



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 21, 2006

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the City of Hartford, Iowa.

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

The City's receipts totaled \$619,556 for the year ended June 30, 2005. The receipts included \$130,306 in property tax, \$270,158 from charges for service, \$177,525 from operating grants, contributions and restricted interest, \$39,600 from capital grants, contributions and restricted interest and \$1,967 from unrestricted interest on investments.

Disbursements for the year totaled \$594,532, and included \$123,715 for public safety, \$109,606 for public works and \$111,423 for capital projects. Also, disbursements for business type activities totaled \$184,185.

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

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

JUNE 30, 2005

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	19
Notes to Financial Statements		20-26
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28-29
Notes to Required Supplementary Information – Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	32-33
Schedule of Indebtedness	2	34-35
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		37-38
Schedule of Findings		39-43
Staff		44

City of Hartford

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ron Ekstrom	Mayor	Jan 2006
Glenda Dykstra	Council Member	Resigned May 17, 2005
Rodney Petry (Appointed)	Council Member	Jan 2006
Robb Moulton	Council Member	Jan 2006
Kim Dingeman	Council Member	Jan 2008
William Hammond	Council Member	Jan 2008
Lori Welch	Council Member	Jan 2008
Bradley Herrold	Clerk/Treasurer	Indefinite
Kevin Parker	Attorney	Indefinite

City of Hartford



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hartford, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hartford's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

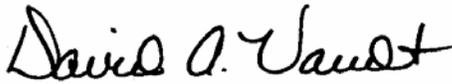
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present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

As described in Note 10, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2006 on our consideration of the City of Hartford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hartford's basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, 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 balance at July 1, 2004, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hartford provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased 1.8%, or approximately \$5,000, due primarily to reimbursement of prior year construction project charges from the Capital Projects Fund.
- The cash basis net assets of the City's business type activities increased 177%, or approximately \$30,000, due, in part, to the deferral of construction projects.

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 and the City's indebtedness.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information 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, 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, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. 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.

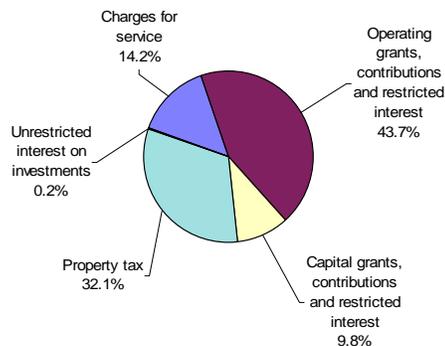
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

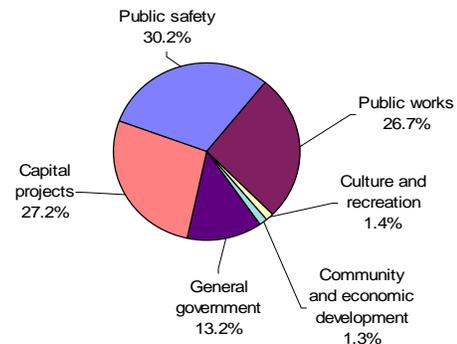
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities remained relatively the same as a year ago, decreasing from \$278,562 to \$273,735. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service	\$ 57,406
Operating grants, contributions and restricted interest	177,525
Capital grants, contributions and restricted interest	39,600
General receipts:	
Property tax	130,306
Unrestricted interest on investments	683
Total receipts	<u>405,520</u>
Disbursements:	
Public safety	123,715
Public works	109,606
Culture and recreation	5,922
Community and economic development	5,376
General government	54,305
Capital projects	111,423
Total disbursements	<u>410,347</u>
Decrease in cash basis net assets	(4,827)
Cash basis net assets beginning of year	<u>278,562</u>
Cash basis net assets end of year	<u>\$ 273,735</u>

