



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

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE June 2, 2004

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the City of Van Horne, Iowa for the year ended June 30, 2003.

The City's receipts totaled \$685,674 for the year ended June 30, 2003, and included \$199,930 in property tax, \$31,953 from tax increment financing collections, \$99,634 from other governments and \$8,054 in interest on investments. The City also received general obligation note proceeds and revenue bond proceeds of \$799,778 and \$393,850, respectively, that are reported as other financing sources.

Disbursements for the year totaled \$1,737,396, and included \$1,333,417 for business type activities, \$115,447 for public safety and \$86,389 for debt service.

The report contains recommendations to the City Council and other City officials. For example, the City should segregate accounting duties to the extent possible with existing personnel and reconcile utility billings, collections and delinquencies each billing period. The City has responded favorably to the comments.

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 VAN HORNE

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2003

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City of Van Horne

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeffrey Verschoore	Mayor	Jan 2004
Jim Parmenter	Mayor Pro tem	Jan 2006
Adam Masten	Council Member	Jan 2004
Jerreldene Simmons	Council Member	Jan 2004
Martin Junge	Council Member	Jan 2006
Matthew Minor	Council Member	Jan 2006
Sandra Gibney	Clerk	(Resigned March 19, 2003)
Linda Klopping (Appointed)	Clerk	Indefinite
Larry Schlue	Attorney	Indefinite

City of Van Horne



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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, listed as exhibits in the table of contents of this report, of the City of Van Horne, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Van Horne's management. Our responsibility is to express an opinion 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 that our audit provides a reasonable basis for our opinion.

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.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Van Horne as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated March 18, 2004 on our consideration of the City of Van Horne'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.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 18, 2004

City of Van Horne
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 129,797	48,113	22,020
Tax increment financing collections	-	15,312	16,641
Other city tax	5,502	2,053	869
Licenses and permits	2,384	-	-
Use of money and property	7,127	789	-
Intergovernmental	41,342	58,292	-
Charges for service	885	-	-
Miscellaneous	11,161	35,344	-
Total receipts	<u>198,198</u>	<u>159,903</u>	<u>39,530</u>
Disbursements:			
Public safety	94,379	21,068	-
Public works	47,243	38,097	-
Culture and recreation	34,079	22,690	-
General government	58,890	1,144	-
Debt service	-	-	86,389
Business type activities	-	-	-
Total disbursements	<u>234,591</u>	<u>82,999</u>	<u>86,389</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(36,393)</u>	<u>76,904</u>	<u>(46,859)</u>
Other financing sources (uses):			
Sale of general fixed assets	10,036	-	-
General obligation note proceeds	-	-	-
Revenue bond proceeds	-	-	-
Transfers in	32,610	-	5,960
Transfers out	(15,688)	(22,882)	-
Total other financing sources (uses)	<u>26,958</u>	<u>(22,882)</u>	<u>5,960</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(9,435)</u>	<u>54,022</u>	<u>(40,899)</u>
Balance beginning of year, as restated (note 11)	<u>126,119</u>	<u>150,511</u>	<u>7,131</u>
Balance end of year	<u>\$ 116,684</u>	<u>204,533</u>	<u>(33,768)</u>

See notes to financial statements.

Proprietary Fund Type	Fiduciary Fund Type Expendable	Trust	Total (Memorandum Only)
-	-	-	199,930
-	-	-	31,953
-	-	-	8,424
-	-	-	2,384
138	-	-	8,054
-	-	-	99,634
253,614	-	-	254,499
34,291	-	-	80,796
288,043	-	-	685,674
-	-	-	115,447
-	-	-	85,340
-	-	-	56,769
-	-	-	60,034
-	-	-	86,389
1,333,417	-	-	1,333,417
1,333,417	-	-	1,737,396
(1,045,374)	-	-	(1,051,722)
-	-	-	10,036
799,778	-	-	799,778
393,850	-	-	393,850
4,103	-	-	42,673
(4,103)	-	-	(42,673)
1,193,628	-	-	1,203,664
148,254	-	-	151,942
28,921	2,000	-	314,682
177,175	2,000	-	466,624

