

**CITY OF FONDA, IOWA**

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

**JUNE 30, 2004**

**T. P. ANDERSON & COMPANY, P.C.  
Certified Public Accountants**

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CITY OF FONDA, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
Scott Kilbride	Mayor	Dec 2001
Dennis Devereaux	Council Member	Dec 2003
Denis Bass	Council Member	Dec 2003
Tom Krier	Council Member	Dec 2003
Michael Koster	Council Member	Dec 2001
Larry Neppl	Council Member	Dec 2001
<b>(After January 2004)</b>		
Gary Swin	Mayor	Dec 2005
Dennis Devereaux	Council Member	Dec 2007
Larry Neppl	Council Member	Dec 2005
Deb Trammel	Council Member	Dec 2007
Rod Wells	Council Member	Dec 2007
Mike Koster	Council Member	Dec 2005
Caroline Boetlcher	Treasurer	Indefinite
Phyllis Menke	Clerk	Indefinite
James C. Hudson	Attorney	Indefinite

# T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

701 SUMNER, SUITE 200

HUMBOLDT, IOWA 50548

515-332-3466

## 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 Fonda, 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 Fonda'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 June 30, 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 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 Fonda 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 reports dated October 22, 2004 on our consideration of the City of Fonda’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are 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 4 through 9 and 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 Fonda’s basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*T.P. Anderson & Company, P.C.*

October 22, 2004

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

The City of Fonda, Iowa 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**

- Revenues of the City's governmental activities decreased 2.0%, or approximately \$7,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$8,400.
- Disbursements increased 2.2%, or approximately \$9,000, in fiscal 2004 over fiscal 2003. The public safety function and general government function disbursements decreased approximately \$34,000 and \$9,000, respectively, while the public works function and culture and recreation function disbursements increased \$37,000 and \$13,000 respectively.
- The City's total cash basis net assets increased 3%, or approximately \$20,000 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$26,000 and the assets of the business type activities increased by approximately \$46,000.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

## **Basis of Accounting**

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

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

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the solid waste, waterworks, electric, and sanitary sewer 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 service. 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 Employee Benefits and, 3) the Debt Service 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 statements for governmental funds include 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 four Enterprise Funds to provide separate information for the solid waste, water, electric and sewer are funds.

The required financial statements for proprietary funds include 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 a deficit of \$ 143,000 to a deficit of \$169,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 19	11
Operating grants, contributions and restricted interest	72	120
General receipts:		
Property tax	166	157
Local option sales tax	26	24
Unrestricted investment earnings	14	12
Other general receipts	43	32
Transfers, net	67	57
Total receipts and transfers	<u>407</u>	<u>413</u>
Disbursements:		
Public safety	79	113
Public works	132	95
Health and social services	2	2
Culture and recreation	92	78
Community and economic development	5	-
General government	58	67
Debt service	65	69
Total disbursements	<u>433</u>	<u>424</u>
Increase in cash basis net assets	(26)	(11)
Cash basis net assets beginning of year	<u>(143)</u>	<u>(132)</u>
Cash basis net assets end of year	<u>\$ (169)</u>	<u>(143)</u>

The City's total receipts for governmental activities decreased by 1.5%, or \$6,000. The total cost of all programs and services increased by approximately \$9,000, or 2.1%, with no new programs added this year.

The cost of all governmental activities this year was \$433,000 compared to 424,000 last year. However, as shown in the Statement of Activities and Net Assets on page 10, the amount taxpayers ultimately financed for these activities was only 342,000 because some of the cost was paid by those directly benefited from the programs (19,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$72,000). Overall, the city's governmental activities receipts including intergovernmental aid and fees for service, decreased in 2004 from approximately \$132,000 to approximately \$91,000, principally due to receiving no property tax replacement and no FEMA grants as were received in the prior fiscal year. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$342,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service:		
Solid waste	50	49
Electric	382	406
Water	101	104
Sewer	30	29
Capital grants, contributions and restricted interest	12	-
Total receipts	575	588
Disbursements and transfers:		
Solid Waste	53	37
Electric	292	348
Water	78	75
Sewer	39	22
Transfers	67	57
Total disbursements and transfers	529	539
Increase (decrease) in cash balance	46	49
Cash basis net assets beginning of year	782	733
Cash basis net assets end of year	\$ 828	782

Total business type activities receipts for the fiscal year were \$575,000 compared to \$588,000 last year. This was due primarily to decreased usage. The cash balance increased by approximately \$46,000 from the prior year because rates charged are high enough to generate that size of surplus. Total disbursements and transfers for the fiscal year decreased by 1.9% to a total of \$529,000.

