



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

October 24, 2005

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Auditor of State David A. Vaudt today released an audit report on the City of Donnellson, 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 \$777,108 for the year ended June 30, 2004. The receipts included \$165,817 in property tax, \$74,884 from local option sales tax, \$156,109 from charges for service, \$253,382 from operating grants, contributions and restricted interest, \$7,695 from unrestricted investment earnings, \$100,000 from bank loan proceeds and \$19,221 from other general receipts.

Disbursements for the year totaled \$937,252, and included \$184,123 for public safety, \$152,773 for culture and recreation and \$145,651 for public works. Also, disbursements for business type activities totaled \$251,274.

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 DONNELSON

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

JUNE 30, 2004

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City of Donnellson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Alvin Krebill	Mayor	Jan 2006
Vic Conlee	Mayor Pro tem	Jan 2006
Dave Ellingboe	Council Member	Jan 2004
Bill Young	Council Member	Jan 2004
Roland Burgess	Council Member	Jan 2006
Pam Kramer	Council Member	Jan 2006
(After January 2004)		
Alvin Krebill	Mayor	Jan 2006
Vic Conlee	Mayor Pro tem	Jan 2006
Roland Burgess	Council Member	Jan 2006
Pam Kramer	Council Member	Jan 2006
David Ellingboe	Council Member	Jan 2008
Bill Young	Council Member	Jan 2008
Jane Anderson	Clerk/Treasurer	Indefinite
Greg Johnson	Attorney	Indefinite

City of Donnellson



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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 Donnellson, 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 Donnellson's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, 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 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 Donnellson as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.


As described in Note 10, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated February 23, 2005 on our consideration of the City of Donnellson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Donnellson'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, 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 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Donnellson 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

- Receipts of the City's governmental activities totaled \$536,888. Receipts included property tax of \$165,817, local option sales tax of \$74,884 and interest on investments of \$6,285.
- Disbursements for governmental activities totaled \$685,978 and included \$184,123 for public safety, \$152,773 for culture and recreation and \$145,651 for public works.
- The City's governmental activities cash basis net assets decreased 41%, or approximately \$149,000, from June 30, 2003 to June 30, 2004 due to construction of a ball park complex and cutbacks in the state allocation.

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, health and social services, culture and recreation, general government and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and solid waste removal. 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) Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

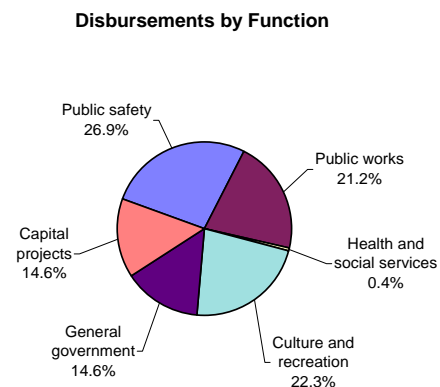
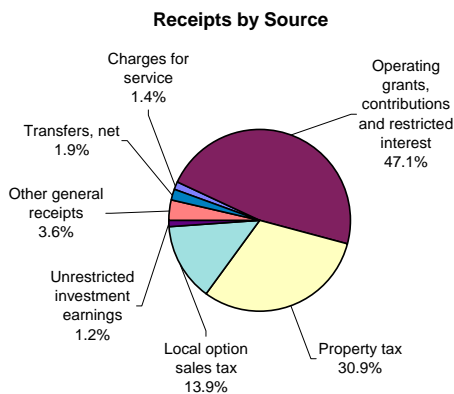
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water, sewer and solid waste operations.

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 \$363,341 to \$214,251. The decrease was primarily due to construction of a ball park complex and cutbacks in the state allocation. 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 and transfers:	
Program receipts:	
Charges for service	\$ 7,299
Operating grants, contributions and restricted interest	253,382
General receipts:	
Property tax	165,817
Local option sales tax	74,884
Unrestricted investment earnings	6,285
Other general receipts	19,221
Transfers, net	10,000
Total receipts and transfers	<u>536,888</u>
Disbursements:	
Public safety	184,123
Public works	145,651
Health and social services	2,750
Culture and recreation	152,773
General government	100,373
Capital projects	100,308
Total disbursements	<u>685,978</u>
Decrease in cash basis net assets	(149,090)
Cash basis net assets beginning of year	<u>363,341</u>
Cash basis net assets end of year	<u>\$ 214,251</u>