City of Van Horne

Comparison of Receipts, Disbursements and Changes in Balances –

Actual to Budget

Year ended June 30, 2003

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property tax	\$ 199,930	-	199,930
Tax increment financing collections	31,953	-	31,953
Other City tax	8,424	-	8,424
Licenses and permits	2,384	-	2,384
Use of money and property	8,054	648	7,406
Intergovernmental	99,634	-	99,634
Charges for service	254,499	-	254,499
Miscellaneous	80,796	26,026	54,770
Total receipts	685,674	26,674	659,000
Disbursements:			
Public safety	115,447	21,068	94,379
Public works	85,340	-	85,340
Culture and recreation	56,769	-	56,769
Community and economic development	-	-	-
General government	60,034	-	60,034
Debt service	86,389	-	86,389
Business type activities	1,333,417	-	1,333,417
Total disbursements	1,737,396	21,068	1,716,328
Excess (deficiency) of receipts over (under) disbursements	(1,051,722)	5,606	(1,057,328)
Other financing sources, net	1,203,664	(22,882)	1,226,546
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	151,942	(17,276)	169,218
Balance beginning of year, as restated	314,682	44,143	270,539
Balance end of year	\$ 466,624	26,867	439,757

See notes to financial statements.

Amended Budget	Variance Favorable (Unfavorable)	Actual as % of Amended Budget
227,294	(27,364)	88%
30,000	1,953	107%
7,933	491	106%
2,300	84	104%
4,000	3,406	185%
305,827	(206,193)	33%
250,000	4,499	102%
10,141	44,629	540%
<u>837,495</u>	<u>(178,495)</u>	<u>79%</u>
77,230	(17,149)	122%
116,952	31,612	73%
54,774	(1,995)	104%
1,000	1,000	-
95,470	35,436	63%
96,600	10,211	89%
<u>1,292,072</u>	<u>(41,345)</u>	<u>103%</u>
<u>1,734,098</u>	<u>17,770</u>	<u>99%</u>
(896,603)		
<u>1,185,378</u>		
288,775		
<u>245,576</u>		
<u><u>534,351</u></u>		

City of Van Horne
Statement of Indebtedness
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire station	Jan 1, 1994	4.625-5.25%	\$ 250,000
Water	Dec 15, 1998	4.60	50,000
Sewer improvement	Aug 30, 2002	3.00	825,000
Total			
Revenue bonds:			
Sewer	Sep 10, 2002	4.30%	\$ 925,000
Purchase contract:			
Vehicle	Jun 28, 2003	0.00%	\$ 28,884

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
135,000	-	15,000	120,000	6,873
31,353	-	15,142	16,211	1,820
-	799,778	31,000	768,778	14,701
\$ 166,353	799,778	61,142	904,989	23,394
531,150	393,850	30,000	895,000	36,037
-	28,884	-	28,884	-

City of Van Horne

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

The City of Van Horne is a political subdivision of the State of Iowa located in Benton County. It was first incorporated in 1881 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, culture and recreation, general government and business type activities.

A. Reporting Entity

For financial reporting purposes, the City of Van Horne has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Van Horne (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operations or financial relationship with the City.

Blended Component Units

The Van Horne Fireman's Association, Incorporated is established as a non-profit corporation under Chapter 504A of the Code of Iowa. It is reported as part of the City and blended into the Special Revenue Funds. The Association has been established to preserve life and property in the City of Van Horne in case of fire or other emergency and to promote fire prevention and fire safety. Although the Association is legally separate from the City, its purpose is to benefit the City by providing the above services and by soliciting contributions and managing those funds.

