



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

**NEWS RELEASE**

FOR RELEASE

March 14, 2005

Contact: Andy Nielsen  
515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$1,511,019 for the year ended June 30, 2004. The receipts included \$275,718 in property tax, \$160,001 from tax increment financing, \$279,858 from charges for service, \$648,804 from operating grants, contributions and restricted interest, \$5,490 from grants and contributions not restricted to specific purpose, \$15,023 from local option sales tax, \$8,262 from unrestricted interest on investments, \$80,000 from the sale of capital assets and \$37,863 from other general receipts.

Disbursements for the year totaled \$1,006,317, and included \$276,263 for debt service, \$159,600 for culture and recreation and \$83,767 for public works. Also, disbursements for business type activities totaled \$215,093.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

# # #

**CITY OF CONRAD**

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

**JUNE 30, 2004**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets–Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	18
Notes to Financial Statements		19-24
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)–All Governmental Funds and Proprietary Funds		26-27
Notes to Required Supplementary Information–Budgetary Reporting		28
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	30-31
Schedule of Indebtedness	2	32-33
Bond and Note Maturities	3	34-35
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		37-38
Schedule of Findings		39-44
Staff		45

**City of Conrad**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
Kenny Sanderson	Mayor	Jan 2004
Shauna Callaway	Council Member	Jan 2004
Robert Lures	Council Member	Jan 2004
Steve Mugge	Council Member	Jan 2004
Bill Gearhart	Council Member	Jan 2006
Le Ann Lynch	Council Member	Jan 2006
<b>(After January 2004)</b>		
Kenny Sanderson	Mayor	Jan 2006
Bill Gearhart	Council Member	Jan 2006
Le Ann Lynch	Council Member	Jan 2006
Shauna Callaway	Council Member	Jan 2008
Jim Barger	Council Member	Jan 2008
Al Stewart	Council Member	Jan 2008
Denise Hoy	Clerk/Treasurer	Indefinite
Don Kliebenstein	Attorney	Indefinite

**City of Conrad**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

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

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

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, 2003, as discussed in the proceeding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Conrad as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 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 November 24, 2004 on our consideration of the City of Conrad's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Conrad's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, 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, 2003, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 24, 2004

---

---

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

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

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2004 FINANCIAL HIGHLIGHTS**

- The cash basis net assets for the City's governmental funds increased primarily due to a large private donation to the City of \$472,308 and a private grant of \$15,000.
- The cash basis net assets for the City's business type activities increased primarily due to the Water Fund's decrease in Maple Avenue water main project disbursements.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

## **BASIS OF ACCOUNTING**

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

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

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, health and social services, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statement provides a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

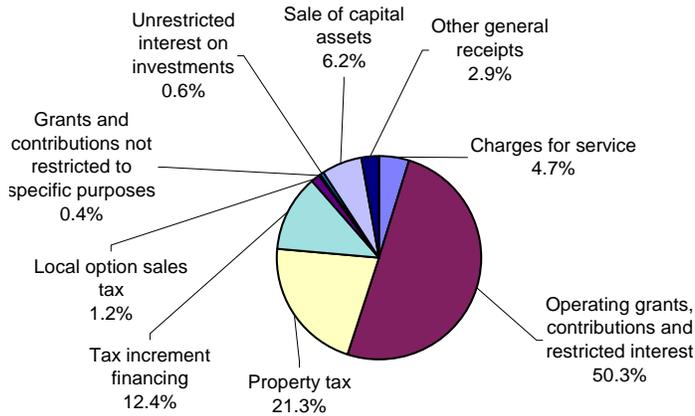
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

