$ 93,230</u>	<u>51,123</u>	<u>42,107</u>

See accompanying independent auditor's report.

City of Luther

Notes to Other Information – Budgetary Reporting

June 30, 2014

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Capital Projects Fund. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the capital projects function.

City of Luther

Supplementary Information

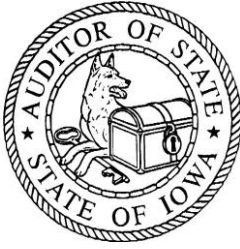
City of Luther
Schedule of Indebtedness
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Project anticipation note: Sewer revenue loan and disbursement agreement	Apr 29, 2011	0.00%	\$ 115,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
48,994	42,000	-	90,994	-

City of Luther



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and
Members of the City Council:

We have audited 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Luther, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 8, 2015. Our report expressed qualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Luther's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Luther's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Luther's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Luther's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) through (O) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Luther's 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 which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 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.


The City of Luther's Responses to the Findings


The City of Luther's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Luther's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 8, 2015

City of Luther

Schedule of Findings

Year ended June 30, 2014

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(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. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, investing and reconciling earnings.
- (3) Long-term debt – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, posting and reconciling.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Disbursements – preparing, recording and reconciling.
- (7) Bank reconciliations – preparation and maintenance of accounting records and approval.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – All City Council members will initial invoices. The City Council will review additional ways to segregate duties to the extent possible, including the involvement of elected officials.

Conclusion – Response accepted.

(B) Initial Listing of Receipts and Timely Deposits – All receipts are not recorded on an initial listing. Also, receipts were not always deposited or recorded in a timely manner.

Recommendation – An initial listing of receipts should be prepared and reviewed by an independent person. To safeguard cash and increase funds available for investment, receipts should be deposited intact and recorded on a timely basis.

Response – Once a week the Mayor, Mayor Pro Tem, Clerk or Treasurer will make a timely deposit.

Conclusion – Response acknowledged. An initial listing of receipts should be prepared and reviewed by an independent person.

(C) Financial Reporting – During the audit, we identified a material amount of receipts from the State Revolving Fund (SRF) Project Note and related disbursements which were not reflected in the City's financial records. Adjustments were subsequently made by the City to properly report these amounts.

City of Luther

Schedule of Findings

Year ended June 30, 2014

Recommendation – The City should implement procedures to ensure receipts and disbursements are properly recorded in the City’s financial statements.

Response – The City Council will be amending the 2014-2015 budget to properly show the receipts from the SRF Project Note and related disbursements which were not reflected in the City’s financial records.

Conclusion – Response accepted.

- (D) Disaster Recovery Plan – The City does not have a disaster recovery plan.

Recommendation – The City should adopt a formal written disaster recovery plan approved by the City Council. The disaster recovery plan should include the identification of staff responsibilities, the steps for recovery of information, the computer equipment needed for temporary processing, the identification of business location(s) which could be used to process critical information in the event of an emergency, requirement a copy of the plan be kept off site, a requirement to keep back-ups current and off site, a requirement copies of all policy and procedures manuals be located off site and a requirement extra stocks of paper supplies, such as checks, warrants, purchase orders, etc. be located off site.

Response – The City will create electronic records to be placed in the safe deposit box located off site. The City is developing a formal written disaster recovery plan as per Federal Emergency Management Agency (FEMA) recommendations to include the shielding of electronic data.

Conclusion – Response accepted.

- (E) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Response – The City is working on creating a policy and procedures manual. The goal is to create an up-to-date policy and procedures manual.

Conclusion – Response accepted.

- (F) Community Room Rentals – The City maintains a community room which is available to rent for events. Rental agreements could not be located to support certain rental receipts.

Recommendation – Rental agreements should be retained.

City of Luther

Schedule of Findings

Year ended June 30, 2014

Response – There are rental agreements from 2006 to the present time. The City now has the ability to scan. The City will create scanned files of rental agreements and keep the hard copy for five years.

Conclusion – Response acknowledged. The City could not locate specific rental agreements requested during the course of the audit.

- (G) Snow Removal Contract – The City entered into a contract with a vendor for snow removal for the 2013/2014 winter season. Per the vendor bid, which was accepted by the City Council on November 11, 2013, “will do snow removal for the City of Luther for the fee of \$80 per hour with a \$150 minimum per snow event. Will work in conjunction with another vendor. Not responsible for ice control.” An acceptance letter dated November 18, 2013 from the City Clerk to the vendor stated, “This is to let you know that your bid for snow removal at \$80 per hour with a minimum of \$150 per snow event has been accepted (this bid is for each truck). We understand that this is in conjunction with the other vendor.” For the year ended June 30, 2014, the primary vendor was paid \$2,140 and the sub-vendor was paid \$2,190. The documentation outlining the rates and scope of work are not clearly documented in the bid or the City’s acceptance letter.