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

As The City of Fonda completed the year, its governmental funds reported a combined deficit fund balance of (\$168,858), a decrease of approximately \$26,000 under last year's deficit of (\$143,457). The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$4,611 from the prior year, decreasing the deficit balance to (\$169,598). The City intends to use the excess funds to help in decreasing the general fund deficit.
- The Road Use Tax Fund cash balance decreased by \$30,153 to a deficit of (\$2265) at June 30, 2004. This decrease was attributable to the large main street resurfacing project completed during the year.
- The Employee Benefit Special Revenue Fund cash balance decreased (\$3,268) to a deficit of (\$7,685) during the fiscal year. This decrease was due to an increase in the cost of providing employee health insurance.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased by \$9,000 to a balance of \$57,847, due primarily to the painting of the water tower interior.
- The Sewer Fund cash balance increased by \$2,408 to \$130,668. This increase was budgeted for the year.
- The Solid Waste Fund cash balance decreased by \$3,567 to \$14,444 during the year. This decrease is due to the purchase of a dump truck during the fiscal year.
- The Electric Fund cash balance increased by \$55,816 to \$625,039, which was approximately the amount the electric fund cash balance was budgeted to increase for the year.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 4, 2004 and resulting in an increase in operating disbursements related to a cost overruns of approximately \$214,500 on various projects during the year including the Sewer Project and the City’s contribution for economic development.

**DEBT ADMINISTRATION**

At June 30, 2004, the City had approximately \$354,054 in bonds and other long-term debt, compared to approximately \$310,689 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30,	
	2004	2003
General obligation bonds	\$ 140	195
Revenue notes	114	116
Total	\$ 354	311

Debt decreased as a result of paying both the general obligation bonds and revenue notes as scheduled.

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 \$140,000 is significantly below its constitutional debt limit of \$524,149.

## **ECONOMIC FACTORS**

While property taxes are important to the City, they represent less than 17.2% of total program resources excluding other financing sources. Property taxes were less than expected due to only partial state reimbursement on property tax credits. The largest resource, at nearly 57%, comes from fees and charges for services and includes utility charges. The City monitors all of its resources and determines the need for program adjustment or fee increases accordingly. During fiscal year 2004-2005 the City increased sewer fees to offset costs for a sewer project being done.

The City also implemented some new fees such as posting 24-hour disconnect notices. Due to the slow economy interest revenues have been down drastically.

## **NEXT YEAR'S BUDGET AND RATES**

For the year ending June 30, 2005 the general fund has been budgeted fairly consistently with the past year. However, due to increases in insurance costs and under funding in the past, Special Revenue Levies were increased significantly. Property values were lower resulting in less Regular General levy and Ag Land levy revenues. The reduction in General property tax revenue was taken into account when adopting the budget for fiscal year 2005 resulting in a 2.5% decrease in all general funded program areas. Budgeted disbursements in the business type/enterprises programs are increased due largely to a sewer project being completed.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$67,000 by the close of 2005.

## **FINANCIAL CONTACT**

The City's financial statements are designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the City Clerk at 104 W Second St., PO Box 367, Fonda, IA 50540 or telephone (712) 288-4466.