Total business type activities receipts for the fiscal year were \$250,220. Total disbursements and transfers were \$261,274. The cash balance decreased \$11,054 from the prior year due to repair work on the water plant.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 78,210
Sewer	34,036
Solid waste	36,564
General receipts:	
Unrestricted interest on investments	1,410
Loan proceeds	100,000
Total receipts	<u>250,220</u>
Disbursements and transfers:	
Water	172,859
Sewer	51,415
Solid waste	27,000
Transfers	10,000
Total disbursements and transfers	<u>261,274</u>
Decrease in cash balance	(11,054)
Cash basis net assets beginning of year	<u>91,998</u>
Cash basis net assets end of year	<u>\$ 80,944</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Donnellson completed the year, its governmental funds reported a combined fund balance of \$214,251. 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 \$89,365 from the prior year to \$116,802. The decrease was primarily due to ball park construction and cutbacks in the state allocation.
- The Road Use Tax Fund cash balance decreased by \$59,197 to \$23,976. The decrease was due to disbursements for the ball park construction project and a \$35,000 transfer to the Capital Projects Fund for disbursements related to the ball park complex.
- The Donnellson Community Athletic Association Fund cash balance decreased \$835 to \$18,309.
- The Donnellson Fire Association Fund cash balance decreased \$5,085 to \$10,398.
- The Capital Projects Fund cash balance increased \$2,269 to \$26,494.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$6,050 to \$48,414.
- The Sewer Fund cash balance decreased by \$27,002 to \$12,544. The decrease can be attributed to the loss of a local supermarket which caused a decline in water/sewer usage and a \$10,000 transfer to the Capital Projects Fund for costs related to the ball park complex.
- The Solid Waste Fund cash balance increased by \$9,898 to \$19,986.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 7, 2004 and resulted in an increase in operating disbursements of \$234,000 related to cost overruns on various projects. In addition to a \$100,000 loan, the City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$268,000 in bank loans and real estate contract debt, compared to approximately \$184,000 last year, as shown below.

<u>Outstanding Debt at Year-End</u>	
	<u>June 30, 2004</u>
Bank loan agreements	\$ 247,031
Real estate contract	<u>20,585</u>
Total	<u>\$ 267,616</u>

Debt increased in FY 2004 as a result of a \$100,000 bank loan for various construction projects.

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 debt of \$267,616 is significantly below its constitutional debt limit of \$1.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Donnellson's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees charged for various City activities.

Amounts available for appropriation in the fiscal year 2005 operations budget are \$541,648. Budgeted disbursements are expected to decrease to \$530,575. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balances are expected to increase by approximately \$11,000 by the close of 2005.

Debt is not anticipated to increase. However, the City anticipates refinancing existing debt and consolidating principal and interest payments.

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 Jane Anderson, City Clerk, 500 North Oak, Donnellson, Iowa 52625-0050.

Basic Financial Statements

City of Donnellson

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
Functions/Programs:			
Governmental activities:			
Public safety	\$ 184,123	216	106,197
Public works	145,651	-	80,206
Health and social services	2,750	-	-
Culture and recreation	152,773	5,941	66,979
General government	100,373	1,142	-
Capital projects	100,308	-	-
Total governmental activities	685,978	7,299	253,382
Business type activities:			
Water	172,859	78,210	-
Sewer	51,415	34,036	-
Solid waste	27,000	36,564	-
Total business type activities	251,274	148,810	-
Total	\$ 937,252	156,109	253,382
General Receipts:			
Property and other city tax levied for general purposes			
Local option sales tax			
Bank franchise tax			
Unrestricted interest on investments			
Bank loan proceeds			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Streets			
Capital projects			
Debt service			
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
(77,710)	-	(77,710)
(65,445)	-	(65,445)
(2,750)	-	(2,750)
(79,853)	-	(79,853)
(99,231)	-	(99,231)
(100,308)	-	(100,308)
(425,297)	-	(425,297)
-	(94,649)	(94,649)
-	(17,379)	(17,379)
-	9,564	9,564
-	(102,464)	(102,464)
(425,297)	(102,464)	(527,761)
165,817	-	165,817
74,884	-	74,884
5,701	-	5,701
6,285	1,410	7,695
-	100,000	100,000
13,520	-	13,520
10,000	(10,000)	-
276,207	91,410	367,617
(149,090)	(11,054)	(160,144)
363,341	91,998	455,339
\$ 214,251	80,944	295,195
\$ 23,976	-	23,976
26,494	-	26,494
5,629	-	5,629
41,350	-	41,350
116,802	80,944	197,746
\$ 214,251	80,944	295,195