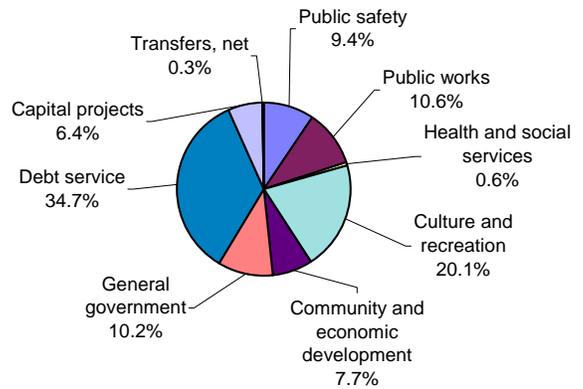
The City's cash balance for governmental activities increased sharply from a year ago, increasing \$498,125 from \$517,456 to \$1,015,581. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2004
Receipts:	
Program:	
Charges for service	\$ 60,441
Operating grants, contributions and restricted interest	648,804
General receipts:	
Property tax	275,718
Tax increment financing	160,001
Local option sales tax	15,023
Grants and contributions not restricted to specific purposes	5,490
Unrestricted interest on investments	8,262
Sale of capital assets	80,000
Other general receipts	37,863
Total receipts	<u>1,291,602</u>
Disbursements and transfers:	
Public safety	74,638
Public works	83,767
Health and social services	4,585
Culture and recreation	159,600
Community and economic development	60,862
General government	80,919
Debt service	276,263
Capital projects	50,590
Transfers, net	2,253
Total disbursements and transfers	<u>793,477</u>
Increase in cash basis net assets	498,125
Cash basis net assets beginning of year	<u>517,456</u>
Cash basis net assets end of year	<u><u>\$ 1,015,581</u></u>

**Receipts by Source**



**Disturbements by Function**



The cash basis net assets for the City's governmental funds increased due to a large private donation to the City of \$472,308 and a private grant of \$15,000.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, 2004
Receipts and transfers:	
Program receipts:	
Charges for service:	
Water	\$ 73,783
Sewer	145,634
Transfers, net	2,253
Total receipts	221,670
Disbursements:	
Water	50,576
Sewer	164,517
Total disbursements	215,093
Increase in cash basis net assets	6,577
Cash basis net assets beginning of year	63,847
Cash basis net assets end of year	\$ 70,424

The cash basis net assets for the City's business type activities increased primarily due to the Water Fund's decrease in Maple Avenue water main project disbursements.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Conrad completed the year, its governmental funds reported a combined fund balance of \$1,015,581, an increase of \$498,125 above last year's total of \$517,456. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$455,544 from the prior year to \$779,366. The increase was due in part to a \$472,308 private donation to the City. The City intends to use these funds for future capital projects.
- The Urban Renewal Tax Increment Fund cash balance was \$63,258, a decrease of \$3,549 from the previous year. The decrease was the result of financing the Housing Rehabilitation Program. This program is ongoing and it is estimated that the balance of the funds will be used in fiscal year 2005.
- The Debt Service Fund cash balance decreased by \$4,050 to \$18,918 during the fiscal year. This decrease was intentional to avoid carrying an unnecessary large balance in the Debt Service Fund.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$23,207 to \$8,509, as the fund was in deficit at the beginning of the year. This deficit was a result of a water main project on Maple Avenue. The project was substantially completed in fiscal 2003.
- The Sewer Fund cash balance decreased by \$16,630 to \$61,915, due primarily to payment of principal and interest for the wastewater treatment plant. The Council is currently doing a rate study on this Enterprise Fund.

**BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the City of Conrad annually adopts a budget following required public notice and hearing for all funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The City's certified budget is prepared on a cash basis. Over the course of the year, the City of Conrad amended its certified budget once for:

- An increase in receipts for the housing rehabilitation program, the Catherine Farmer trust donation, local option sales tax receipts, street assessments and the sale of lots in Wolf Creek Estates.
- An increase in disbursements for local option sales tax funds to the Wolf Creek Child Care project and the housing rehabilitation program.

**DEBT ADMINISTRATION**

At June 30, 2004, the City had \$2,004,983 in general obligation debt and other long-term debt outstanding. This represents a decrease of \$283,391 from last year. More detailed information about the City's long-term liabilities is available in Note 3 to the financial statements.

Outstanding Debt at Year-End	
	June 30, 2004
General obligation bonds	\$ 569,268
Urban renewal tax increment financing (TIF) revenue bonds	213,015
Sewer revenue notes	1,194,000
Road construction agreement	28,700
Total	<u>\$ 2,004,983</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$810,983 is significantly below its constitutional debt limit of approximately \$2,200,000.

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

The City of Conrad's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities. At the time these financial statements were prepared and audited, the City was aware of the following existing circumstances that could affect its financial health in the future.

- The residential development of Wolf Creek Estates has 26 new lots. The City anticipates a growth in valuation over the next five years due to lot sales and new housing starts.
- The Council is currently studying a rate increase for the sewer utility.
- The State of Iowa enacted legislation eliminating the bank franchise tax allocation, which reduced general receipts by approximately \$6,000, and the consolidated payment was reduced by approximately \$18,000.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the City of Conrad's citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Denise L. Hoy, City Clerk/Treasurer, 204 East Center Street, Conrad, Iowa, 50621.