## **Basic Financial Statements**

CITY OF FONDA, IOWA

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	\$ 79,329	13,153	9,500	-
Public works	132,129	-	53,970	-
Health and Social Services	1,694	-	-	-
Culture and recreation	91,569	6,168	7,243	-
Community and economic development	4,500	-	-	-
General government	58,459	-	1,478	-
Debt service	65,345	-	-	-
Total government activities	433,025	19,321	72,191	-
Business type activities:				
Solid waste	53,471	49,904	-	-
Water	78,140	101,778	-	-
Electric	292,229	376,715	-	-
Sewer	39,322	29,748	-	11,982
Total business type activities	463,162	558,145	-	11,982
Total	\$ 896,187	577,466	72,191	11,982
<b>General Receipts</b>				
Property tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash beginning of year				
Cash end of year				
Cash Basis Net Assets				
Restricted				
Debt Service				
Unrestricted				

See notes to financial statements

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(56,676)	-	(56,676)
(78,159)	-	(78,159)
(1,694)	-	(1,694)
(78,158)	-	(78,158)
(4,500)	-	(4,500)
(56,981)	-	(56,981)
(65,345)	-	(65,345)
(341,513)	-	(341,513)
-	(3,567)	(3,567)
-	23,638	23,638
-	84,486	84,486
-	2,408	2,408
-	106,965	106,965
(341,513)	106,965	(234,548)
134,635	-	134,635
31,127	-	31,127
26,463	-	26,463
11,259	5,330	16,589
45,910	-	45,910
66,718	(66,718)	-
316,112	(61,388)	254,724
(25,401)	45,577	20,176
(143,457)	782,441	638,984
\$ (168,858)	828,018	659,160
-	52,859	52,859
(168,858)	775,159	606,301
\$ (168,858)	828,018	659,160

CITY OF FONDA, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES ON CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 74,990	-	59,645
Other city tax	26,463	-	-
Licenses and permits	867	-	-
Use of money and property	14,369	-	-
Intergovernmental	18,221	53,970	-
Charges for service	19,321	-	-
Miscellaneous	37,204	-	-
	191,435	53,970	59,645
Disbursements:			
Public safety	61,206	-	18,123
Public works	15,000	84,123	29,523
Health and social services	1,694	-	-
Culture and recreation	87,639	-	3,930
Community and economic development	4,500	-	-
General government	47,121	-	11,338
Debt service	-	-	-
	217,160	84,123	62,914
Excess (deficiency) of receipts over (under) disbursements	(25,725)	(30,153)	(3,269)
Other financing sources (uses):			
Long term debt issued	-	-	-
Operating transfers in	34,000	-	-
Operating transfers out	(3,664)	-	-
	30,336	-	-
Excess of receipts and other financing sources over disbursements and othe financing uses	4,611	(30,153)	(3,269)
Balance beginning of year	(174,209)	27,888	(4,416)
Balance end of year	\$ (169,598)	(2,265)	(7,685)
Cash Basis Fund Balance			
Reserved:			
Debt Service	\$ -	-	-
Unreserved:			
General Fund	(169,598)	-	-
Special Revenue Funds	-	(2,265)	(7,685)
	\$ (169,598)	(2,265)	(7,685)

See notes to financial statements.

Debt Service	Other Nonmajor Governmental Funds	Total
31,127	-	165,762
-	-	26,463
-	-	867
-	-	14,369
-	-	72,191
-	-	19,321
-	4,729	41,933
31,127	4,729	340,906
-	-	79,329
-	3,483	132,129
-	-	1,694
-	-	91,569
-	-	4,500
-	-	58,459
65,345	-	65,345
65,345	3,483	433,025
(34,218)	1,246	(92,119)
-	-	-
34,518	1,864	70,382
-	-	(3,664)
34,518	1,864	66,718
300	3,110	(25,401)
(1,698)	8,978	(143,457)
(1,398)	12,088	(168,858)
(1,398)	-	(1,398)
-	-	(169,598)
-	12,088	2,138
(1,398)	12,088	(168,858)