Receipts by Source



Disbursements by Function



The City increased property tax rates for 2005 by an average of 2 percent. This increase, the first in three years, raised the City's property tax receipts by approximately \$1,500 in 2005. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$2,800 next year.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 139,370
Sewer	73,382
General receipts:	
Unrestricted interest on investments	1,284
Total receipts	<u>214,036</u>
Disbursements:	
Water	123,013
Sewer	61,172
Total disbursements	<u>184,185</u>
Increase in cash basis net assets	29,851
Cash basis net assets beginning of year	<u>(16,904)</u>
Cash basis net assets end of year	<u>\$ 12,947</u>

The City's cash basis net assets of business type activities increased from a negative \$16,904 to a positive \$12,947 during the year ended June 30, 2005. The increase was primarily due to the deferral of construction projects.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hartford completed the year, its governmental funds reported a combined fund balance of \$273,735, a decrease of \$4,827 from last year's total of \$278,562. 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 \$10,253 from the prior year to \$95,038. Approximately \$7,500 of this increase was due to the change in the law enforcement contract during fiscal 2005.
- The Road Use Tax Fund cash balance increased \$9,269 to \$35,654 during the fiscal year due, in part, to the deferral of approximately \$7,500 in street projects during fiscal 2005.
- The Debt Service Fund cash balance remained unchanged at \$27,004 during the fiscal year. There were no receipts or disbursements in this fund during the year.
- The Capital Projects Fund was established to account for a major construction project. At the end of the fiscal year, the cash balance was \$77,303, a decrease of \$28,101 from the previous year. The decrease was the result of \$111,423 paid to the Iowa Department of Transportation (IDOT) to settle a prior year overpayment after receiving \$83,322 for transfer of jurisdiction funding during fiscal 2005.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$16,999 to \$91,912, which was less than the \$32,245 increase during fiscal year 2004. The reduction was due, in part, to one additional debt service payment made in fiscal year 2005.
- The Sewer Fund cash balance increased by \$12,852 to \$(78,965), due primarily from the effects of operating budget revisions, which included the deferral of construction projects.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 17, 2005 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$32,000 representing reimbursement to IDOT and intergovernmental service fee reductions. The City had sufficient cash balances to absorb these additional costs.

Total disbursements were \$57,405 less than the amended budget. Disbursements in the public safety, public works and business type activities functions were \$19,612, \$11,478 and \$25,864 less than the amended budget. This was primarily due to the deferral of street and construction projects.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$606,457 in notes and other long-term debt outstanding, compared to \$670,348 at the end of last year.

Outstanding Debt at Year-End	
	June 30, 2005
Revenue capital loan notes	\$ 570,200
Lease purchase agreements	36,257
Total	<u>\$ 606,457</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 \$36,257 is significantly below its constitutional debt limit of approximately \$578,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Hartford's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees charged for various City activities. The City's fiscal year 2006 taxable valuation remains nearly the same as fiscal year 2005.

The fiscal year 2006 budget includes total receipts of \$503,079 and disbursements of \$498,767. The fiscal year 2006 levy is \$11.30 per \$1,000 of taxable property valuation, which is a slight increase over fiscal year 2005. These parameters were taken into account when adopting the budget for fiscal year 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bradley Herrold, City Clerk, 150 W. Elm, Hartford, Iowa 50118-0910.

Basic Financial Statements

City of Hartford

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 123,715	20,674	31,095	39,600
Public works	109,606	30,720	63,108	-
Culture and recreation	5,922	-	-	-
Community and economic development	5,376	-	-	-
General government	54,305	6,012	-	-
Capital projects	111,423	-	83,322	-
Total governmental activities	410,347	57,406	177,525	39,600
Business type activities:				
Water	123,013	139,370	-	-
Sewer	61,172	73,382	-	-
Total business type activities	184,185	212,752	-	-
Total	\$ 594,532	270,158	177,525	39,600
General Receipts:				
Property tax levied for general purposes				
Unrestricted interest on investments				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Debt service				
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
(32,346)	-	(32,346)
(15,778)	-	(15,778)
(5,922)	-	(5,922)
(5,376)	-	(5,376)
(48,293)	-	(48,293)
(28,101)	-	(28,101)
(135,816)	-	(135,816)
-	16,357	16,357
-	12,210	12,210
-	28,567	28,567
(135,816)	28,567	(107,249)
130,306	-	130,306
683	1,284	1,967
130,989	1,284	132,273
(4,827)	29,851	25,024
278,562	(16,904)	261,658
\$ 273,735	12,947	286,682
\$ 35,654	-	35,654
27,004	105,737	132,741
77,303	-	77,303
38,736	-	38,736
95,038	(92,790)	2,248
\$ 273,735	12,947	286,682