Recommendation – The City should ensure written contracts clearly outline the scope of work to be performed and the rates to be charged. Obtaining formal written contracts will ensure the City is being charged appropriately for services rendered.

Response – This City Council is going to develop clear, concise and comprehensive requirements for all future bid contracts.

Conclusion – Response accepted.

- (H) Retirement Benefits – A part-time employee hired for custodial services is not participating in the Iowa Public Employees’ Retirement System (IPERS). IPERS was paid on the employee who previously held the position. No documentation could be located to determine why the employee is not participating in IPERS.

Recommendation – The City should contact IPERS to resolve this matter. In the future, the City should withhold the employee’s share of IPERS and remit the employee’s and the employer’s share of IPERS on IPERS eligible employees.

Response – The City is looking into this issue to determine if he is an employee or a contractor.

Conclusion – Response accepted.

- (I) Timesheets – Timesheets for hourly employees and attendance records of City Council members are maintained. However, timesheets are not completed by salaried employees and timesheets for hourly employees lack supervisory review and approval. Also, attendance records which are intended to support City Council member compensation are not reviewed for accuracy.

Recommendation – Timesheets should be required of all employees and should be signed by the employee and their supervisor. Also, attendance records to support City Council compensation should be reviewed for accuracy.

City of Luther

Schedule of Findings

Year ended June 30, 2014

Response – Timesheets and attendance records will be signed by the employee or City Council member and approved by the Mayor and/or Council member on a monthly basis.

Conclusion – Response accepted.

- (J) Wage Reporting – No employee personnel files could be located. Also, we were unable to locate IRS form 1099's for calendar year 2014 and City officials did not know if they had been issued. Additionally, calendar year 2014 wages were reported on the 2015 IRS W-2 form.

Recommendation – The City should contact the IRS to resolve this matter. The City should maintain appropriate personnel records. Required wage reporting forms should be prepared, submitted and copies should be retained by the City. IRS form 1099's should be issued for independent contractors receiving over \$600 from the City.

Response – The City will contact the IRS to resolve this matter. The City will maintain appropriate personnel records and required wage reporting forms.

Conclusion – Response accepted.

- (K) Authorized Signature Cards – An individual no longer employed by the City is still listed as an authorized signer on the signature cards held by the bank.

Recommendation – The City should update the signature cards anytime there is a change in employees involved with handling, recording and approval of City receipts and disbursements.

Response – The City will update the signature cards anytime there is a change in employees involved with handling, recording and approval of City receipts and disbursements and incorporate this policy into our accounting procedures.

Conclusion – Response accepted.

- (L) Salary Approval – The City Clerk and the City Treasurer are salaried employees. Annual salary increases were approved based upon a percentage.

Recommendation – Approved salaries of employees should be adequately documented in the City Council minutes.

Response – Moving forward, the City is no longer using percentages, but using dollar amounts.

Conclusion – Response accepted.

- (M) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments recommended by the City Finance Committee on September 25, 2002.

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

City of Luther

Schedule of Findings

Year ended June 30, 2014

Response – The City will implement and follow the Uniform Chart of Accounts for Iowa City Governments financial information.

Conclusion – Response accepted.

- (N) Change Fund – The City maintains a change fund for pet license transactions. There is no documentation the change fund has been authorized by the City Council.

Recommendation – The City Council should authorize and establish an amount for any change funds maintained by the City.

Response – The City Council closed the change fund.

Conclusion – Response accepted.

- (O) Compensation for Computer Usage – In addition to salary, the City Clerk received \$20 per month for the usage of a personal computer. No formal City Council approval of this additional payment could be located.

Recommendation – The City Council should formally approve any additional payments to employees.

Response – In the future, the City will formally approve any additional payments to employees.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Luther

Schedule of Findings

Year ended June 30, 2014

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amount budgeted in the capital projects function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will ensure all future amendments occur in a timely fashion.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s Opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Gordon Severson, husband of Dolores Severson, City Treasurer	Mowing, per bid	\$ 1,425

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Gordon Severson do not appear to represent a conflict of interest since total transactions with the individual were less than \$1,500 during the fiscal year and it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

- (5) 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 ensure the coverage is adequate for current operations.
- (6) City Council Minutes – Certain disbursements were not approved by the City Council prior to disbursement in accordance with Chapter 372.13(6) of the Code of Iowa. The City does not have a written disbursement approval policy allowing certain bills to be paid prior to City Council approval.