## CITY OF FONDA, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Solid Waste	Water	Electric	Sewer	Total
<b>Receipts</b>					
Charges for service	\$ 49,904	98,428	358,035	29,448	535,815
Miscellaneous	-	3,350	18,680	300	22,330
	<u>49,904</u>	<u>101,778</u>	<u>376,715</u>	<u>29,748</u>	<u>558,145</u>
<b>Disbursements</b>					
Total operating disbursements	<u>53,471</u>	<u>78,140</u>	<u>292,229</u>	<u>39,322</u>	<u>463,162</u>
	<u>53,471</u>	<u>78,140</u>	<u>292,229</u>	<u>39,322</u>	<u>463,162</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(3,567)	23,638	84,486	(9,574)	94,983
<b>Non-operating receipts (disbursements):</b>					
Use of money and property	-	-	5,330	-	5,330
Intergovernmental	-	-	-	11,982	11,982
	<u>-</u>	<u>-</u>	<u>5,330</u>	<u>11,982</u>	<u>17,312</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(3,567)</u>	<u>23,638</u>	<u>89,816</u>	<u>2,408</u>	<u>112,295</u>
<b>Other financing sources (uses):</b>					
Operating transfers out	-	(32,718)	(34,000)	-	(66,718)
	<u>-</u>	<u>(32,718)</u>	<u>(34,000)</u>	<u>-</u>	<u>(66,718)</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(3,567)	(9,080)	55,816	2,408	45,577
Balance beginning of year	<u>18,011</u>	<u>66,927</u>	<u>569,223</u>	<u>128,280</u>	<u>782,441</u>
Balance end of year	<u>\$ 14,444</u>	<u>57,847</u>	<u>625,039</u>	<u>130,688</u>	<u>828,018</u>
<b>Cash Basis Fund Balances</b>					
Reserved					
Debt Service	\$ -	52,859	-	-	52,859
Unreserved	<u>14,444</u>	<u>4,988</u>	<u>625,039</u>	<u>130,688</u>	<u>775,159</u>
	<u>\$ 14,444</u>	<u>57,847</u>	<u>625,039</u>	<u>130,688</u>	<u>828,018</u>

See Notes to Financial Statements

CITY OF FONDA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

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

The City of Fonda is a political subdivision of the State of Iowa located in Pocahontas County. It was first incorporated in 1870 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 solid waste, electric, water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fonda has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all other 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 also 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: Pocahontas County Emergency Management Commission, Pocahontas County E911 Board, Pocahontas County Assessor's Conference Board, Fonda City Assessor's Conference Board, and the Pocahontas County Landfill Commission.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets – Cash Basis reports information on all 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 services.

CITY OF FONDA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

B. Basis of Presentation - continued

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

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

*Unrestricted net assets* consist of net assets that do not meet 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 that are not paid from other funds.

Special Revenue:

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

The Employee Benefits Fund is used to account for employee benefits paid for using property tax levied specifically for that purpose.

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

The City reports the following major proprietary funds:

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

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

CITY OF FONDA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

B. Basis of Presentation - continued

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

The Electric Fund accounts for the operation and maintenance of the City's electric distribution system.

C. Measurement Focus and Basis of Accounting

The City of Fonda, Iowa 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.

(2) **Cash and Investments**

The City's deposit at June 30, 2004 (which include certificates of deposit totaling \$507,814) 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; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

CITY OF FONDA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(2) **Cash and Investments** - continued

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.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation, revenue bonds, revenue notes and other long-term debt are as follows:

Year Ending June 30.	General Obligation Notes		Revenue Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 25,000	\$ 7,093	\$ -	\$ -	\$ 25,000	\$ 7,093
2006	25,000	5,855	2,114	4,813	27,114	10,668
2007	30,000	4,605	1,814	5,113	31,814	9,718
2008	30,000	3,090	1,897	5,030	31,897	8,120
2009	30,000	1,560	1,983	4,944	31,983	6,504
2010	-	-	2,074	4,853	2,074	4,853
2011	-	-	2,169	4,758	2,169	4,758
2012	-	-	2,268	4,659	2,268	4,659
2013	-	-	2,371	4,556	2,371	4,556
2014	-	-	2,480	4,447	2,480	4,447
2015	-	-	2,593	4,334	2,593	4,334
2016	-	-	2,711	4,216	2,711	4,216
2017	-	-	2,835	4,092	2,835	4,092
2018	-	-	2,965	3,962	2,965	3,962
2019	-	-	3,100	3,827	3,100	3,827
2020	-	-	3,242	3,685	3,242	3,685
2021	-	-	3,390	3,537	3,390	3,537
2022	-	-	3,545	3,382	3,545	3,382
2023	-	-	3,707	3,220	3,707	3,220
2024	-	-	3,876	3,051	3,876	3,051
2025	-	-	4,053	2,874	4,053	2,874
2026	-	-	4,239	2,688	4,239	2,688
2027	-	-	4,431	2,496	4,431	2,496
2028	-	-	4,634	2,293	4,634	2,293
2029	-	-	4,846	2,081	4,846	2,081
2030	-	-	5,067	1,860	5,067	1,860