**City of Conrad**

City of Conrad

Statement of Activities and Net Assets–Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>			
Governmental activities:			
Public safety	\$ 74,638	475	33,334
Public works	83,767	19,511	87,868
Health and social services	4,585	-	-
Culture and recreation	159,600	36,082	39,483
Community and economic development	60,862	150	38,119
General government	80,919	4,223	-
Debt service	276,263	-	-
Capital projects	50,590	-	450,000
Total governmental activities	791,224	60,441	648,804
Business type activities:			
Water	50,576	73,783	-
Sewer	164,517	145,634	-
Total business type activities	215,093	219,417	-
Total	\$ 1,006,317	279,858	648,804

**General Receipts:**

Property and other city tax levied for:  
    General purposes  
    Tax increment financing  
Local option sales tax  
Grants and contributions not restricted to specific purpose  
Unrestricted interest on investments  
Sale of assets  
Miscellaneous  
Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:  
    Streets  
    Urban renewal purposes  
    Debt service  
    Capital projects  
    Other purposes  
Unrestricted

**Total cash basis net assets**

See notes to financial statements.

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
----------------------------	-----------------------------	-------

(40,829)	-	(40,829)
23,612	-	23,612
(4,585)	-	(4,585)
(84,035)	-	(84,035)
(22,593)	-	(22,593)
(76,696)	-	(76,696)
(276,263)	-	(276,263)
399,410	-	399,410

(81,979)	-	(81,979)
----------	---	----------

-	23,207	23,207
-	(18,883)	(18,883)

-	4,324	4,324
---	-------	-------

(81,979)	4,324	(77,655)
----------	-------	----------

275,718	-	275,718
160,001	-	160,001
15,023	-	15,023
5,490	-	5,490
8,262	-	8,262
80,000	-	80,000
37,863	-	37,863
(2,253)	2,253	-

580,104	2,253	582,357
---------	-------	---------

498,125	6,577	504,702
---------	-------	---------

517,456	63,847	581,303
---------	--------	---------

\$ 1,015,581	70,424	1,086,005
--------------	--------	-----------

\$ 97,637	-	97,637
63,258	-	63,258
18,918	-	18,918
27,350	-	27,350
41,523	-	41,523
766,895	70,424	837,319

\$ 1,015,581	70,424	1,086,005
--------------	--------	-----------

City of Conrad

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

As of and for the year ended June 30, 2004

	General	Special Revenue Urban Renewal Tax Increment
Receipts:		
Property tax	\$ 207,540	-
Tax increment financing	-	160,001
Other city tax	3,629	-
Licenses and permits	2,230	-
Use of money and property	9,642	-
Intergovernmental	47,505	-
Charges for service	55,744	-
Special assessments	-	-
Miscellaneous	452,179	-
Total receipts	<u>778,469</u>	<u>160,001</u>
Disbursements:		
Operating:		
Public safety	74,638	-
Public works	30,123	-
Health and social services	4,585	-
Culture and recreation	150,196	-
Community and economic development	7,958	39,305
General government	75,425	-
Debt service	-	124,245
Capital projects	-	-
Total disbursements	<u>342,925</u>	<u>163,550</u>
Excess (deficiency) of receipts over (under) disbursements	<u>435,544</u>	<u>(3,549)</u>
Other financing sources (uses):		
Sale of capital assets	80,000	-
Operating transfers in	-	-
Operating transfers out	(60,000)	-
Total other financing sources (uses)	<u>20,000</u>	<u>-</u>
Net change in cash balances	455,544	(3,549)
Cash balances beginning of year	<u>323,822</u>	<u>66,807</u>
Cash balances end of year	<u>\$ 779,366</u>	<u>63,258</u>
<b>Cash Basis Fund Balances</b>		
Reserved:		
Debt service	\$ -	-
Unreserved:		
General fund	779,366	-
Special revenue funds	-	63,258
Capital projects fund	-	-
Total cash basis fund balances	<u>\$ 779,366</u>	<u>63,258</u>

See notes to financial statements.