City of Donnellson

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

As of and for the year ended June 30, 2004

	Special Revenue		
	General	Road Use Tax	Donnellson Community Athletic Association
Receipts:			
Property tax	\$ 147,015	-	-
Other city tax	80,852	-	-
Licenses and permits	1,262	-	-
Use of money and property	6,152	-	242
Intergovernmental	15,760	80,206	-
Charges for service	96	-	5,404
Miscellaneous	21,088	-	48,096
Total receipts	<u>272,225</u>	<u>80,206</u>	<u>53,742</u>
Disbursements:			
Operating:			
Public safety	72,561	-	-
Public works	41,248	104,403	-
Health and social services	2,750	-	-
Culture and recreation	152,773	-	-
General government	89,258	-	-
Capital projects	-	-	54,577
Total disbursements	<u>358,590</u>	<u>104,403</u>	<u>54,577</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(86,365)</u>	<u>(24,197)</u>	<u>(835)</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(3,000)	(35,000)	-
Total other financing sources (uses)	<u>(3,000)</u>	<u>(35,000)</u>	<u>-</u>
Net change in cash balances	(89,365)	(59,197)	(835)
Cash balances beginning of year	206,167	83,173	19,144
Cash balances end of year	<u>\$ 116,802</u>	<u>23,976</u>	<u>18,309</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	116,802	-	-
Special revenue funds	-	23,976	18,309
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 116,802</u>	<u>23,976</u>	<u>18,309</u>

See notes to financial statements.

Donnellson Fire Association	Capital Projects	Nonmajor	Total
-	-	13,731	160,746
-	-	507	81,359
-	-	-	1,262
280	-	-	6,674
85,973	-	-	181,939
-	-	-	5,500
20,224	-	-	89,408
106,477	-	14,238	526,888
111,562	-	-	184,123
-	-	-	145,651
-	-	-	2,750
-	-	-	152,773
-	-	11,115	100,373
-	45,731	-	100,308
111,562	45,731	11,115	685,978
(5,085)	(45,731)	3,123	(159,090)
-	48,000	-	48,000
-	-	-	(38,000)
-	48,000	-	10,000
(5,085)	2,269	3,123	(149,090)
15,483	24,225	15,149	363,341
10,398	26,494	18,272	214,251
-	-	5,629	5,629
-	-	-	116,802
10,398	-	12,643	65,326
-	26,494	-	26,494
10,398	26,494	18,272	214,251

Exhibit C

City of Donnellson

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

As of and for the year ended June 30, 2004

	Enterprise Funds			Total
	Water	Sewer	Solid Waste	
Operating receipts:				
Charges for service	\$ 72,925	34,036	36,564	143,525
Miscellaneous	5,285	-	-	5,285
Total operating receipts	78,210	34,036	36,564	148,810
Operating disbursements:				
Business type activities	172,859	51,415	27,000	251,274
Excess (deficiency) of operating receipts over (under) operating disbursements	(94,649)	(17,379)	9,564	(102,464)
Non-operating receipts:				
Interest on investments	699	377	334	1,410
Bank loan proceeds	100,000	-	-	100,000
Total non-operating receipts	100,699	377	334	101,410
Excess (deficiency) of receipts over (under) disbursements	6,050	(17,002)	9,898	(1,054)
Operating transfers out	-	(10,000)	-	(10,000)
Net change in cash balances	6,050	(27,002)	9,898	(11,054)
Cash balances beginning of year	42,364	39,546	10,088	91,998
Cash balances end of year	\$ 48,414	12,544	19,986	80,944
Cash Basis Fund Balances				
Unreserved	\$ 48,414	12,544	19,986	80,944

See notes to financial statements.