CITY OF FONDA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(3) **Bonds and Notes Payable** - continued

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2031	-	-	5,299	1,628	5,299	1,628
2032	-	-	5,541	1,386	5,541	1,386
2033	-	-	5,793	1,134	5,793	1,134
2034	-	-	6,058	869	6,058	869
2035	-	-	6,335	592	6,335	592
2036	-	-	6,624	303	6,624	303
	<u>\$ 140,000</u>	<u>\$ 22,203</u>	<u>\$ 114,054</u>	<u>\$ 100,683</u>	<u>\$ 254,054</u>	<u>\$ 122,886</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the water revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of \$58 to the water reserve account shall be made until a balance equal to one annual payment, \$6,927, is accumulated. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- (d) Any funds remaining in the water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue surplus account. It is suggested by the lender that the City deposit \$5,380 per year if possible into this account although it is not mandatory. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other accounts might be unable to make.

(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.

CITY OF FONDA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

**(4) Pension and Retirement Benefits - continued**

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. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, and the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004 2003 and 2002 were \$11,283, \$10,654, and \$6,656 respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use. Earned vacation is paid when used or when employment is terminated upon retirement or death. These accumulations are not recognized as expenditures by the City until they are paid.

The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefits</u>	<u>Amount</u>
Vacation	\$ 6,869

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:

<u>Transfer In</u>	<u>Transfer From</u>	<u>Amount</u>
General	Proprietary: Electric	\$ 34,000
Special Revenue Fund: Emergency	General	1,864
Debt Service:	General	1,800
	Proprietary: Water	32,718
		<u>\$ 70,382</u>

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

CITY OF FONDA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

**(7) Risk Management**

The City of Fonda 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 disaster. 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.

**(8) Deficit Fund Balance**

The General Fund, Road Use Tax Fund, Employee Benefits Fund and the Debt Service Funds have deficit balances of \$169,598, \$2,265, \$7,685 and \$1,398 respectively at June 30, 2004. The deficit in the General Fund is due to disbursements exceeding the receipts over a number of years. The City is aware of the deficit and has no plans to eliminate it as of June 30, 2004.

The City plans to eliminate the deficit for the Road Use Tax with less road work planned in the 2005 fiscal year.

The deficit balance in the Employee Benefits Fund is planned to be eliminated with additional property tax receipts in the 2005 fiscal year. The City plans to eliminate the deficit balance in the Debt Service Fund with a transfer from the General Fund.

**(9) Property Taxes**

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Fonda. Property taxes become liens on property as of July 1, 2003 and are payable in September and March of the fiscal year. The valuation for the taxes was based on January 1, 2002 assessed property valuations, and are based on a certified budget from March of 2003.

**(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*; and 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. These statements create new basis financial statements for reporting the City’s financial activities. These 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.

CITY OF FONDA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

**(10) Accounting Change - continued**

The government-wide financial statement reports the City's governmental and business type activities.

**(11) Sewer Project**

The City signed a contract on April 25, 2004 with Schmitt Construction to expand the City's sewer system in the southern part of Fonda. The total contract plus change orders with Schmitt Construction, Inc., is for \$121,605. A CDBG block grant for up to \$120,000 has been awarded to assist in financing the project. Grant funds will be received as project expenses are incurred and reimbursements are requested.

