



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

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**NEWS RELEASE**

FOR RELEASE

May 5, 2005

Contact: Andy Nielsen  
515/281-5834

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

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

The City's receipts totaled \$565,468 for the year ended June 30, 2004. The receipts included \$130,617 in property tax, \$7,558 from tax increment financing, \$199,930 from charges for service, \$86,273 from operating grants, contributions and restricted interest, \$44,860 from local option sales tax, \$3,717 from unrestricted interest on investments, \$47,970 from loan proceeds and \$44,543 from other general receipts.

Disbursements for the year totaled \$506,893, and included \$128,460 for general government, \$109,967 for culture and recreation and \$75,388 for public works. Also, disbursements for business type activities totaled \$129,094.

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

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

**JUNE 30, 2004**

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**City of Lowden**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
Reuben Wenndt	Mayor	Jan 2004
Dan Hamdorf	Mayor Pro tem	Jan 2004
Bill Clark	Council Member	Jan 2004
David Hintz	Council Member	Jan 2004
Galen Conrad	Council Member	Jan 2006
Robert Kroemer	Council Member	Jan 2006
<b>(After January 2004)</b>		
Reuben Wenndt	Mayor	Jan 2008
Dan Hamdorf	Mayor Pro tem	Jan 2008
Galen Conrad	Council Member	Jan 2006
Robert Kroemer	Council Member	Jan 2006
Lisa Decker	Council Member	Jan 2008
Roger Gottschalk	Council Member	Jan 2008
Peggy Kedley	City Clerk	Indefinite
Kent Strackbein	City Treasurer	Indefinite
William J. Sueppel	Attorney	Indefinite

**City of Lowden**



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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 Lowden, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Lowden's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

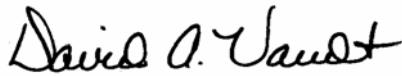
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the proceeding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lowden as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2005 on our consideration of the City of Lowden's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Lowden'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 fund balance at July 1, 2003, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 25, 2005

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

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

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, 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.

### **2004 FINANCIAL HIGHLIGHTS**

- The cash basis net assets for the City's governmental funds decreased due primarily to the installation of baseball diamond lights at Lowden Memorial Park.
- The cash basis net assets for the City's business type activities increased due primarily to the retirement of sewer revenue bonds in fiscal year 2003.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

### **BASIS OF ACCOUNTING**

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



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

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and waste collection systems. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

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

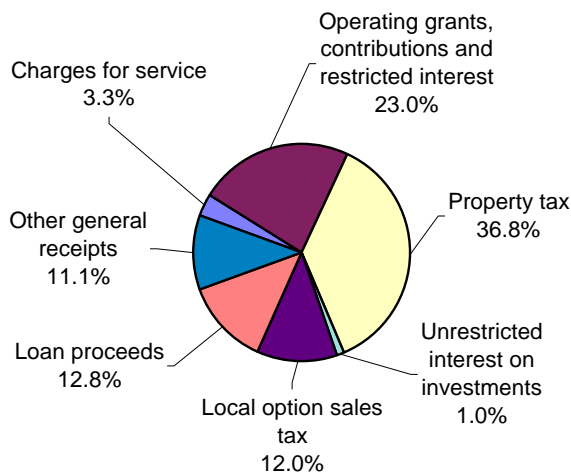
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