City of Donnellson

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Donnellson is a political subdivision of the State of Iowa located in Lee County. It was first incorporated in 1892 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 solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Donnellson 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: Lee County Assessor's Conference Board, Lee County Emergency Management Commission and Lee County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - 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 Donnellson Community Athletic Association Fund is used to account for fundraisers and donations for development of a ball park facility.

The Donnellson Fire Association Fund is used to account for fundraisers, donations and grants for the operation and maintenance of the fire facilities.

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 acquired or constructed through proprietary funds.

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

The City of Donnellson 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 capital projects 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's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Fair Value
U.S. government securities	\$ 628	526

(3) Long Term Debt

Bank Loan Agreements

On December 27, 1996, the City entered into a loan agreement with the local bank for \$10,000. The funds were used for a library building project. The loan bears 6.003% per annum interest and is to be repaid in ten annual installments of \$1,328, including interest beginning August 1, 1997 and ending August 1, 2006. The balance of the loan at June 30, 2004 was \$3,547.

On January 11, 2001, the Donnellson Fire Association entered into a loan agreement totaling \$37,900 with the local bank for the purchase of a fire truck. The loan requires annual payments of \$5,263 and bears interest at 5.00% per annum. The unpaid principal balance at June 30, 2004 totaled \$28,505.

On January 2, 2002, the Donnellson Fire Association entered into a loan agreement totaling \$53,740 with the local bank for the construction of a new fire station. The loan requires annual payments of \$6,959 and bears interest at 5.00% per annum. The unpaid principal balance at June 30, 2004 totaled \$44,979.

On May 9, 2003, the City entered into two loan agreements totaling \$70,000 with the local bank for the purchase of real estate for park development. Each loan bears interest at 4.00% per annum. The loans were due February 1, 2004. However, the City did not pay the scheduled amounts and refinanced the loans in February 2005 with a final due date of February 2030. The unpaid principal balance at June 30, 2004 totaled \$70,000.

On April 13, 2004, the City entered into a loan agreement with the local bank to borrow \$100,000 with interest at 4.00% per annum. The loan is payable on demand but if no demand is made then one payment of \$102,005 is due on October 13, 2004. The funds were used to finance water improvements. The unpaid principal balance at June 30, 2004 totaled \$100,000.

Real Estate Contract

On April 1, 2002, the City entered into a real estate contract for the purchase of land for park development totaling \$88,576 plus interest at 5.00% per annum. A down payment of \$35,000 was made upon contract approval. Subsequent payments of \$35,000 plus interest was due January 2, 2003 and a final payment of \$23,576 plus interest was due January 2, 2004. The unpaid principal balance at June 30, 2004 totaled \$20,585.

The final payment on the contract was delayed until January 2005, at which time the City made a final payment of principal and interest totaling \$25,994.

(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, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$8,476, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 6,200

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Interfund Transfers

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

Transfer to	Transfer from	Amount
Capital Projects	General	\$ 3,000
	Special Revenue:	
	Road Use Tax	35,000
	Enterprise:	
	Sewer	10,000
Total		\$ 48,000

Transfers moved resources from certain funds to the Capital Projects Fund to finance various projects at the Donnellson ball park.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$3,901 during the year ended June 30, 2004.

(8) Risk Management

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

(9) Subsequent Events

In August 2004, the City entered into a \$160,000 loan agreement for water improvements.

In February 2005, the City entered into loan agreements totaling \$97,541 and \$115,000, respectively, to refinance previous loan agreements related to land purchases and to finance various capital projects.

(10) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 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.

Required Supplementary Information

City of Donnellson
 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	\$ 160,746	-
Other city tax	81,359	-
Licenses and permits	1,262	-
Use of money and property	6,674	1,410
Intergovernmental	181,939	-
Charges for service	5,500	143,525
Miscellaneous	89,408	5,285
Total receipts	526,888	150,220
Disbursements:		
Public safety	184,123	-
Public works	145,651	-
Health and social services	2,750	-
Culture and recreation	152,773	-
General government	100,373	-
Capital projects	100,308	-
Business type activities	-	251,274
Total disbursements	685,978	251,274
Excess (deficiency) of receipts over (under) disbursements	(159,090)	(101,054)
Other financing sources, net	10,000	90,000
Deficiency of receipts and other financing sources under disbursements and other financing uses	(149,090)	(11,054)
Balances beginning of year	363,341	91,998
Balances end of year	\$ 214,251	80,944

See accompanying independent auditor's report.