## **Required Supplementary Information**

CITY OF FONDA, IOWA

BUDGETARY COMPARISON SCHEDULE  
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BLANCES  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY F

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 165,762	-	165,762
Other city taxes	26,463	-	26,463
Licenses and permits	867	-	867
Use of money and property	14,369	5,330	19,699
Intergovernmental	72,191	11,982	84,173
Charges for service	19,321	535,815	555,136
Miscellaneous	41,933	22,330	64,263
	<u>340,906</u>	<u>575,457</u>	<u>916,363</u>
Disbursements:			
Program			
Public safety	79,329	-	79,329
Public works	132,129	-	132,129
Health and social services	1,694	-	1,694
Culture and recreation	91,569	-	91,569
Community and economic development	4,500	-	4,500
General government	58,459	-	58,459
Debt service	65,345	-	65,345
Business type activities	-	463,162	463,162
	<u>433,025</u>	<u>463,162</u>	<u>896,187</u>
Excess (deficiency) of receipts over disbursements	(92,119)	112,295	20,176
Other financing sources	<u>66,718</u>	<u>(66,718)</u>	-
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	(25,401)	45,577	20,176
Balance beginning of year	<u>(143,457)</u>	<u>782,441</u>	<u>638,984</u>
Balance end of year	<u>\$ (168,858)</u>	<u>828,018</u>	<u>659,160</u>

See Accompanying Independent Auditor's Report

FUNDS

Budgeted Amounts		Final to Net Variance
Original	Final	
155,020	155,020	10,742
30,621	37,621	(11,158)
973	973	(106)
32,329	32,329	(12,630)
89,950	209,950	(125,777)
542,500	542,500	12,636
6,440	22,940	41,323
857,833	1,001,333	(84,970)
82,368	82,368	3,039
128,292	132,292	163
1,925	1,925	231
77,557	97,557	5,988
-	4,500	-
52,559	58,559	100
65,345	65,345	-
421,892	601,892	138,730
829,938	1,044,438	148,251
27,895	(43,105)	63,281
-	-	-
27,895	(43,105)	63,281
630,133	630,133	8,851
658,028	587,028	72,132

CITY OF FONDA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary 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, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$214,500. The budget amendment is reflected in the final budgeted amounts.

## **Other Supplementary Information**

CITY OF FONDA, IOWA  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Water system	October 1, 1991	5.40 - 6.80%	\$ 250,000
Swimming pool	September 1, 1999	4.30 - 5.20%	\$ 250,000
Revenue bonds			
USDA Water notes	July 1, 1995	4.50%	\$ 125,000

See accompanying independent auditor's report.

Schedule 1

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 30,000	\$ -	\$ 30,000	\$ -	\$ 2,040	\$ -
165,000	-	25,000	140,000	8,305	-
195,000	-	55,000	140,000	10,345	-
\$ 115,689	\$ -	\$ 1,635	\$ 114,054	\$ 5,292	\$ -

CITY OF FONDA, IOWA  
 BOND AND NOTE MATURITIES  
 JUNE 30, 2004

Year Ending June 30,	Revenue Notes Water		General Obligation Swimming Pool	
	Issued July 1, 1995		Issued September 1, 1999	
	Interest Rates	Amount	Interest Rates	Amount
2005	4.50%	\$ -	4.95%	\$ 25,000
2006	4.50	2,114	5.00	25,000
2007	4.50	1,814	5.05	30,000
2008	4.50	1,897	5.10	30,000
2009	4.50	1,983	5.20	30,000
2010	4.50	2,074		-
2011	4.50	2,169		-
2012	4.50	2,268		-
2013	4.50	2,371		-
2014	4.50	2,480		-
2015	4.50	2,593		-
2016	4.50	2,711		-
2017	4.50	2,835		-
2018	4.50	2,965		-
2019	4.50	3,100		-
2020	4.50	3,242		-
2021	4.50	3,390		-
2022	4.50	3,545		-
2023	4.50	3,707		-
2024	4.50	3,876		-
2025	4.50	4,053		-
2026	4.50	4,239		-
2027	4.50	4,431		-
2028	4.50	4,634		-
2029	4.50	4,846		-
2030	4.50	5,067		-
2031	4.50	5,299		-
2032	4.50	5,541		-
2033	4.50	5,793		-
2034	4.50	6,058		-
2035	4.50	6,335		-
2036	4.50	6,624		-
		<u>\$ 114,054</u>		<u>\$ 140,000</u>