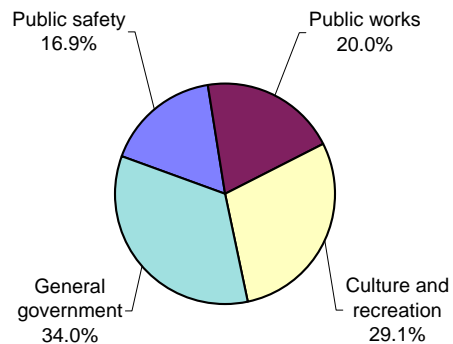
The City's cash balance for governmental activities decreased \$2,427 from a year ago, from \$262,036 to \$259,609. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service	\$ 12,571
Operating grants, contributions and restricted interest	86,273
General receipts:	
Property tax	138,175
Unrestricted interest on investments	3,717
Local option sales tax	44,860
Loan proceeds	47,970
Other general receipts	41,806
Total receipts	<u>375,372</u>
Disbursements:	
Public safety	63,984
Public works	75,388
Culture and recreation	109,967
General government	128,460
Total disbursements	<u>377,799</u>
Decrease in cash basis net assets	(2,427)
Cash basis net assets beginning of year	<u>262,036</u>
Cash basis net assets end of year	<u>\$ 259,609</u>

**Receipts by Source**



**Disbursements by Function**



The cash basis net assets for the City's governmental funds decreased due primarily to the installation of baseball diamond lights at Lowden Memorial Park.

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**Changes in Cash Basis Net Assets of Business Type Activities**

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	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 78,395
Sewer	63,927
Garbage	45,037
General receipts:	
Miscellaneous	2,737
Total receipts	190,096
 Disbursements:	
Water	63,339
Sewer	31,873
Garbage	33,882
Total disbursements	129,094
 Increase in cash basis net assets	61,002
 Cash basis net assets (deficit) beginning of year	(3,334)
 Cash basis net assets end of year	\$ 57,668

The City's cash balance for business type activities increased \$61,002 from a deficit of \$3,334 to a surplus of \$57,668. The increase was due primarily to the retirement of sewer revenue bonds in fiscal year 2003.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As Lowden completed the year, its governmental funds reported a combined fund balance of \$259,609, a decrease of approximately \$2,000 from last year's total of \$262,036. 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 decreased \$7,646 from the prior year to \$205,741. The major reason for this decrease was due to the installation of baseball diamond lights at Lowden Memorial Park.
- The Road Use Tax Fund cash balance increased by \$4,190 to \$17,336 during the fiscal year. Street maintenance and repair stayed relatively the same during the fiscal year as compared to fiscal year 2003.
- The Local Option Sales Tax Fund cash balance did not change from fiscal 2003. There was no cash balance due to the requirement that all revenues go towards retirement of principal and interest on the County Law Enforcement Center Notes dated June 1, 2000 and August 23, 2000. This requirement was passed and approved by referendum in November 2000.

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

- The Water Fund cash balance increased by \$17,793 to a deficit of \$45,966, due primarily to an increase in water rates in fiscal year 2004.
- The Sewer Fund cash balance increased by \$32,054 to \$91,777, due primarily to the retirement of sewer revenue bonds in fiscal year 2003.
- The Garbage Fund cash balance increased by \$11,155 to \$11,857, due primarily to an increase in waste collection rates in fiscal year 2004.

## **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the City of Lowden annually adopts a budget following required public notice and hearing for all funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The City's certified budget is prepared on the cash basis. The City of Lowden amended its certified budget once in fiscal year 2004, increasing budgeted disbursements by \$82,885.

The budget was exceeded due to disbursements in the public safety and general government functions.

## **DEBT ADMINISTRATION**

On July 10, 2003, the City entered into a loan agreement for \$47,970 to purchase lights for the baseball diamond at Lowden Memorial Park. The agreement requires three annual payments of \$10,341, including 5.00% per annum interest, beginning July 10, 2004. The principal balance at June 30, 2004 was \$47,970.

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 \$47,970 is significantly below its constitutional debt limit of approximately \$1,100,000.

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

Lowden's elected and appointed officials and citizens considered many factors, such as the economy, inflation and City needs, when setting the fiscal year 2005 budget, tax rates and fees charged for various City activities.

Amounts available for appropriation in the operating budget for fiscal year 2005 are \$388,037. Budgeted disbursements are expected to generally stay the same as fiscal year 2004.

