



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE March 22, 2010

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$426,795 for the year ended June 30, 2009. The receipts included \$165,397 in property tax, \$138,588 from charges for service, \$119,509 from operating grants, contributions and restricted interest and \$3,301 from unrestricted interest on investments.

Disbursements for the year totaled \$390,013, and included \$64,852 for public safety, \$144,362 for public works and \$79,265 for general government. Also, disbursements for business type activities totaled \$73,139.

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

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**CITY OF HARTFORD**

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

**JUNE 30, 2009**

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**City of Hartford**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Caroline McNamar	Mayor	Jan 2010
Robb Moulton	Council Member	Jan 2010
Rodney Petry	Council Member	Jan 2010
Josh Edenburn	Council Member	Jan 2012
Kim Dingeman	Council Member	Jan 2012
William Hammond	Council Member	Jan 2012
Bradley Herrold	Clerk/Treasurer	Indefinite
Robert Benton	City 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, 2009, 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.

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, 2008.

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, 2008, 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, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2010 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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 through 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 fund balance at July 1, 2008, 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

February 18, 2010

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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.

### 2009 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased 2.9%, or approximately \$14,000, from fiscal year 2008 to fiscal year 2009.
- The cash basis net assets of the City's business type activities increased approximately \$51,000.

### USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a 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, health and social services, 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 sanitary sewer system. This activity is 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 maintained two Enterprise Funds to provide separate information for the water and sewer funds. At June 30, 2009 the Water Fund was closed. The sewer fund is considered to be a major fund for the City.

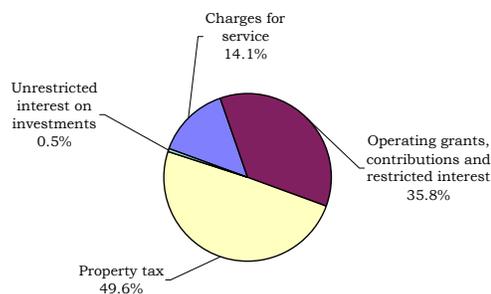
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

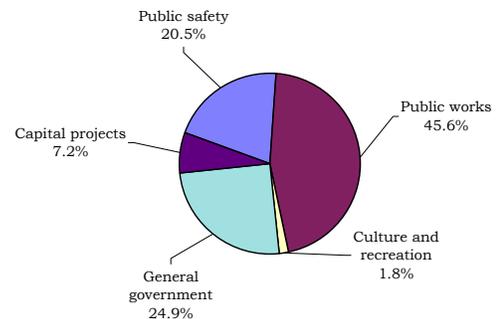
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$494,962 to \$480,652. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service	\$ 47,214
Operating grants, contributions and restricted interest	119,509
General receipts:	
Property tax	165,397
Unrestricted interest on investments	1,652
Total receipts	<u>333,772</u>
Disbursements:	
Public safety	64,852
Public works	144,362
Culture and recreation	5,729
General government	79,265
Capital projects	22,666
Total disbursements	<u>316,874</u>
Change in cash basis net assets before transfer	16,898
Transfers, net	<u>(31,208)</u>
Change in cash basis net assets	(14,310)
Cash basis net assets beginning of year	<u>494,962</u>
Cash basis net assets end of year	<u>\$ 480,652</u>

**Receipts by Source**



**Disbursements by Function**



The cash basis net assets of the City's governmental activities decreased approximately \$14,000.

Total business type activities cash basis net assets increased from a negative \$45,142 to a positive \$5,950 during the year ended June 30, 2009.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2009</u>
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 91,374
General receipts:	
Unrestricted interest on investments	1,649
Total receipts	<u>93,023</u>
Disbursements:	
Water	238
Sewer	72,901
Total disbursements	<u>73,139</u>
Change in cash basis net assets before transfers	19,884
Transfers, net	<u>31,208</u>
Increase in cash basis net assets	51,092
Cash basis net assets beginning of year	<u>(45,142)</u>
Cash basis net assets end of year	<u>\$ 5,950</u>

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Hartford completed the year, its governmental funds reported a combined fund balance of \$480,652, a decrease of \$14,310 from last year's total of \$494,962. 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 \$28,449 over the prior year to \$111,342, due primarily to an increase in property tax receipts of \$17,792.
- The Special Revenue, Road Use Tax Fund cash balance increased \$618 to \$168,026 during the fiscal year.
- The Capital Projects Fund decreased \$22,666 to \$151,412 during the fiscal year due to disbursements to cap a City well.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased \$30,790 to a zero balance. The City no longer operates a water utility and closed the negative fund balance of the Water Fund with a transfer from the General Fund at June 30, 2009
- The Sewer Fund cash balance increased \$20,122 from a negative balance of (\$14,172) to \$5,950.