See accompanying independent auditor's report

## CITY OF FONDA, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS

## FOR THE LAST TWO YEARS

	2004	2003
Receipts		
Property tax	\$ 165,762	157,358
Other city tax	26,463	24,227
Licenses and permits	867	617
Use of money and property	14,369	11,726
Intergovernmental	72,191	120,388
Charges for service	19,321	11,484
Miscellaneous	41,933	30,292
	<u>\$ 340,906</u>	<u>356,092</u>
Disbursements:		
Operating:		
Public safety	\$ 79,329	112,832
Public works	132,129	95,252
Health and social services	1,694	1,875
Culture and recreation	91,569	78,211
Community and economic development	4,500	-
General government	58,459	67,185
Debt service	65,345	68,543
	<u>\$ 433,025</u>	<u>423,898</u>
Total		

See accompanying independent auditor's report.

# T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

701 SUMNER, SUITE 200

HUMBOLDT, IOWA 50548

515-332-3466

## 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fonda, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City of Fonda, Iowa's basic financial statements and have issued our report thereon dated October 22, 2004. Our report expressed a qualified opinion (due to the inability to verify the distribution by fund) on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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. 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 the 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*.

### Compliance

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

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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 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'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 Part II of 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 misstatement 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 over financial reporting that might be material weaknesses. However, we believe the reportable condition described at II-A-04 is a material weakness.

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 Fonda and other parties to whom the City of Fonda may report. This report is not intended for 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 the personnel of the City of Fonda during the course of our audit. Should you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

*T.P. Anderson & Company, P.C.*

October 22, 2004

City of Fonda, Iowa

Schedule of Findings

Year Ended June 30, 2004

**Part I: Summary of the Independent Auditor's Results:**

- (a) A qualified opinion was issued on the financial statements because the distribution of fund balance had not been audited for all prior years. The 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 principals.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Fonda, Iowa

Schedule of Findings

Year Ended June 30, 2004

**Part II: Findings Related to the Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-04      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. We noted that the cash receipt function and the recording of the cash receipts is on occasion handled by the same person.

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

Response - We will consider this.

Conclusion – Response acknowledged. The City could segregate duties to the extend possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-04      Credit Cards – The City has one credit card for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We presently have unwritten guidelines. However, we have not established a formal written policy detailing specifics on the use of City credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

City of Fonda, Iowa

Schedule of Findings

Year Ended June 30, 2004

**Part III: Other Findings Related to Statutory Reporting:**

III-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The City’s main depository has changed names since the depository resolution was passed. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

Recommendation – The City should review the depository resolution and make changes when necessary.

Response – We will update our current depository resolution and review it periodically for any necessary changes.

Conclusion – Response accepted.

III-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 were within the budgeted limits in all programs.

III-C-04 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-04 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

III-E-04 Business Transactions - No business transactions between the City and its officials or employees were noted.

III-F-04 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 that the coverage is adequate for current operations.

III-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

We noted one instance where the council minutes were not published. We noted several instances where the council minutes were not signed.

Recommendation – Chapter 372.13 (6) requires that all council proceedings be published within fifteen days of the meeting. Chapter 380.7 requires that all minutes of council meetings be signed by the city clerk.

The City should take the necessary steps to ensure all minutes are published and that the minutes are all signed as required.

Response – We will make sure that our minutes are signed and published in the future. We will take steps to publish all minutes that were not published previously.

Conclusion – Response accepted.

III-H-04 General Obligation Notes – General Obligation Notes were paid from the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa

III-I-04 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-J-04 Financial Condition – The General Fund, Road Use Tax Fund, Employee Benefits Fund, and the Debt Service Fund each had a deficit fund balances of \$169,598, \$2,265, \$7,685, and \$1,398 respectively at June 30, 2004.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial positions.

Response – The deficit in the General Fund is due to disbursements that exceeded receipts for a number of years. The City is aware of the deficit and plans that future general fund surpluses will eventually eliminate the deficit. The remaining deficit balances are planned to be eliminated during the 2005 fiscal year through additional receipts and transfers from funds with positive fund balances.

Conclusion – Response accepted.