The Van Horne First Responders, Incorporated is established as a non-profit corporation under Chapter 504A of the Code of Iowa. It is reported as part of the City and blended into the Special Revenue Funds. The First Responders have been established to preserve life and welfare in the City of Van Horne in case of health emergency or other health issues. Although the First Responders is legally separate from the City, its purpose is to benefit the City by providing the above services and by soliciting contributions and managing those funds.

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: Benton County Assessor's Conference Board, Benton County Emergency Management Commission and Benton County Joint E911 Service Board.

The City also participates in the Van Horne Benefited Fire District No. 1, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Fiduciary Funds

Expendable Trust Fund – The Expendable Trust Fund is used to account for monies and properties received and held by the City in a trustee capacity.

C. Basis of Accounting

The City of Van Horne 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.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2003 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for the general obligation notes and sewer revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes			
	Fire Station			
	Issued January 1, 1994			
	Interest Rates	Principal	Interest	
2004	5.00%	\$ 20,000	6,160	
2005	5.00	20,000	5,160	
2006	5.10	20,000	4,160	
2007	5.20	20,000	3,140	
2008	5.25	20,000	2,100	
2009	5.25	20,000	1,050	
Total		\$ 120,000	21,770	

Year Ending June 30,	Sewer Revenue Bonds		
	Sewer		
	Issued March 28, 2001		
	Interest Rates	Principal	Interest
2004	4.30%	\$ 31,000	38,485
2005	4.30	33,000	37,152
2006	4.30	34,000	35,733
2007	4.30	36,000	34,271
2008	4.30	37,000	32,723
2009	4.30	39,000	31,132
2010	4.30	40,000	29,455
2011	4.30	42,000	27,735
2012	4.30	44,000	25,929
2013	4.30	46,000	24,037
2014	4.30	48,000	22,059
2015	4.30	50,000	19,995
2016	4.30	52,000	17,845
2017	4.30	54,000	15,609
2018	4.30	57,000	13,287
2019	4.30	59,000	10,836
2020	4.30	62,000	8,299
2021	4.30	64,000	5,633
2022	4.30	67,000	2,881
Total		\$ 895,000	433,096

General Obligation Water Note

On December 15, 1998, the City approved a \$50,000 general obligation water note to construct improvements to the municipal waterworks system. The note will be repaid in nine equal semiannual installments of \$5,654 beginning June 1, 2000, and ending December 1, 2004. The note bears interest at 4.60% per annum and the unpaid balance at June 30, 2003 totaled \$16,211.

General Obligation Sewer Improvement Notes

On August 30, 2002, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$825,000 of general obligation sewer improvement notes with interest at 3.00% per annum. A one percent loan initiation fee was also charged against the total amount borrowed. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal wastewater treatment system. At June 30, 2003, the City had drawn \$799,778 of the \$825,000 authorized and had repaid \$31,000, leaving an outstanding balance of \$768,778. Wells Fargo Bank Iowa, N.A. has the remaining \$25,222 held in trust which the City will request as the project progresses. A formal repayment schedule has not been adopted for the debt.

Sewer Revenue Bonds

The resolution approving the issuance of the sewer revenue bonds under a loan agreement between the City of Van Horne, the Iowa Finance Authority, the Iowa

Department of Natural Resources, and Wells Fargo Bank Iowa, N.A. includes the following provisions:

- (1) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholder holds a lien on the future earning of the funds.
- (2) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking fund for the purpose of making the bond principal and interest payments when due.
- (3) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the bond principal and interest falling due in the same year.

The City has not established the sewer sinking account required by the sewer revenue bond resolution.

During the year ended June 30, 2003, the City received \$393,850 of the \$925,000 authorized, net of a one percent loan initiation fee that was charged against the total amount borrowed. During the year, \$30,000 of bonds were redeemed and, at June 30, 2003, the outstanding principal balance was \$895,000.