## **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 Peggy Kedley, City Clerk, PO Box 310, Lowden, Iowa, 52255.

**City of Lowden**

## **Basic Financial Statements**

City of Lowden

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 63,984	161	18,137	-
Public works	75,388	898	67,778	-
Culture and recreation	109,967	10,067	358	-
General government	128,460	1,445	-	-
Total governmental activities	377,799	12,571	86,273	-
Business type activities:				
Water	63,339	78,395	-	-
Sewer	31,873	63,927	-	-
Garbage	33,882	45,037	-	-
Total business type activities	129,094	187,359	-	-
Total	\$ 506,893	199,930	86,273	-

**General Receipts:**

Property and other city tax levied for:  
    General purposes  
    Tax increment financing  
Local option sales tax  
Unrestricted interest on investments  
Loan proceeds  
Miscellaneous

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  
    Fire and rescue  
    Library  
    Cemetery

Unrestricted

**Total cash basis net assets**

See notes to financial statements.

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

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Governmental Activities	Business Type Activities	Total
(45,686)	-	(45,686)
(6,712)	-	(6,712)
(99,542)	-	(99,542)
(127,015)	-	(127,015)
(278,955)	-	(278,955)
-	15,056	15,056
-	32,054	32,054
-	11,155	11,155
-	58,265	58,265
(278,955)	58,265	(220,690)
130,617	-	130,617
7,558	-	7,558
44,860	-	44,860
3,717	-	3,717
47,970	-	47,970
41,806	2,737	44,543
276,528	2,737	279,265
(2,427)	61,002	58,575
262,036	(3,334)	258,702
\$ 259,609	57,668	317,277
\$ 17,336	-	17,336
12,308	-	12,308
4,892	-	4,892
19,332	-	19,332
205,741	57,668	263,409
\$ 259,609	57,668	317,277



City of Lowden

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

As of and for the year ended June 30, 2004

	General	Special Revenue	
		Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 125,437	-	-
Tax increment financing	7,558	-	-
Other city tax	5,180	-	44,860
Licenses and permits	1,605	-	-
Use of money and property	6,198	-	-
Intergovernmental	20,257	66,130	-
Miscellaneous	16,511	-	-
Total receipts	182,746	66,130	44,860
Disbursements:			
Operating:			
Public safety	35,445	-	-
Public works	13,448	61,940	-
Culture and recreation	105,869	-	-
General government	83,600	-	44,860
Total disbursements	238,362	61,940	44,860
Excess (deficiency) of receipts over (under) disbursements	(55,616)	4,190	-
Other financing sources:			
Loan proceeds	47,970	-	-
Net change in cash balances	(7,646)	4,190	-
Cash balances beginning of year	213,387	13,146	-
Cash balances end of year	\$ 205,741	17,336	-
<b>Cash Basis Fund Balances</b>			
Unreserved:			
General fund	\$ 205,741	-	-
Special revenue funds	-	17,336	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 205,741	17,336	-

See notes to financial statements.

Nonmajor Governmental	Total
-	125,437
-	7,558
-	50,040
-	1,605
-	6,198
-	86,387
33,666	50,177
33,666	327,402
28,539	63,984
-	75,388
4,098	109,967
-	128,460
32,637	377,799
1,029	(50,397)
-	47,970
1,029	(2,427)
35,503	262,036
36,532	259,609
-	205,741
17,200	34,536
19,332	19,332
36,532	259,609

**City of Lowden**

City of Lowden

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

As of and for the year ended June 30, 2004

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 78,395	63,927	45,037	187,359
Miscellaneous	2,737	-	-	2,737
Total operating receipts	81,132	63,927	45,037	190,096
Operating disbursements:				
Business type activities	63,339	31,873	33,882	129,094
Net change in cash balances	17,793	32,054	11,155	61,002
Cash balances (deficit) beginning of year	(63,759)	59,723	702	(3,334)
Cash balances (deficit) end of year	\$ (45,966)	91,777	11,857	57,668
<b>Cash Basis Fund Balances</b>				
Unreserved	\$ (45,966)	91,777	11,857	57,668

See notes to financial statements.