Total	Budgeted Amounts		Total
	Original	Final	
160,746	167,226	167,226	(6,480)
81,359	70,020	70,020	11,339
1,262	1,590	1,590	(328)
8,084	10,340	10,340	(2,256)
181,939	129,855	129,855	52,084
149,025	154,700	154,700	(5,675)
94,693	4,000	4,000	90,693
677,108	537,731	537,731	139,377
184,123	69,630	75,630	(108,493)
145,651	126,500	146,500	849
2,750	3,400	3,400	650
152,773	86,970	171,970	19,197
100,373	97,825	107,825	7,452
100,308	46,350	46,350	(53,958)
251,274	150,950	263,950	12,676
937,252	581,625	815,625	(121,627)
(260,144)	(43,894)	(277,894)	17,750
100,000	35,000	135,000	(35,000)
(160,144)	(8,894)	(142,894)	(17,250)
455,339	433,645	433,645	21,694
295,195	424,751	290,751	4,444

City of Donnellson

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 or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds 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 \$234,000. 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 capital projects functions.

City of Donnellson

Other Supplementary Information

City of Donnellson

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		
	Employee Benefits	Debt Service	Total
Receipts:			
Property tax	\$ 13,432	299	13,731
Other city tax	503	4	507
Total receipts	<u>13,935</u>	<u>303</u>	<u>14,238</u>
Disbursements:			
Operating:			
General government	11,115	-	11,115
Excess of receipts over disbursements	2,820	303	3,123
Cash balances beginning of year	9,823	5,326	15,149
Cash balances end of year	<u>\$ 12,643</u>	<u>5,629</u>	<u>18,272</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	5,629	5,629
Unreserved:			
Special revenue funds	12,643	-	12,643
Total cash basis fund balances	<u>\$ 12,643</u>	<u>5,629</u>	<u>18,272</u>

See accompanying independent auditor's report.

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Bank loan agreements:			
Water	Nov 9, 1990	8.000%	\$ 71,617
Library building project	Dec 27, 1996	6.003	10,000
Fire truck	Jan 11, 2001	5.000	37,900
Fire station	Jan 2, 2002	5.000	53,740
Park land	May 9, 2003	4.000	70,000
Water improvements	Apr 13, 2004	4.000	100,000
Total			
Real estate contract:			
Park land purchase	Apr 1, 2002	5.000%	\$ 88,576

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
7,583	-	7,583	-	551
4,600	-	1,053	3,547	275
32,084	-	3,579	28,505	1,684
49,504	-	4,525	44,979	2,434
70,000	-	-	70,000	1,940
-	100,000	-	100,000	-
<u>\$ 163,771</u>	<u>100,000</u>	<u>16,740</u>	<u>247,031</u>	<u>6,884</u>
<u>20,585</u>	<u>-</u>	<u>-</u>	<u>20,585</u>	<u>-</u>

City of Donnellson



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

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Auditor of State

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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 Donnellson, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated February 23, 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 Donnellson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance 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), (5) and (7).

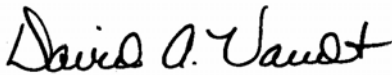
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Donnellson's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 Donnellson'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), (B) and (C) are material weaknesses. Prior audit reportable conditions have been resolved except for item (A).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Donnellson and other parties to whom the City of Donnellson 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 Donnellson 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 23, 2005

City of Donnellson
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. One person has control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and disbursements transactions and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, journalizing and posting.
- 5) Utility receipts – billing, collection, depositing, posting and reconciling.
- 6) Disbursements – purchasing, check signing, recording and reconciling.
- 7) Payroll – preparing and distributing.
- 8) Accounting system – performing all general accounting functions and having custody of City assets.

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

Response – We will review our alternatives available using existing City staff.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible. Additional control could be achieved through Council review of financial transactions and reports.

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

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each month. The Council should review the reconciliations and monitor delinquencies.

Response – The City has a self-billing system where customers read their own meters, calculate their bills and submit payment to City Hall.

Conclusion – Response acknowledged. The City should perform monthly reconciliations of utility accounts and the reconciliations should be reviewed by the City Council. Also, the City should consider reading meters at least once annually to ensure customer readings are accurate and correct.