City of Hartford

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

As of and for the year ended June 30, 2005

	Special Revenue			
	General	Road Use Tax	Debt Service	Capital Projects
Receipts:				
Property tax	\$ 110,803	-	-	-
Licenses and permits	2,287	-	-	-
Use of money and property	642	-	-	-
Intergovernmental	77,130	63,108	-	83,322
Charges for service	30,720	-	-	-
Miscellaneous	5,473	-	-	-
Total receipts	227,055	63,108	-	83,322
Disbursements:				
Operating:				
Public safety	109,644	-	-	-
Public works	48,052	53,839	-	-
Culture and recreation	5,877	-	-	-
Community and economic development	5,376	-	-	-
General government	47,853	-	-	-
Capital projects	-	-	-	111,423
Total disbursements	216,802	53,839	-	111,423
Excess (deficiency) of receipts over (under) disbursements	10,253	9,269	-	(28,101)
Net change in cash balances	10,253	9,269	-	(28,101)
Cash balances beginning of year	84,785	26,385	27,004	105,404
Cash balances end of year	\$ 95,038	35,654	27,004	77,303
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	27,004	-
Unreserved:				
General fund	95,038	-	-	-
Special revenue funds	-	35,654	-	-
Capital projects fund	-	-	-	77,303
Total cash basis fund balances	\$ 95,038	35,654	27,004	77,303

See notes to financial statements.

Nonmajor	Total
19,503	130,306
-	2,287
41	683
-	223,560
-	30,720
12,491	17,964
<u>32,035</u>	<u>405,520</u>
14,071	123,715
7,715	109,606
45	5,922
-	5,376
6,452	54,305
-	111,423
<u>28,283</u>	<u>410,347</u>
<u>3,752</u>	<u>(4,827)</u>
3,752	(4,827)
<u>34,984</u>	<u>278,562</u>
<u>38,736</u>	<u>273,735</u>
-	27,004
-	95,038
38,736	74,390
-	77,303
<u>38,736</u>	<u>273,735</u>

City of Hartford

City of Hartford

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

As of and for the year ended June 30, 2005

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 139,370	73,382	212,752
Operating disbursements:			
Business type activities	70,342	36,002	106,344
Excess of operating receipts over operating disbursements	69,028	37,380	106,408
Non-operating receipts (disbursements):			
Interest on investments	642	642	1,284
Debt service	(52,671)	(25,170)	(77,841)
Total non-operating receipts (disbursements)	(52,029)	(24,528)	(76,557)
Net change in cash balances	16,999	12,852	29,851
Cash balances beginning of year	74,913	(91,817)	(16,904)
Cash balances end of year	\$ 91,912	(78,965)	12,947
Cash Basis Fund Balances			
Reserved for debt service	\$ 67,844	37,893	105,737
Unreserved	24,068	(116,858)	(92,790)
Total cash basis fund balances	\$ 91,912	(78,965)	12,947

See notes to financial statements.

City of Hartford

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Hartford is a political subdivision of the State of Iowa located in Warren County. It was first incorporated in 1913 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 Hartford 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 Hartford (primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

The Hartford Firemen's Enterprise Corporation and the Hartford Fire Auxiliary were organized to receive donations for the benefit of the Hartford Fire Department. The donations are to be used to purchase items which are not included in the City's budget. In accordance with the criteria set forth by the Governmental Accounting Standards Board, the Corporation and the Auxiliary meet the definition of component units which should be blended into the Special Revenue Funds 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: Warren County Assessor's Conference Board, Warren County Emergency Management Commission and Warren County Joint E911 Service Board.

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

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation and the community and economic development functions.