Debt Service	Nonmajor Governmental Funds	Total
51,317	16,861	275,718
-	-	160,001
-	-	3,629
-	-	2,230
-	-	9,642
16,246	141,010	204,761
-	-	55,744
10,405	23,772	34,177
-	13,521	465,700
<u>77,968</u>	<u>195,164</u>	<u>1,211,602</u>
-	-	74,638
-	53,644	83,767
-	-	4,585
-	9,404	159,600
-	13,599	60,862
-	5,494	80,919
142,018	10,000	276,263
-	50,590	50,590
<u>142,018</u>	<u>142,731</u>	<u>791,224</u>
<u>(64,050)</u>	<u>52,433</u>	<u>420,378</u>
-	-	80,000
60,000	-	60,000
-	(2,253)	(62,253)
<u>60,000</u>	<u>(2,253)</u>	<u>77,747</u>
(4,050)	50,180	498,125
<u>22,968</u>	<u>103,859</u>	<u>517,456</u>
<u>18,918</u>	<u>154,039</u>	<u>1,015,581</u>
18,918	-	18,918
-	-	779,366
-	126,689	189,947
-	27,350	27,350
<u>18,918</u>	<u>154,039</u>	<u>1,015,581</u>

City of Conrad

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

As of and for the year ended June 30, 2004

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 73,783	145,634	219,417
Operating disbursements:			
Business type activities	50,576	56,813	107,389
Excess of operating receipts over operating disbursements	23,207	88,821	112,028
Non-operating disbursements:			
Debt service	-	(107,704)	(107,704)
Excess (deficiency) of receipts over (under) disbursements	23,207	(18,883)	4,324
Operating transfers in	-	2,253	2,253
Net change in cash balances	23,207	(16,630)	6,577
Cash balances beginning of year	(14,698)	78,545	63,847
Cash balances end of year	\$ 8,509	61,915	70,424
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 8,509	61,915	70,424

See notes to financial statements.

City of Conrad

Notes to Financial Statements

June 30, 2004

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

The City of Conrad is a political subdivision of the State of Iowa located in Grundy County. It was first incorporated in 1886 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Conrad 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 Conrad (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Units

The Conrad Public Library Foundation has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable, educational and literary purposes for the enhancement and improvement of the Conrad Public Library. In accordance with criteria set by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be blended. The financial activities of the component unit has been blended as a Special Revenue Fund of the City.

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: Grundy County Assessor's Conference Board, Marshall County Emergency Management Commission, Grundy County Landfill Commission, Marshall County Joint E911 Service Board, Grundy County Sheriff's Office – law enforcement and Southwest Grundy County Emergency Service Association.

B. Basis of Presentation

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

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

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining 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 not paid from other funds.

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

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

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

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing (TIF) revenue bonds and sewer revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Sewer Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2005	\$ 80,020	29,025	74,902	10,480	60,000	46,805	214,922
2006	82,669	24,738	16,538	7,707	62,000	44,453	161,207	76,898
2007	85,458	20,291	17,503	6,742	65,000	42,022	167,961	69,055
2008	88,396	15,666	18,526	5,722	68,000	39,474	174,922	60,862
2009	61,489	11,290	19,604	4,641	70,000	36,809	151,093	52,740
2010 - 2014	171,236	14,076	65,942	6,793	392,000	140,884	629,178	161,753
2015 - 2019	-	-	-	-	477,000	57,585	477,000	57,585
Total	\$ 569,268	115,086	213,015	42,085	1,194,000	408,032	1,976,283	565,203

The urban renewal tax increment financing (TIF) revenue bonds were issued for the purpose of defraying a portion of the cost of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolution approving the issuance of the sewer revenue notes under the loan agreement between the City of Conrad, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. includes the following provisions:

- (1) The notes will only be redeemed from the future earnings of the enterprise activity and the noteholder holds a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking fund for the purpose of making the note principal and interest payments when due.
- (3) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the note principal and interest falling due in the same year.

The City has not established the sewer revenue note sinking fund required by the sewer revenue note indenture.

**(4) Grundy County Road Construction Agreement**

On July 2, 2001, the City entered into a road construction agreement with Grundy County for Highway D67 road repairs. The City will reimburse Grundy County for actual costs totaling \$48,700. The costs of the project shall be reimbursed to the Grundy County Secondary Roads Department within 5 years from the execution of the agreement. The first and second years after execution of the agreement will not accrue interest. The third, fourth and fifth years after execution of the agreement, will accrue interest of 4.5% annually. The first payment of \$10,000 was made in July 2002 and the second payment of \$10,000 was made in July 2003. The balance of \$28,700 outstanding at June 30, 2004 was paid on August 11, 2004, plus interest of \$1,291.