City of Lowden

Notes to Financial Statements

June 30, 2004

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

The City of Lowden is a political subdivision of the State of Iowa located in Cedar County. It was first incorporated in 1869 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, sewer and garbage utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

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.

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax distributions to Cedar County until sufficient revenues have been accumulated by the County from all participating entities to pay all principal and interest on the County's law enforcement center notes.

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.

The Garbage Fund accounts for the operation and maintenance of the City's solid waste disposal system.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety and general government functions.

**(2) Cash and Pooled Investments**

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

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

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

**(3) Bank Loan**

On July 10, 2003, the City entered into a loan agreement for \$47,970 to purchase lights for the baseball diamond at Lowden Memorial Park. The agreement requires three annual payments of \$10,341, including 5.00% per annum interest, beginning July 10, 2004. The principal balance at June 30, 2004 was \$47,970.

**(4) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$5,228, equal to the required contribution for the year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused sick leave 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 sick leave termination payments payable to employees at June 30, 2004, primarily relating to the Water Fund, is \$7,300. This liability has been computed based on rates of pay in effect at June 30, 2004.

**(6) Risk Management**

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

**(7) Deficit Balance**

The Water Fund had a deficit balance of \$45,966 at June 30, 2004. The deficit balance was a result of a past water improvement project. The deficit will be eliminated under the current rate structure.

**(8) Development Agreement**

The City has entered into a development agreement to assist in an urban renewal project. The City agreed to rebate 80% of the incremental tax paid by a developer in exchange for certain public improvements related to the development of housing made by the developer. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of fifteen years, beginning December 1, 2001. The total to be paid by the City under this agreement is not to exceed \$199,068.

During the year ended June 30, 2004, the City rebated \$6,114 of incremental tax under this agreement. The maximum remaining balance at June 30, 2004 was \$185,164.

**(9) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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



**City of Lowden**

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 125,437	-
Tax increment financing	7,558	-
Other city tax	50,040	-
Licenses and permits	1,605	-
Use of money and property	6,198	-
Intergovernmental	86,387	-
Charges for service	-	187,359
Miscellaneous	50,177	2,737
Total receipts	327,402	190,096
Disbursements:		
Public safety	63,984	-
Public works	75,388	-
Culture and recreation	109,967	-
General government	128,460	-
Business type activities	-	129,094
Total disbursements	377,799	129,094
Excess (deficiency) of receipts over (under) disbursements	(50,397)	61,002
Other financing sources, net	47,970	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,427)	61,002
Balances beginning of year	262,036	(3,334)
Balances end of year	\$ 259,609	57,668

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
125,437	125,918	125,918	(481)
7,558	7,387	7,387	171
50,040	39,051	39,051	10,989
1,605	1,425	1,425	180
6,198	4,800	4,800	1,398
86,387	94,806	96,871	(10,484)
187,359	210,660	210,660	(23,301)
52,914	2,430	2,430	50,484
517,498	486,477	488,542	28,956
63,984	53,485	53,485	(10,499)
75,388	76,185	76,185	797
109,967	42,820	125,705	15,738
128,460	101,550	101,550	(26,910)
129,094	134,825	134,825	5,731
506,893	408,865	491,750	(15,143)
10,605	77,612	(3,208)	13,813
47,970	-	69,200	(21,230)
58,575	77,612	65,992	(7,417)
258,702	230,891	230,891	27,811
317,277	308,503	296,883	20,394

City of Lowden

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. 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 Permanent 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 \$82,885. The budget amendment is reflected in the final budgeted amounts.