City of Donnellson

Schedule of Findings

Year ended June 30, 2004

- (C) Separately Maintained Records – The Donnellson Fire Association and the Donnellson Community Athletic Association maintain separate accounting records pertaining to their operations. This activity is not included in the City’s accounting records or included as part of the City’s budgeting process. This financial activity has been included in Exhibits A and B.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any purpose...” For better accountability, financial and budgetary control, the financial activity and balances of the Donnellson Fire Association and Donnellson Community Athletic Association should be included in the City’s accounting records and reported to the City Council on a monthly basis.

Response – The Donnellson Fire Association and the Donnellson Community Athletic Association are considering filing for nonprofit status with the Iowa Secretary of State. We will also review our accounting procedures and implement any changes as we go through the process of becoming legal nonprofit entities.

Conclusion – Response accepted.

City of Donnellson

Schedule of Findings

Year ended June 30, 2004

Other Findings Related to Statutory Reporting:

- (1) Official Depositories – 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 capital project 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 – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will ensure future budgets and amendments are sufficient to cover anticipated City disbursements.

Conclusion – Response accepted.

- (3) Questionable Disbursements – Except as discussed in comment 12, 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:

Name, Title, and Business Connection	Transaction Description	Amount
Dave Ellingboe, Council Member, Owner of Donnellson Tire and Service	Fuel, tires and repairs	\$ 3,901

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transactions may represent a conflict of interest since the cumulative amount was greater than \$2,500 during the year.

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

Response – Donnellson Tire and Service is the only available diesel fuel in town.

Conclusion – Response acknowledged. The City should consult the City Attorney to determine the disposition of this matter.

City of Donnellson

Schedule of Findings

Year ended June 30, 2004

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

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

The Donnellson Public Library minutes have not been signed.

Recommendation – The City should publish minutes as required. Also, Board minutes of the Donnellson Public Library should be signed to authenticate the record.

Response – City minutes will be published as required and Library Board minutes will be signed by the Library Board President and Secretary.

Conclusion – Response accepted.

- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (9) Electronic Check Retention – Chapter 554.D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

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

Response – The City has contacted the bank on providing both front and backs of each cancelled check. Local banker does not want to go through all the trouble and has requested a letter from the State Auditor's Office that this is absolutely necessary for the bank to provide.

Conclusion – Response acknowledged. Chapter 554.D.114 of the Code of Iowa requires obtaining an image of both the front and back of each cancelled check.

- (10) Local Option Sales Tax – Local option sales tax collections were posted directly to the General Fund for the year ended June 30, 2004.

Recommendation – The City should establish a Special Revenue, Local Option Sales Tax Fund to record the collections of local option sales tax. The collections should then be transferred to the appropriate fund(s) as the City Council directs based on previous voter approval and Resolution No. 94-7.

Response – The City will establish a separate local option sales tax fund and approve use of funds by resolution of the City Council.

Conclusion – Response accepted.

City of Donnellson

Schedule of Findings

Year ended June 30, 2004

- (11) Notice of Public Hearing for Public Improvements – The City did not publish notices of public hearing and bid letting on the Westview Park (ballpark) development or water project as required by Chapters 384.102 and 362.3 of the Code of Iowa.

Recommendation – 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 as provided in Chapter 362.3 of the Code of Iowa.

Response – The individual contractors used for the Westview Park (ballpark) development were all less than \$25,000. The water project bid letting was not done as required.

Conclusion – Response acknowledged. When the estimated total cost of a public improvement exceeds \$25,000, the governing body shall not enter into a contract for the improvement until it has held a public hearing and bid letting as required by Chapters 384.102 and 362.3 of the Code of Iowa.

- (12) Questionable Road Use Tax Disbursements – During the year ended June 30, 2004, the City used Road Use Tax funds totaling \$16,412 for ballpark improvements. Additionally, the City transferred \$35,000 from the Road Use Tax Fund to the Capital Projects Fund for ballpark improvements. These disbursements were not for road/street related purposes which violates Chapter 312.6 of the Code of Iowa.

Also, the disbursements for ballpark improvements were included on the Street Finance Report submitted to the Iowa Department of Transportation even though they were not road/street related.