**(5) 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. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$7,567 equal to the required contribution for the year.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, totaled \$3,800. This liability has been computed based on rates of pay in effect at June 30, 2004.

**(7) Interfund Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	General	\$ 60,000
Enterprise: Sewer	Special Revenue: Local Option Sales Tax	<u>2,253</u>
Total		<u><u>\$ 62,253</u></u>

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

**(8) Risk Management**

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

**(9) Deficit Fund Balance**

The Special Revenue, Housing Rehabilitation Fund had a deficit balance of \$12,471 at June 30, 2004. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of state grants.

**(10) Accounting Change and Restatements**

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. Nonmajor funds are presented in total in one column.

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

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 275,718	-	-
Tax increment financing	160,001	-	-
Other city tax	3,629	-	-
Licenses and permits	2,230	-	-
Use of money and property	9,642	-	-
Intergovernmental	204,761	-	-
Charges for service	55,744	219,417	-
Special assessments	34,177	-	-
Miscellaneous	465,700	-	13,521
Total receipts	<u>1,211,602</u>	<u>219,417</u>	<u>13,521</u>
Disbursements:			
Public safety	74,638	-	-
Public works	83,767	-	-
Health and social services	4,585	-	-
Culture and recreation	159,600	-	1,615
Community and economic development	60,862	-	-
General government	80,919	-	-
Debt service	276,263	-	-
Capital projects	50,590	-	-
Business type activities	-	215,093	-
Total disbursements	<u>791,224</u>	<u>215,093</u>	<u>1,615</u>
Excess (deficiency) of receipts over (under) disbursements	420,378	4,324	11,906
Other financing sources, net	<u>77,747</u>	<u>2,253</u>	-
Excess (deficiency) of receipts and other financing financing sources over (under) disbursements and other financing uses	498,125	6,577	11,906
Balances beginning of year	<u>517,456</u>	<u>63,847</u>	<u>29,226</u>
Balances end of year	<u>\$ 1,015,581</u>	<u>70,424</u>	<u>41,132</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
275,718	262,761	262,761	12,957
160,001	158,550	158,550	1,451
3,629	9,180	29,180	(25,551)
2,230	3,525	3,525	(1,295)
9,642	14,600	94,600	(84,958)
204,761	166,443	190,439	14,322
275,161	283,420	283,420	(8,259)
34,177	6,994	26,354	7,823
452,179	13,030	450,330	1,849
<u>1,417,498</u>	<u>918,503</u>	<u>1,499,159</u>	<u>(81,661)</u>
74,638	82,083	84,083	9,445
83,767	110,068	112,368	28,601
4,585	3,800	4,600	15
157,985	161,757	166,305	8,320
60,862	92,329	109,129	48,267
80,919	86,117	83,497	2,578
276,263	246,654	276,264	1
50,590	-	55,600	5,010
215,093	234,828	234,828	19,735
<u>1,004,702</u>	<u>1,017,636</u>	<u>1,126,674</u>	<u>121,972</u>
412,796	(99,133)	372,485	40,311
<u>80,000</u>	<u>-</u>	<u>-</u>	<u>80,000</u>
492,796	(99,133)	372,485	120,311
552,077	495,262	552,078	(1)
<u>1,044,873</u>	<u>396,129</u>	<u>924,563</u>	<u>120,310</u>

City of Conrad

Notes to Required Supplementary Information–Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. 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. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds.

Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$109,038. The budget amendment is reflected in the final budgeted amounts.

Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.

**Other Supplementary Information**

City of Conrad

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

As of and for the year ended June 30, 2004

	Road Use Tax	Employee Benefits	Special Local Option Sales Tax
Receipts:			
Property tax	\$ -	16,861	-
Intergovernmental	87,868	-	15,023
Special assessments	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>87,868</u>	<u>16,861</u>	<u>15,023</u>
Disbursements:			
Operating:			
Public works	50,031	3,613	-
Culture and recreation	-	7,789	-
Community and economic development	-	829	12,770
General government	-	5,494	-
Debt service	10,000	-	-
Capital projects	-	-	-
Total disbursements	<u>60,031</u>	<u>17,725</u>	<u>12,770</u>
Excess (deficiency) of receipts over (under) disbursements	27,837	(864)	2,253
Other financing uses:			
Operating transfers out	-	-	(2,253)
Net change in cash balances	27,837	(864)	-
Cash balances beginning of year	<u>69,800</u>	<u>1,255</u>	<u>-</u>
Cash balances end of year	<u>\$ 97,637</u>	<u>391</u>	<u>-</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	\$ 97,637	391	-
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 97,637</u>	<u>391</u>	<u>-</u>

See accompanying independent auditor's report.