#### **BUDGETARY HIGHLIGHTS**

Total disbursements were \$10,253 less than budgeted. This was primarily due to Sewer Fund disbursements increasing less than expected.

The City exceeded the amount budgeted in the general governmental function for the year ended June 30, 2009.

## DEBT ADMINISTRATION

At June 30, 2009, the City had \$40,000 in outstanding notes compared to \$60,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2009	2008
Sewer Refunding	\$ 40,000	60,000

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hartford's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities. The City's fiscal year 2010 assessed taxable valuation has increased \$312,000 from the fiscal year 2009 level.

The fiscal year 2010 budget contains total receipts of \$426,082 and disbursements of \$402,225. The budgeted receipts are somewhat higher than the fiscal year 2009 final budget which contained total receipts of \$394,266. The budgeted disbursements are somewhat higher than the fiscal year 2009 final budget which contained disbursements of \$389,302. The fiscal year 2010 budgeted receipts increased due to an anticipated increase in property tax receipts and charges for fees and services. The fiscal year 2010 budgeted disbursements increased because the City increased the budgeted disbursements in the general government, public works and business-type activities functions as a result of the increase in disbursements in these functions during fiscal year 2009.

The fiscal year 2010 levy is \$12.13230 per \$1,000 of taxable valuation, a slight increase from \$12.02396 per \$1,000 of taxable valuation levy in fiscal year 2009.

These parameters were taken into account when adopting the budget for fiscal year 2010.

## 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.

**City of Hartford**

## **Basic Financial Statements**

City of Hartford

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 64,852	-	56,535
Public works	144,362	34,902	62,974
Culture and recreation	5,729	-	-
General government	79,265	12,312	-
Capital projects	22,666	-	-
Total governmental activities	<u>316,874</u>	<u>47,214</u>	<u>119,509</u>
Business type activities:			
Water	238	-	-
Sewer	72,901	91,374	-
Total business type activities	<u>73,139</u>	<u>91,374</u>	<u>-</u>
Total	<u>\$ 390,013</u>	<u>138,588</u>	<u>119,509</u>

**General Receipts:**

Property tax levied for general purposes  
 Unrestricted interest on investments  
 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  
 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
(8,317)	-	(8,317)
(46,486)	-	(46,486)
(5,729)	-	(5,729)
(66,953)	-	(66,953)
(22,666)	-	(22,666)
(150,151)	-	(150,151)
-	(238)	(238)
-	18,473	18,473
-	18,235	18,235
(150,151)	18,235	(131,916)
165,397	-	165,397
1,652	1,649	3,301
(31,208)	31,208	-
135,841	32,857	168,698
(14,310)	51,092	36,782
494,962	(45,142)	449,820
\$ 480,652	5,950	486,602
\$ 168,026	-	168,026
151,412	-	151,412
49,872	-	49,872
111,342	5,950	117,292
\$ 480,652	5,950	486,602