Recommendation – The City should ensure Road Use Tax funds are used as required by Chapter 312.6 of the Code of Iowa. The City should reimburse the Road Use Tax Fund for these disbursements for nonroad related disbursements. Additionally, the City should contact the Iowa Department of Transportation and the City Attorney to further resolve these matters.

Response – The City will contact the Iowa Department of Transportation and the City Attorney to resolve these matters.

Conclusion – Response acknowledged. The City should reimburse the Road Use Tax Fund for nonroad related disbursements.

- (13) Real Estate Contract – Land Purchase – In April 2002, the City entered into a real estate contract to purchase land for future park development. The City agreed to pay \$88,576 plus interest at 5.00% per annum. At the seller's request, the City delayed the final contract payment for one year without documenting Council approval of the extension or related terms. Also, the City actually paid a total of \$93,575 on the contract.

The terms of the contract were not clear and we were unable to determine whether the City overpaid on this contract.

City of Donnellson

Schedule of Findings

Year ended June 30, 2004

Recommendation – The City should consult legal counsel to determine the disposition of this matter. Also, the City should seek reimbursement, if necessary, based on legal counsel’s determination.

Response – The City has contacted the City Attorney and we are currently settling this matter.

Conclusion – Response accepted.

- (14) Bank Loans for Park Land – The City entered into two bank loans on May 9, 2003 for \$35,000 each. The loans were at 4.00% and matured on February 1, 2004. The City Council refinanced the loans in February 2005. The City Council did not document its approval of the loan extensions in the minutes record.

Recommendation – The City should approve loan extensions and document their approval in the minutes record.

Response – This was an oversight. The loans were refinanced on February 17, 2005.

Conclusion – Response accepted.

- (15) Donnellson Fire Association – The Donnellson Fire Association (Association) was formed in 1949 pursuant to a fire protection agreement between the City of Donnellson (City) and several surrounding Townships. An Agreement and Contract for Fire Protection and Emergency Services (Agreement) was subsequently approved and signed by the City in May 2000 and by the Association in August 2000. The spaces to document filing with the Secretary of State and County Recorder were blank and we were unable to determine whether the Agreement was, in fact, filed with these agencies.

It is our understanding the Agreement approved in 2000 was intended to serve as a 28E agreement between the two parties even though Chapter 28E was not specifically referenced in the Agreement. Chapter 28E of the Code of Iowa allows Iowa public agencies (including cities) to enter into an agreement with one or more public or private agencies for joint or co-operative action pursuant to the provisions of Chapter 28E of the Code of Iowa, including the creation of a separate entity to carry out the purpose of the agreement.

The Donnellson Fire Association has obtained its own taxpayer identification number but is not established as a separate legal entity (nonprofit organization). The Iowa Secretary of State certified the Association has not filed as a 501(c) (3) (nonprofit) organization. As a result, we are unable to determine the propriety and legality of the agreement between the City and Association.

The financial activity of the Association has been and will continue to be reported as a department of the City of Donnellson until such time as the Association is able to document its separate legal status.

Recommendation – The City and the Donnellson Fire Association should consult legal counsel, review the agreement and take the necessary steps to resolve this matter.

City of Donnellson

Schedule of Findings

Year ended June 30, 2004

Response – The Donnellson Fire Association is considering obtaining a legal separate nonprofit status. Once obtained, a new agreement will be drafted in reference to Chapter 28E of the Code of Iowa.

Conclusion – Response accepted.

- (16) Annual Financial Report – The annual financial report for the fiscal year ended June 30, 2004 did not include the financial activity of the separately maintained Donnellson Community Athletic Association or the Donnellson Fire Association.

Additionally, the City did not include the water bank loan or the real estate contract on its annual financial report.

Recommendation – The annual financial report should include all applicable financial information.

Response – The Donnellson Community Athletic Association is in the process of obtaining a legal nonprofit status through the Iowa Secretary of State.

Future annual financial reports will include all applicable financial information and data.

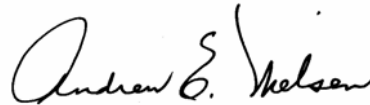
Conclusion – Response accepted.

City of Donnellson

Staff

This audit was performed by:

Cynthia L. Weber, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Trevor L. Theulen, CPA, 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