Revenue				
Housing Rehabilitation	Conrad Public Library Foundation	Capital Projects		Total
-	-	-		16,861
38,119	-	-		141,010
-	-	23,772		23,772
-	13,521	-		13,521
38,119	13,521	23,772		195,164
-	-	-		53,644
-	1,615	-		9,404
-	-	-		13,599
-	-	-		5,494
-	-	-		10,000
50,590	-	-		50,590
50,590	1,615	-		142,731
(12,471)	11,906	23,772		52,433
-	-	-		(2,253)
(12,471)	11,906	23,772		50,180
-	29,226	3,578		103,859
(12,471)	41,132	27,350		154,039
(12,471)	41,132	-		126,689
-	-	27,350		27,350
(12,471)	41,132	27,350		154,039

City of Conrad  
 Schedule of Indebtedness  
 Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Wolf Creek Estates	Nov 1, 2000	5.45-5.70%	\$ 300,000
Fire truck	Jul 1, 2001	5.50	230,000
Street improvement	Apr 15, 2002	5.00	310,000
Total			
Urban renewal tax increment financing (TIF) revenue bonds	May 15, 1998	5.30%	\$ 600,000
	Dec 15, 2000	5.75	190,721
Total			
Revenue notes:			
Sewer	Apr 26, 1999	3.92%	\$ 993,612
Sewer	Apr 26, 1999	3.92	467,388
Total			
Road construction agreement:			
Grundy County	Jul 2, 2001	4.50%	\$ 48,700

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
180,000	60,000	120,000	9,239
209,623	21,512	188,111	11,238
287,149	25,992	261,157	14,037
<u>\$ 676,772</u>	<u>107,504</u>	<u>569,268</u>	<u>34,514</u>
152,397	93,122	59,275	6,878
168,505	14,765	153,740	9,480
<u>\$ 320,902</u>	<u>107,887</u>	<u>213,015</u>	<u>16,358</u>
851,000	39,000	812,000	33,359
401,000	19,000	382,000	15,719
<u>\$ 1,252,000</u>	<u>58,000</u>	<u>1,194,000</u>	<u>49,078</u>
<u>38,700</u>	<u>10,000</u>	<u>28,700</u>	<u>-</u>

City of Conrad  
 Bond and Note Maturities  
 June 30, 2004

Year Ending June 30,	General Obligation Bonds						Total	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds Issued May 15, 1998	
	Wolf Creek Estates Issued Nov 1, 2000		Fire Truck Issued Jul 1, 2001		Street Improvement Issued Apr 15, 2002			Interest	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		Rates	Amount
2005	5.45%	\$ 30,000	5.50%	\$ 22,712	5.00%	\$ 27,308	80,020	5.30%	\$ 59,275
2006	5.50	30,000		23,978		28,691	82,669		-
2007	5.60	30,000		25,315		30,143	85,458		-
2008	5.70	30,000		26,727		31,669	88,396		-
2009		-		28,217		33,272	61,489		-
2010		-		29,790		34,957	64,747		-
2011		-		31,372		36,727	68,099		-
2012		-		-		38,390	38,390		-
2013		-		-		-	-		-
2014		-		-		-	-		-
2015		-		-		-	-		-
2016		-		-		-	-		-
2017		-		-		-	-		-
2018		-		-		-	-		-
2019		-		-		-	-		-
<b>Total</b>		<u>\$120,000</u>		<u>\$188,111</u>		<u>\$261,157</u>	<u>569,268</u>		<u>\$ 59,275</u>

See accompanying independent auditor's report.