**Exhibit B**

## City of Hartford

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

As of and for the year ended June 30, 2009

	Special Revenue		Capital Projects	Nonmajor	Total
	General	Road Use Tax			
<b>Receipts:</b>					
Property tax	\$ 130,521	-	-	34,876	165,397
Licenses and permits	7,622	-	-	-	7,622
Use of money and property	1,650	-	-	2	1,652
Intergovernmental	43,410	62,974	-	-	106,384
Charges for service	39,592	-	-	-	39,592
Miscellaneous	-	-	-	13,125	13,125
Total receipts	<u>222,795</u>	<u>62,974</u>	<u>-</u>	<u>48,003</u>	<u>333,772</u>
<b>Disbursements:</b>					
Operating:					
Public safety	53,780	-	-	11,072	64,852
Public works	64,289	62,356	-	17,717	144,362
Culture and recreation	5,729	-	-	-	5,729
General government	66,343	-	-	12,922	79,265
Capital Projects	-	-	22,666	-	22,666
Total disbursements	<u>190,141</u>	<u>62,356</u>	<u>22,666</u>	<u>41,711</u>	<u>316,874</u>
Excess (deficiency) of receipts over (under) disbursements	<u>32,654</u>	<u>618</u>	<u>(22,666)</u>	<u>6,292</u>	<u>16,898</u>
<b>Other financing sources (uses):</b>					
Operating transfers in	27,003	-	-	-	27,003
Operating transfers out	(31,208)	-	-	(27,003)	(58,211)
Total other financing sources (uses)	<u>(4,205)</u>	<u>-</u>	<u>-</u>	<u>(27,003)</u>	<u>(31,208)</u>
Net change in cash balances	28,449	618	(22,666)	(20,711)	(14,310)
Cash balances beginning of year	82,893	167,408	174,078	70,583	494,962
Cash balances end of year	<u>\$ 111,342</u>	<u>168,026</u>	<u>151,412</u>	<u>49,872</u>	<u>480,652</u>
<b>Cash Basis Fund Balances</b>					
Unreserved:					
General fund	111,342	-	-	-	111,342
Special revenue funds	-	168,026	-	49,872	217,898
Capital projects fund	-	-	151,412	-	151,412
Total cash basis fund balances	<u>\$ 111,342</u>	<u>168,026</u>	<u>151,412</u>	<u>49,872</u>	<u>480,652</u>

See notes to financial statements.

City of Hartford

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

As of and for the year ended June 30, 2009

	Enterprise		Total
	Sewer	Nonmajor Water	
Operating receipts:			
Charges for service	\$ 91,374	-	91,374
Operating disbursements:			
Business type activities	48,741	238	48,979
Excess (deficiency) of operating receipts over (under) operating disbursements	42,633	(238)	42,395
Non-operating receipts (disbursements):			
Interest on investments	1,649	-	1,649
Debt service	(24,160)	-	(24,160)
Net non-operating (disbursements)	(22,511)	-	(22,511)
Excess (deficiency) of receipts over (under) disbursements	20,122	(238)	19,884
Operating transfers in	-	31,208	31,208
Net change in cash balances	20,122	30,970	51,092
Cash balances beginning of year	(14,172)	(30,970)	(45,142)
Cash balances end of year	\$ 5,950	-	5,950
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 5,950	-	5,950

See notes to financial statements.

City of Hartford

Notes to Financial Statements

June 30, 2009

**(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.

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 Unit

The Hartford Firemen's Enterprise Corporation (Fire Department) was 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 criteria set forth by the Governmental Accounting Standards Board, the Corporation meets the definition of a component unit which should be blended into the Special Revenue Funds of the City.

Jointly Governed Organization

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 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 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 fund:

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

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net 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, 2009, disbursements exceeded the amount budgeted in the general government function.

**(2) Cash**

The City's deposits in banks at June 30, 2009 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) Long Term Debt**

Revenue Notes Payable

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

Year Ending June 30,	Interest Rates	Sewer Revenue		
		Refunding Capital Loan Notes		
		Principal	Interest	Total
2010	6.95%	\$ 20,000	2,780	22,780
2011	6.95	20,000	1,390	21,390
Total		\$ 40,000	4,170	44,170

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$140,000 of sewer revenue notes issued in September 2003. Proceeds from the notes provided financing for the purpose of refunding a portion of a promissory note dated May 7, 2003. The notes are payable solely from sewer customer net receipts and are payable through 2011. Annual principal and interest payments on the notes are expected to require less than 57 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$44,170. For the current year, principal and interest paid and total customer net receipts were \$24,160 and \$42,633, respectively.