(2) Cash

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

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

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

(3) Notes Payable and Other Financing Arrangements

Annual debt service requirements to maturity for revenue capital loan notes are as follows:

Year Ending June 30,	Water Revenue Refunding Capital Loan Notes		Sewer Revenue Refunding Capital Loan Notes		Water Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2006	\$ 14,800	3,057	20,000	4,136	18,000	13,901	52,800
2007	-	2,571	-	3,504	19,000	13,210	19,000	19,285
2008	14,800	4,568	20,000	6,249	20,000	12,480	54,800	23,297
2009	14,800	3,565	20,000	4,875	20,000	11,712	54,800	20,152
2010	14,800	2,526	20,000	3,469	21,000	10,944	55,800	16,939
2011-2015	29,000	1,986	40,000	2,768	120,000	41,857	189,000	46,611
2016-2020	-	-	-	-	144,000	17,048	144,000	17,048
Total	\$ 88,200	18,273	120,000	25,001	362,000	121,152	570,200	164,426

The resolutions providing for the issuance of the revenue capital loan notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to separate water and sewer revenue note reserve accounts. These transfers shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of making principal and interest payments when funds are insufficient in the water and sewer note sinking accounts.
- (d) User rates for all services rendered by the water and sewer systems shall be sufficient to produce net revenues adequate to pay principal and interest requirements not less than 110 percent of the principal and interest requirement falling due in the same year.

The City has not made monthly transfers to the sinking accounts as required by the note resolutions. In addition, the City paid principal and interest on the notes from operating funds rather than the sinking accounts.

Lease Purchase Agreements

The City entered into lease purchase agreements to lease a truck and an ambulance. The following is a schedule of the future minimum lease payments, including interest at 6.10% and 6.25%, respectively, and the present value of net minimum lease payments under the agreements in effect at June 30, 2005:

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Truck</u>	<u>Ambulance</u>	<u>Total</u>
2006	\$ 4,621	10,474	15,095
2007	4,542	10,474	15,016
2008	-	10,473	10,473
Total minimum lease payments	9,163	31,421	40,584
Less amount representing interest	(773)	(3,554)	(4,327)
Present value of net minimum lease payments	\$ 8,390	27,867	36,257

Payments under the agreements for the year ended June 30, 2005 totaled \$15,094.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005 was \$3,637, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time 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 and comp time termination payments payable to employees at June 30, 2005, primarily relating to the General Fund and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 2,500
Comp Time	<u>2,500</u>
Total	<u>\$ 5,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Related Party Transactions

The City had business transactions between the City and City officials totaling \$46,566 during the year ended June 30, 2005.

(7) Risk Management

The City is a member in 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 509 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 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 due and payable in the current 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 to equal 300 percent of the total current members' basis rates 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 operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current 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 Jun 30, 2005 were \$15,345.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, 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 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. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from another insurer for coverage associated with workers compensation liability. 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.

(8) Deficit Fund Balance

The Enterprise, Sewer Fund had a deficit balance of \$78,965 at June 30, 2005. The deficit balance was a result of disbursements in excess of receipts in past years. The City is investigating alternatives to eliminate the deficit.

(9) Subsequent Event

In July 2006, the City entered into an agreement with Great Western Bank of Carlisle to extend the payment schedule for the sewer and water revenue capital loan notes one year and to revise the payment due dates from June 1 and December 1 to July 1 and January 1.