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

**Other Supplementary Information**

City of Lowden

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

As of and for the year ended June 30, 2004

	Special Revenue		
	Volunteer Fire	Emergency Rescue	Friends of the Library
Receipts:			
Miscellaneous	\$ 22,862	8,279	2,510
Disbursements:			
Operating:			
Public safety	21,420	7,119	-
Culture and recreation	-	-	4,098
Total disbursements	21,420	7,119	4,098
Excess (deficiency) of receipts over (under) disbursements	1,442	1,160	(1,588)
Cash balances beginning of year	7,894	1,812	6,480
Cash balances end of year	\$ 9,336	2,972	4,892
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	\$ 9,336	2,972	4,892
Permanent fund	-	-	-
Total cash basis fund balances	\$ 9,336	2,972	4,892

See accompanying independent auditor's report.

Permanent Cemetery Perpetual Care	Total
15	33,666
-	28,539
-	4,098
-	32,637
15	1,029
19,317	35,503
19,332	36,532
-	17,200
19,332	19,332
19,332	36,532



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

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Bank loan: Baseball diamond lights	Jul 10, 2003	5.00%	\$ 47,970

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Balance End of Year	Interest Paid
-	47,970	47,970	-

**City of Lowden**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Lowden, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated February 25, 2005. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

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

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have been resolved except for items (2) and (9).

Internal Control Over Financial Reporting

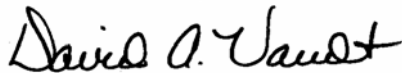
In planning and performing our audit, we considered the City of Lowden's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.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

consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lowden and other parties to whom the City of Lowden 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 Lowden 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 25, 2005

**City of Lowden**

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

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

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

- 1) Cash – preparing bank reconciliations, initiating cash receipt and disbursement transactions, and handling and recording cash.
- 2) Investments – detailed recording keeping, custody of investments and reconciling earnings.
- 3) Receipts – collecting, depositing, journalizing and posting.
- 4) Utility receipts – billing, collecting, depositing, posting and reconciling.
- 5) Long term debt – recording and reconciling.
- 6) Disbursements – purchasing, check signing, recording and reconciling.
- 7) Payroll – preparing and distributing.
- 8) Transfers – recording and reconciling.
- 9) Financial reporting – preparing, posting and reconciling.
- 10) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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 utilizing currently available personnel.

Response – We will review control activities and make changes where possible.

Conclusion – Response accepted.

City of Lowden

Schedule of Findings

Year ended June 30, 2004

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

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will review this matter with the City Clerk and City Treasurer and implement procedures as recommended.

Conclusion – Response accepted.

- (C) Separately Maintained Records – The Lowden Volunteer Fire Department, the Lowden Emergency Rescue and the Friends of the Lowden Library maintain separate accounting records pertaining to their operations. These transactions and resulting balances are not included in the City's accounting records. Also, prenumbered receipts were not issued and invoices did not indicate board approval.

Recommendation – Although these transactions and resulting balances have been included in this report, Chapter 384.20 of the Code of Iowa states in part that a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose. For better accountability, financial and budgetary control, the financial activity and balances of the Lowden Volunteer Fire Department, the Lowden Emergency Rescue and the Friends of the Lowden Library should be included in the City's accounting records and reported to the City Council on a monthly basis.

If these accounts are not included in the City's accounting records, the Lowden Volunteer Fire Department, Lowden Emergency Rescue and the Friends of the Lowden Library should ensure duties are segregated to the extent possible and receipt and disbursement journals are established and maintained, along with subsidiary ledgers to categorize receipts and disbursements.

Also, prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all collections. Additionally all disbursements should be approved by the respective boards prior to actual disbursement.

Response – The City will include transactions and resulting balances of the Lowden Volunteer Fire Department, the Lowden Emergency Rescue and the Friends of the Lowden Library in the monthly reports to the Council and will work with the individual boards on improving internal control as recommended.

Conclusion – Response accepted.

- (D) Payroll – Although time cards/sheets were available to support actual hours worked, the time cards/sheets were not reviewed or approved by an independent individual prior to payroll preparation and distribution.



City of Lowden

Schedule of Findings

Year ended June 30, 2004

Recommendation – Time cards/sheets should be reviewed and approval initialed on each time card/sheet before providing the documents to the City Clerk for payroll processing.