The resolution providing for the issuance of the revenue capital loan notes includes 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 a separate sewer revenue note sinking account within Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a separate sewer revenue note reserve account. These transfers shall be made until a specific minimum balance has been accumulated. This account is restricted for the purpose of making principal and interest payments when funds are insufficient in the sewer revenue note sinking account.
- (d) User rates for all services rendered by the sewer system shall be sufficient to produce net revenues adequate to pay principal and interest requirements not less than 110 percent of the principal and interest requirements falling due in the same year.

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

**(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 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2009 was \$4,668, equal to the required contribution for the year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and compensatory 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 compensatory time termination payments payable to employees at June 30, 2009, primarily relating to the General Fund and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 1,300
Compensatory time	<u>2,800</u>
Total	<u><u>\$ 4,100</u></u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

**(6) 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 577 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 200 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 June 30, 2009 were \$12,925.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

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. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2009, no liability has been recorded in the City's financial statements. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty 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.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
General	Debt Service	\$ 27,003
Enterprise:		
Water	General	31,208
Total		<u>\$ 58,211</u>

Transfers were made to close the Debt Service and Enterprise, Water funds. The Debt Service Fund was closed because the City no longer has outstanding general obligation debt. The Enterprise, Water fund was closed because the City no longer operates a water utility.

**City of Hartford**

**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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 165,397	-	-
Licenses and permits	7,622	-	-
Use of money and property	1,652	1,649	2
Intergovernmental	106,384	-	-
Charges for service	39,592	91,374	-
Miscellaneous	13,125	-	13,125
Total receipts	333,772	93,023	13,127
<b>Disbursements:</b>			
Public safety	64,852	-	10,964
Public works	144,362	-	-
Culture and recreation	5,729	-	-
Community and economic development	-	-	-
General government	79,265	-	-
Capital projects	22,666	-	-
Business type activities	-	73,139	-
Total disbursements	316,874	73,139	10,964
Excess (deficiency) of receipts over (under) disbursements	16,898	19,884	2,163
Other financing sources	(31,208)	31,208	-
Balances beginning of year	494,962	(45,142)	5,023
Balances end of year	\$ 480,652	5,950	7,186

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original and Final		
165,397	161,991		3,406
7,622	4,975		2,647
3,299	5,200		(1,901)
106,384	110,000		(3,616)
130,966	112,100		18,866
-	-		-
<u>413,668</u>	<u>394,266</u>		<u>19,402</u>
53,888	58,232		4,344
144,362	145,436		1,074
5,729	8,282		2,553
-	2,000		2,000
79,265	70,569		(8,696)
22,666	25,000		2,334
73,139	79,783		6,644
<u>379,049</u>	<u>389,302</u>		<u>10,253</u>
34,619	4,964		29,655
-	-		-
<u>444,797</u>	<u>403,734</u>		<u>41,063</u>
<u>479,416</u>	<u>408,698</u>		<u>70,718</u>

City of Hartford

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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 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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The budget was not amended during the year ended June 30, 2009.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the general government function.

**Other Supplementary Information**

**City of Hartford**

## 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, 2009

	Special Revenue				Total
	Emergency	Employee Benefits	Fire Department	Debt Service	
Receipts:					
Property tax	\$ 3,712	31,164	-	-	34,876
Use of money and property	-	-	2	-	2
Miscellaneous	-	-	13,125	-	13,125
Total receipts	3,712	31,164	13,127	-	48,003
Disbursements:					
Operating:					
Public safety	-	108	10,964	-	11,072
Public works	-	17,717	-	-	17,717
General government	-	12,922	-	-	12,922
Total disbursements	-	30,747	10,964	-	41,711
Excess of receipts over disbursements	3,712	417	2,163	-	6,292
Other financing uses:					
Operating transfers out	-	-	-	(27,003)	-
Net change in cash balances	3,712	417	2,163	(27,003)	6,292
Cash balances beginning of year	20,817	17,740	5,023	27,003	43,580
Cash balances end of year	\$ 24,529	18,157	7,186	-	49,872
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special revenue funds	\$ 24,529	18,157	7,186	-	49,872

See accompanying independent auditor's report.