(10) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2005. These 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 Hartford
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 130,306	-	-
Other city tax	-	-	-
Licenses and permits	2,287	-	-
Use of money and property	683	1,284	41
Intergovernmental	223,560	-	-
Charges for service	30,720	212,752	-
Miscellaneous	17,964	-	12,491
Total receipts	<u>405,520</u>	<u>214,036</u>	<u>12,532</u>
Disbursements:			
Public safety	123,715	-	13,995
Public works	109,606	-	-
Health and social services	-	-	-
Culture and recreation	5,922	-	-
Community and economic development	5,376	-	-
General government	54,305	-	-
Capital projects	111,423	-	-
Business type activities	-	184,185	-
Total disbursements	<u>410,347</u>	<u>184,185</u>	<u>13,995</u>
Excess (deficiency) of receipts over (under) disbursements	(4,827)	29,851	(1,463)
Balances beginning of year	278,562	(16,904)	13,291
Balances end of year	<u>\$ 273,735</u>	<u>12,947</u>	<u>11,828</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
130,306	122,939	122,939	7,367
-	5,974	5,974	(5,974)
2,287	8,410	8,410	(6,123)
1,926	975	975	951
223,560	190,000	218,600	4,960
243,472	245,100	245,100	(1,628)
5,473	-	-	5,473
607,024	573,398	601,998	5,026
109,720	89,732	129,332	19,612
109,606	121,084	121,084	11,478
-	780	780	780
5,922	5,677	5,677	(245)
5,376	5,000	5,000	(376)
54,305	54,597	54,597	292
111,423	90,000	111,423	-
184,185	210,049	210,049	25,864
580,537	576,919	637,942	57,405
26,487	(3,521)	(35,944)	62,431
248,367	151,815	151,815	96,552
274,854	148,294	115,871	158,983

City of Hartford

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units. 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$61,023. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation and the community and economic development functions.

Other Supplementary Information

City of Hartford

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

As of and for the year ended June 30, 2005

	Special Revenue		
	Employee Benefits	Emergency	Hartford Firemen's Enterprise Corporation
Receipts:			
Property tax	\$ 16,352	3,151	-
Use of money and property	-	-	26
Miscellaneous	-	-	12,207
Total receipts	16,352	3,151	12,233
Disbursements:			
Operating:			
Public safety	76	-	13,284
Public works	7,715	-	-
Culture and recreation	45	-	-
General government	6,452	-	-
Total disbursements	14,288	-	13,284
Excess (deficiency) of receipts over (under) disbursements	2,064	3,151	(1,051)
Cash balances beginning of year	8,847	12,846	9,815
Cash balances end of year	\$ 10,911	15,997	8,764
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 10,911	15,997	8,764

See accompanying independent auditor's report.

Hartford Fire Auxiliary	Total
-	19,503
15	41
284	12,491
299	32,035
711	14,071
-	7,715
-	45
-	6,452
711	28,283
(412)	3,752
3,476	34,984
3,064	38,736
3,064	38,736

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue capital loan notes:			
Water	Dec 19, 2000	3.84%	\$ 446,000
Water refunding	Sep 4, 2003 	6.95	103,000
Sewer refunding	Sep 4, 2003 	6.95	140,000
Total			
Lease purchase agreements:			
Truck	May 7, 2002	6.10%	\$ 20,300
Ambulance	Jan 1, 2001 	6.25	58,400
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
379,000	-	17,000	362,000	14,554
103,000	-	14,800	88,200	6,128
140,000	-	20,000	120,000	5,170
<u>\$ 622,000</u>	<u>-</u>	<u>51,800</u>	<u>570,200</u>	<u>25,852</u>
12,263	-	3,873	8,390	748
36,085	-	8,218	27,867	2,255
<u>\$ 48,348</u>	<u>-</u>	<u>12,091</u>	<u>36,257</u>	<u>3,003</u>

City of Hartford



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hartford, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated July 20, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hartford'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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Hartford's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses.

Compliance and Other Matters

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

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

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

July 20, 2006

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

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has primary control over each of the following areas for the City:
- (1) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and error corrections.
 - (2) Receipts – collecting, depositing, journalizing and posting.
 - (3) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (4) Disbursements – purchasing, check signing, recording and reconciling.
 - (5) Payroll – preparing, recording, custody and distributing.
 - (6) Long-term debt – recording and reconciling.
 - (7) Accounting system – performing all general accounting functions and having custody of City assets.

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

Response – Internal control procedures will be reviewed to maximize segregation of duties.

Conclusion – Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled monthly.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and any variances should be investigated and resolved in a timely manner. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – Utility reconciliations will resume.

Conclusion – Response accepted.