Response – The Mayor or City Council member will approve time cards prior to the City Clerk’s payroll preparation and distribution.

Conclusion – Response accepted.

(E) Computer Controls – The City does not have written policies and procedures for:

- Restricting personal use of computer equipment and software.
- Regulating the use of the internet.
- Restricting the installation of copyrighted software.
- Requiring the logging off of unattended computer terminals.
- Requiring computer passwords to be changed every 60 to 90 days.
- Storage of backup computer files at a designated offsite premise.
- A disaster recovery plan.

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

Response – The City will establish written policies and procedures regarding the use and operation of our computer system.

Conclusion – Response accepted.

City of Lowden

Schedule of Findings

Year ended June 30, 2004

**Other Findings Related to Statutory Reporting:**

- (1) Official Depository – A resolution naming the official depository has been approved by the City. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public safety and general government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – Although the City amended its budget, it should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will insure future budget amendments are made before disbursements exceed the budget.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that 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 – 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>
Robert Kroemer, Council Member, owner of West-Side Truck Center	Parts and repair	\$ 1,925

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions do not appear to represent a conflict of interest since total transactions with the Council Member were less than \$2,500 during the fiscal year.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Lowden

Schedule of Findings

Year ended June 30, 2004

- (9) Financial Condition – At June 30, 2004, the City had a deficit balance of \$45,966 in the Enterprise, Water Fund.

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

Response – The City is in the process of eliminating the deficit. The fund should recover using the current rate structure.

Conclusion – Response accepted.

- (10) Tax Increment Financing – The City recorded tax increment financing collections directly to the General Fund.

Recommendation – Chapter 403.19(2) of the Code of Iowa requires these collections to be allocated to and when collected be paid into a special revenue fund of the municipality to retire debt incurred. The City should record the receipt of tax increment financing monies in a Special Revenue Fund of the City and then disburse the funds by transfer to the appropriate fund for the retirement of debt.

Response – The City will establish a Special Revenue Fund for the TIF collections.

Conclusion – Response accepted.

- (11) Bank Loan – On July 10, 2003, the City obtained a bank loan of \$47,970 to pay the balance due on the purchase and installation of baseball diamond lights. At the July 7, 2003 Council meeting, the City approved entering into the bank loan. However, the City did not publish notice and hold a public hearing. Also, in the prior year, the City followed proper notice and bid letting procedures, but did not publish notice of a public hearing to approve entering into the contract for the improvements.

Chapter 384.24A(3) of the Code of Iowa states the City shall follow the same authorization procedure required for the issuance of general obligation bonds issued for the same purpose to authorize a loan agreement made payable from the debt service fund. Pursuant to Chapter 384.25 of the Code of Iowa, the City should have published notice of and held a public hearing prior to entering into the loan agreement. Also Chapters 384.102 and 362.3 of the Code of Iowa require the City to publish notice of public hearing on the proposed plans, specifications and form of contract and estimated cost for the improvement and hold the hearing prior to entering into a contract for public improvements.

Recommendation – In the future, the City should comply with the requirements of Chapters 384.24A and 384.25 of the Code of Iowa before entering into bank loans. Also, before entering into any contract for public improvements where the cost is \$25,000 or more, the Council should set a date for public hearings and give notice at least four but not more than twenty days prior to the hearing provided in Chapter 362.3 of the Code of Iowa.

Response – In the future, the City will comply with the Code of Iowa regarding public hearings for contracts for public improvements in excess of \$25,000 and before entering into bank loans.

Conclusion – Response accepted.

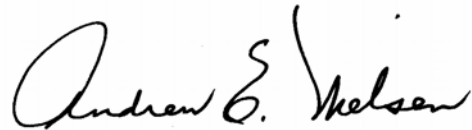
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City of Lowden

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager  
John G. Vanis, CGFM, Senior Auditor  
Kip M. Druecker, Staff 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