Urban Renewal Tax Increment Financing (TIF) Revenue Bonds Issued Dec 15, 2000			Revenue Notes				
			Sewer		Sewer		
			Issued Apr 26, 1999		Issued Apr 26, 1999		
Interest			Interest		Interest		
Rates	Amount	Total	Rates	Amount	Rates	Amount	Total
5.75%	\$ 15,627	74,902	3.92%	\$ 41,000	3.92%	\$ 19,000	60,000
	16,538	16,538		42,000		20,000	62,000
	17,503	17,503		44,000		21,000	65,000
	18,526	18,526		46,000		22,000	68,000
	19,604	19,604		48,000		22,000	70,000
	20,747	20,747		49,000		23,000	72,000
	21,957	21,957		51,000		24,000	75,000
	23,238	23,238		53,000		25,000	78,000
	-	-		56,000		26,000	82,000
	-	-		58,000		27,000	85,000
	-	-		60,000		28,000	88,000
	-	-		62,000		29,000	91,000
	-	-		65,000		31,000	96,000
	-	-		67,000		32,000	99,000
	-	-		70,000		33,000	103,000
	<u>\$ 153,740</u>	<u>213,015</u>		<u>\$812,000</u>		<u>\$382,000</u>	<u>1,194,000</u>

**City of Conrad**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Conrad, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 24, 2004. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Conrad's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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. Prior audit statutory comments have been resolved except for items (3) and (5).

Internal Control Over Financial Reporting

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

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses. Prior audit reportable conditions have been resolved except for item (A).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Conrad and other parties to whom the City of Conrad 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 Conrad during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 24, 2004

City of Conrad  
Schedule of Findings  
Year ended June 30, 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. When duties are properly segregated, the activities of one employee act as a check on those of another. For the City, one person had control over receipts – mail opening, collecting, depositing, journalizing, posting and reconciling.

For the Park Board, one individual had control over receipts—collecting and depositing swimming pool gate admissions and concessions for the aquatic center.

For the Library Foundation, one of two individuals had control over the following areas:

- (1) Receipts—mail opening, collecting, depositing, posting and reconciling.
- (2) Disbursements—posting, reconciling and preparation.

Recommendation—We realize segregation of duties is difficult with a limited number of office employees. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances.

Response—

City—The City will review its operating procedures to obtain the maximum internal control possible under the circumstances.

Park Board—The Park Board will be creating a procedures statement to address this and include it in the Family Aquatic Center's policy manual.

On a daily basis, the Conrad Family Aquatic Center employs 5 lifeguards, 2 admissions personnel and a manager. Each lifeguard on a rotational basis, when not working at a pool guard station, works the concessions area, selling and collecting. Each admissions person, again on a rotational basis when not supervising the use of the pool slide, works the admissions desk, selling and collecting daily admissions and family and individual season tickets. At the end of each day, both admissions personnel— for dual control—count and verify all receipts from both the concessions area and the admissions area. These deposit amounts are then delivered to the local financial institution by the Family Aquatic Center manager. Financial institution personnel count and verify each deposit for its accuracy corresponding with each respective deposit ticket as

City of Conrad

Schedule of Findings

Year ended June 30, 2004

prepared by the Aquatic Center admissions personnel. The duplicate copies of the deposit tickets are then delivered to the Conrad Park Board Treasurer for revenue classification purposes. This Revenue Classification report, along with the duplicate deposit tickets, is then handed over to the Conrad City Clerk. The City Clerk verifies the accuracy of this Revenue Classification report with the financial institution's monthly statement.

Since the completion of the 2004 City of Conrad audit, the Conrad Park Board has discussed additional "dual control" options regarding the collection and deposit of Aquatic Center admissions and concessions. One option being investigated at this time is the implementation of an Income Log Book at the Aquatic Center, where by each day both admissions personnel and the manager would initial the daily deposit totals as counted at the end of each day, and then this Log Book would be cross-checked with the actual deposits as received by the financial institution. Another option under investigation by the Park Board is to purchase and install cash registers at both the admissions and concessions areas of the Conrad Family Aquatic Center. Any of these or other "dual control" options that the Conrad Park Board determines to be beneficial will be written into our Employee Handbook and implemented at the start of the 2005 season.

Library Foundation – The Conrad Public Library Foundation is operated by a Board of five Directors. The President and the Secretary and Treasurer are both authorized to conduct the financial business of the organization. We feel this is a sufficient manner of conducting our business because both of these individuals are qualified to handle the responsibility.

Conclusion – Responses acknowledged. The Library Foundation should review its operating procedures including segregation of duties in order to obtain the maximum internal control possible.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared.

Recommendation – A listing of delinquent accounts should be prepared on a periodic basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and also to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – The City will begin doing a utility reconciliation, including delinquent accounts listing.

Conclusion – Response accepted.