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City of Hartford  
Schedule of Indebtedness  
Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue capital loan notes: Sewer refunding	Sep 4, 2003	6.95%	\$ 140,000

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
60,000	20,000	40,000	4,160

**City of Hartford**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 18, 2010. Our report expressed qualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Hartford's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hartford's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hartford's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Hartford's financial statements that is more than inconsequential will not be prevented or detected by the City of Hartford's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Hartford's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A) and (C) 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, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Hartford's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Hartford's responses and, accordingly, we express no opinion on them.

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

February 18, 2010

City of Hartford

Schedule of Findings

Year ended June 30, 2009

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:

- (1) Accounting system – performance of all general accounting functions and custody of assets.
- (2) Receipts – opening and listing mail receipts, collecting, depositing, journalizing, posting and daily reconciling.
- (3) Disbursements – performance of purchasing functions, preparation, recording and reconciling.
- (4) Payroll – preparation and distribution.
- (5) Long-term debt – recording and reconciling.
- (6) Data processing – operations, input, initiation of transactions, preparation of source documents and error corrections.
- (7) Evidence of independent reviews is not documented.

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

Response – We will segregate tasks utilizing existing personnel.

Conclusion – Response accepted.

(B) Information System – The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change logins/passwords periodically.
- Requiring computers to have a log off function when not in use.
- Requiring system back-up tapes be stored offsite.
- Backups to include all programs and files.

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

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer-based systems. Also, a disaster recovery plan should be developed.

Response – We will adopt written policies for computer-based systems.

Conclusion – Response accepted.

City of Hartford

Schedule of Findings

Year ended June 30, 2009

- (C) Financial Reporting - During the audit, we identified a material amount of disbursements posted to an incorrect fund in the City's accounting system. Adjustments were subsequently made by the City to properly record these amounts in the financial statements.

Recommendation - The City should implement procedures to ensure all disbursements are properly classified and recorded in the City's financial statements.

Response - We will correct software/procedures to properly post disbursements.

Conclusion - Response accepted.

City of Hartford

Schedule of Findings

Year ended June 30, 2009

**Other Findings Related to Required Statutory Reporting:**

- (1) Official Depositories – A resolution naming the official depository has been approved by the City. However, the maximum deposit amount stated in the resolution was exceeded during the year ended June 30, 2009.

Recommendation – A new resolution with amounts sufficient to cover anticipated balances should be adopted by the Council.

Response – An updated resolution naming depositories was adopted on December 15, 2009.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amount budgeted in the general government function.

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

Response – The budget will be amended in accordance with Chapter 384.18 of the Code of Iowa.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

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

- (5) Business Transactions – No business transactions between the County and County officials or employees were noted.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure 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 as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes as required.

Response – The minutes will be published within 15 days.

Conclusion – Response accepted.

- (8) Deposits and Investments – The City does not have a written investment policy.

City of Hartford

Schedule of Findings

Year ended June 30, 2009

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 – The City will establish a written investment policy.

Conclusion – Response accepted.

- (9) Financial Condition – The City’s Special Revenue, Road Use Tax and Capital Projects Funds have balances in excess of current year disbursements.

Recommendation – The City should determine the intended use of the excess funds.

Response – Procedures will be initiated to review intended use of excess funds.

Conclusion – Response accepted.

- (10) Sewer Revenue Notes – The City has not established the sewer revenue operation and maintenance account and the City has not made the required monthly transfers to the sinking account as required by the sewer refunding capital loan note resolution. Also, principal and interest payments were made from the sewer revenue account instead of the sewer sinking account. The sewer revenue note resolution requires “the books and accounts to be audited annually and reported upon not later than 180 days after the end of each fiscal year.” The City has not obtained an audit since June 30, 2005.

Recommendation – The City should establish the required accounts and make required transfers to the sinking account. All principal and interest payments for the note should be made from the sinking account. The City should comply with the annual audit requirement of the sewer revenue note resolution.

Response – Sewer Revenue Operation and Maintenance Fund will be established. Monthly transfers to the Sinking Fund will be initiated and principal and interest payments will be disbursed through the Sewer Sinking Fund. The City is audited every 4 years per Code of Iowa.

Conclusion – Response acknowledged. The City should also comply with the annual audit requirement unless waived by the lender.

City of Hartford

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager  
Michael P. Piehl, Senior Auditor  
Jessica P.V. Green, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State