Although minutes of City Council proceedings were posted, they did not always include the total disbursements from each fund, a list of all claims allowed, including the purpose of the claim, or a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not post annual gross salaries in accordance with an Attorney General’s opinion dated April 12, 1978.

City of Luther

Schedule of Findings

Year ended June 30, 2014

Recommendation – The City should adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval.

The City should post the total disbursements from each fund, a listing of all claims allowed, including the purpose of the claim, and a summary of all receipts. Also, the City should post annual individual salaries as required.

Response – The City will post the total disbursements from each fund, a listing of all claims allowed, including the purpose of the claim, and a summary of all receipts. Also, the City will post annual individual salaries as required.

Conclusion – Response accepted.

- (7) Deposits and Investments – The City has not adopted a written investment policy in accordance with the provisions of Chapter 12B and 12C of the Code of Iowa. In addition, certain depository institutions used by the City were not approved by resolution as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should establish a written investment policy which complies with the provisions of Chapter 12B and 12C of the Code of Iowa. Additionally, all depository institutions utilized by the City should be approved by resolution as required by Chapter 12C.2 of the Code of Iowa.

Response – The City will establish a written investment policy which complies with the provisions of Chapter 12B and 12C of the Code of Iowa. Furthermore, the City will approve annually by resolution the depository institution of choice.

Conclusion – Response accepted.

- (8) Project Anticipation Note – On April 29, 2011, the City entered into a Sewer Revenue Loan and Disbursement Agreement Anticipation Project Note with the Iowa Finance Authority for a maximum principal amount of \$115,000. As of June 30, 2014, the City has drawn \$90,994 of this amount. Per the agreement, the project note “shall be payable solely and only from the proceeds of an authorized Loan and Disbursement Agreement and the corresponding future issuance of Sewer Revenue Bonds.” However, during the City Council meeting on December 12, 2014, the City Council abandoned the proposed sewer project and terminated the engineering contract.

Recommendation – The City should contact the Iowa Finance Authority to resolve this issue.

Response – The Iowa Finance Authority has been contacted and the issue will be resolved.

Conclusion – Response accepted.

City of Luther

Schedule of Findings

Year ended June 30, 2014

- (9) 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 does not retain electronic images of the back of cancelled checks.

Recommendation – The City should retain an image of both the front and back of each cancelled check as required.

Response – The City will contact our bank provider for details on this service.

Conclusion – Response accepted.

- (10) Council Compensation – Per Chapter 17 of the City’s Ordinances, compensation for City Council members is \$12 for each meeting attended. During the year ended June 30, 2014, Council members received \$15 for each meeting attended. No documentation of an approved increase could be located.

Recommendation – The City should update the City Ordinance or reduce the compensation of the City Council members.

Response – The City Council is returning to \$12 for each meeting attended and working on updating the City Ordinances.

Conclusion – Response accepted.

- (11) Annual Financial Report (AFR) – The City did not complete and file its AFR by December 1 as required by Chapter 384.22 of the Code of Iowa.

Recommendation – The Annual Financial Report should be completed and filed as required by Chapter 384.22 of the Code of Iowa.

Response – The Annual Financial Report is now complete and the City will ensure future reports are done in a timely fashion.

Conclusion – Response accepted.

- (12) Disposal of Land – Per Chapter 364.7 (3) of the Code of Iowa, a City may not dispose of real property by gift except to a governmental body for a public purpose. The City Council accepted an offer from the Heartland Co-op to buy the City water tower and land for \$1.

Recommendation – The City should consult legal counsel to resolve this matter. Also, the City should ensure any future dispositions of real property are in compliance with the Code of Iowa.

Response – The City Council will follow up with Heartland Co-op and the acting City Attorney involved in this transaction to resolve. The City will ensure any future dispositions of real property are in compliance with the Code of Iowa.

Conclusion – Response accepted.

City of Luther

Schedule of Findings

Year ended June 30, 2014

- (13) Interest Earned – Per Chapter 12C.7 (2) of the Code of Iowa, interest earned on Road Use Tax funds are to be recorded in the General Fund. The City improperly recorded interest in the Road Use Tax Fund.

Recommendation – The City should ensure all interest earned is properly recorded in accordance with the Code of Iowa.

Response – The City will ensure all interest earned is properly recorded in accordance with the Code of Iowa.

Conclusion – Response accepted.


- (14) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Luther

Staff

This audit was performed by:

Ernest H. Ruben, Jr. CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Erin J. Sietstra, Assistant Auditor


Andrew E. Nielsen, CPA
Deputy Auditor of State