City of Conrad

Schedule of Findings

Year ended June 30, 2004

- (C) Cellular Phone Policies – Disbursements were made by the City for cellular telephone service. However, written policies governing the use of cellular phones have not been adopted.

Recommendation – The City should establish written policies governing the use of cellular phones, including review of the cellular phone bills.

Response – The City will establish written policies on the use of cellular phones. All bills are reviewed for propriety.

Conclusion – Response accepted.

- (D) Computer Controls – The City does not have policies and procedures regarding the use and operation of the City's computer system. The following were noted:

- Passwords are not changed every 60 or 90 days. In addition, the computer system does not prompt/require the user to change their passwords every 60 to 90 days.
- The City does not have a written disaster recovery plan to address critical applications, staff responsibilities, etc. in the event of a natural disaster or another emergency situation.
- The City does not have a policy on usage of the internet.

Recommendation – The City should develop policies and procedures regarding the use and operation of its computer system. These policies and procedures should, at a minimum, address the conditions identified above.

Response – The City will develop policies and procedures regarding the use and operation of the computer system including a disaster recovery plan, and a policy on usage of the internet.

Conclusion – Response accepted.

City of Conrad

Schedule of Findings

Year ended June 30, 2004

**Other Findings Related to Statutory Reporting:**

- (1) Official Depositories—A resolution naming an official depository has been approved by the City. However, the maximum deposit amount was not stated in the resolution as required by Chapter 12C.2 of the Code of Iowa.

Recommendation—The City should approve a resolution stating the maximum deposit amounts for each approved financial institution.

Response—A depository resolution stating maximum deposit amounts has now been established and adopted.

Conclusion—Response accepted.

- (2) Certified Budget—Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.

- (3) Questionable Disbursements—Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
That Place	Meals for Fire Department's annual meeting	\$251
Casey's	Pizza for extended fire calls	68
Casey's	Pizza for aquatic center closing	64

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation—The Council should thoroughly consider and document the public purpose and propriety of these expenses or, if appropriate, request reimbursement. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response—The City will obtain better documentation to support these expenditures as a public purpose. We will consider a written policy for this practice.

Conclusion—Response accepted.

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

City of Conrad  
 Schedule of Findings  
 Year ended June 30, 2004

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

Name, Title, and Business Connection	Transaction Description	Amount
Robert Lutes, Council Member, Owner of Bob's Farm Service	Diesel fuel and lawn care	\$ 3,028

This transaction appears to represent a conflict of interest in accordance with Chapter 362.5(11) of the Code of Iowa since total transactions with the individual exceeded \$2,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City prefers to support local business and not take business out of town if possible. We will get price quotes and bids within the City.

Conclusion – Response accepted.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (9) Revenue Notes – The City has not established the Sewer Revenue Note Sinking Fund and has not had an annual audit as required by the sewer note provisions.

Recommendation – The City should establish the Sewer Revenue Note Sinking Fund and make necessary transfers as required by the note provisions. The City should review the note provisions and comply with the audit requirement.

Response – The City will establish a Sewer Revenue Note Sinking Fund and make the necessary transfers. We will review the audit requirement with legal counsel.

Conclusion – Response accepted.

City of Conrad

Schedule of Findings

Year ended June 30, 2004

- (10) Water and Sewer Penalties – Delinquent water and sewer penalties were recorded in the General Fund.

Recommendation – Penalties on delinquent utilities should be recorded in their respective accounts based on the Uniform City Chart of Accounts. Also, the sewer note provisions require the payment of principal and interest solely and only from the future net revenues of the utility. Penalties on delinquent utilities should be included in net revenues.

Response – The City will consider the budgetary impact of this recommendation and make adjustments as deemed necessary.

Conclusion – Response acknowledged. Water and sewer penalties should be recorded in their respective utility accounts.

- (11) Financial Condition – The Special Revenue, Housing Rehabilitation Fund had a deficit balance of \$12,471 at June 30, 2004.

Recommendation – The City should continue to investigate alternatives to eliminate the deficit in order to return the fund to a sound financial condition.

Response – The City has no control over this as we were waiting for a cash draw from the State on the project.

Conclusion – Response accepted.

---

City of Conrad

Staff

This audit was performed by:

Steven M. Nottger CPA, Manager  
Sarah M. Wright, Staff Auditor  
Cynthia R. Ellingson, Assistant Auditor



Andrew E. Nielsen, CPA  
Deputy Auditor of State