City of Hartford

Schedule of Findings

Year ended June 30, 2005

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

The City does not have written policies for:

- Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality.
- Requiring system backup tapes to be stored offsite and to include programs.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop a written policy addressing the above items to improve the City’s control over computer-based systems. A written disaster recovery plan should be developed and backup tapes should be secured in an off site location.

Response – Written plans regarding computer security and disaster recovery plans will be developed.

Conclusion – Response accepted.

City of Hartford

Schedule of Findings

Year ended June 30, 2005

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming the official depository has been approved by the City. However, the name of the depository is not correct. The maximum deposit amount stated in the resolution was exceeded during the year ended June 30, 2005.

Recommendation – The City should adopt a new resolution with a correct depository name and in amounts sufficient to cover anticipated balances.

Response – A new resolution will be adopted immediately.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the culture and recreation and community and economic development functions. 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.”

Also, the notice of public hearing was not published before the hearing in accordance with Chapter 384.16(3) of the Code of Iowa.

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. The City should publish the notice of public hearing not less than ten nor more than twenty days before the hearing in accordance with the Code of Iowa.

Response – City will amend in accordance with 384.18 and publish the notice of public hearing in accordance with 384.16(3) Code of Iowa.

Conclusion – Response accepted.

- (3) Questionable Disbursements – Certain disbursements we believe 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 were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Verizon Wireless	Downloads included on monthly cell phone bills	\$252

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 determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – Cellular policy will be implemented and reviewed annually.

Conclusion – Response accepted.

City of Hartford

Schedule of Findings

Year ended June 30, 2005

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Doug Baber, Fire Chief, employee of Fireguard Inc.	Fire department equipment	\$ 46,566

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Fire Chief appear to represent a conflict of interest since total transactions with the individual was more than \$1,500 during the fiscal year.

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

Response – Legal council will investigate this matter.

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.

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

Recommendation – The City should publish minutes as required.

Response – Minutes will be published timely.

Conclusion – Response accepted.

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

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

Response – A new investment policy will be adopted.

Conclusion – Response accepted.

- (9) Interest Allocation – Interest was not credited to the appropriate fund as required by the Code of Iowa.

Recommendation – The City should credit interest to the appropriate funds as required.

Response – Interest will be allocated properly.

Conclusion – Response accepted.

City of Hartford

Schedule of Findings

Year ended June 30, 2005

- (10) Water and Sewer Revenue Notes – The provisions of the water and sewer revenue notes require sufficient monthly transfers to be made to separate water and sewer revenue note sinking accounts for the purpose of making the note principal and interest payments when due.

The City has not been making monthly transfers to the specific sinking accounts as required by each revenue note resolution.

In addition, the Enterprise, Sewer Fund had a deficit balance of \$78,965 at June 30, 2005. This appears to violate provisions of the sewer revenue note resolution which states the notes are payable solely and only from the net earnings of the enterprise activities.

Recommendation – The City should make required transfers to the sinking funds for each note and ensure the notes are paid solely from the net earnings of the sewer enterprise. The City should investigate alternatives to eliminate the deficit balance in order to return this fund to a sound financial condition.

Response – Sinking Fund transfers will resume. Sewer Fund will be reviewed to replace deficit.

Conclusion – Response accepted.

- (11) Notice of Public Hearing for Issuance of Debt – The City did not publish a notice of public hearing for the refinancing of the water and sewer revenue notes or for the lease purchase agreements for the truck and ambulance as required by Chapters 384.83 and 364.4 of the Code of Iowa.

Recommendation – In the future, the City should hold a public hearing prior to authorization of revenue notes or lease purchase agreements in accordance with the Code of Iowa.

Response – Public hearings will be held in compliance with Code of Iowa.

Conclusion – Response accepted.

- (12) Financial Condition – At June 30, 2005, the City had a deficit balance of \$78,965 in the Enterprise, Sewer Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – A study will be completed by City Engineer with recommendations to improve the fund balance.

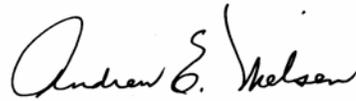
Conclusion – Response accepted.

City of Hartford

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor
Donald J. Lewis, CPA, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State