(4) Purchase Contract

On June 28, 2003, the City entered into a purchase contract for \$28,884 to purchase a vehicle. The interest free contract requires thirty-six monthly payments of \$802 beginning July 28, 2003, with the final payment due June 28, 2006. The unpaid balance at June 30, 2003 was \$28,884.

(5) 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 salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2003, 2002 and 2001 were \$5,167, \$4,815 and \$4,481, respectively, equal to the required contributions for each year.

(6) Compensated Absences

The City Clerk and City Public Works Superintendent accumulate a limited amount of earned but unused vacation days for subsequent use or payment. Each fiscal year, the City Clerk and City Public Works Superintendent may choose to be paid for ten days of unused vacation or to carry ten days of vacation forward into the next fiscal year. The City's approximate liability for earned vacation payable to employees at June 30, 2003, primarily relating to the General Fund, was \$2,100. This liability has been computed based on rates of pay in effect at June 30, 2003.

(7) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations by function. During the year ended June 30, 2003, disbursements in the public safety, culture and recreation and business type activities functions exceeded the amounts budgeted.

(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) Deficit Balances

The Debt Service Fund and the Enterprise, Water Fund had deficit balances of \$33,768 and \$8,295, respectively, at June 30, 2003.

(10) Water Purchase Contract

On November 12, 2002, the City entered into a water purchase contract with Poweshiek Water Association. The contract states Poweshiek Water Association will provide water to the City for \$2 per 1,000 gallons and an initial connection fee of \$624,961. The project will be funded through future water revenues and through the sale of general obligation notes.

(11) Restatements

The City did not previously report the Van Horne Recreation Board and the Future Green accounts in the Special Revenue Funds. Also, the City reclassified the First Responders, a component unit of the City, from the General Fund to the Special Revenue Funds. The effects of these restatements are as follows:

Fund/Account	Balance June 30, 2002, as Previously Reported	Adjustment	Balance at July 1, 2002, as Restated
General:			
First Responders	\$ 37,198	(37,198)	-
Special Revenue:			
Van Horne Recreation Board	-	15,545	15,545
Future Green	-	6,221	6,221
First Responders	-	37,198	37,198
	<u>\$ 37,198</u>	<u>21,766</u>	<u>58,964</u>

(12) Special Investigation

City of Van Horne officials requested the Office of Auditor of State to perform a special investigation of the City's disbursements after identifying concerns with certain reimbursements prepared by and issued to the former Clerk. A report dated January 31, 2003 on the special investigation covering the period June 1, 2000 through December 31, 2002 identified \$7,776.44 of improper disbursements and \$731.91 of questionable disbursements. Of these amounts, improper disbursements of \$1,827.39 and questionable disbursements of \$209.65 relate to the year ended June 30, 2003.

Copies of the Auditor of State's special investigation report were filed with the Benton County Attorney's Office, the Division of Criminal Investigation, and the Attorney General's Office.

City of Van Horne

City of Van Horne
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	Van Horne Benefitted Fire General	Fire District	Fire Equipment Replacement
Receipts:			
Property tax	\$ 129,797	-	-
Other city tax:			
Mobile home tax	321	-	-
Utility tax replacement excise tax	5,181	-	-
	5,502	-	-
Licenses and permits	2,384	-	-
Use of money and property:			
Interest on investments	3,145	-	3,764
Intergovernmental:			
State allocation	10,302	-	-
Bank franchise tax	1,682	-	-
Enrich Iowa	1,220	-	-
Library open access	13	-	-
Van Horne Benefitted Fire District No. 1	11,920	11,920	-
County contribution	4,285	-	-
	29,422	11,920	-
Charges for service:			
Community center	-	-	-
Miscellaneous:			
Donations	8,025	-	-
Refunds and reimbursements	675	-	-
	8,700	-	-
Total receipts	178,950	11,920	3,764

First Responders Equipment Replacement	Library	Park and Recreation	Total
-	-	-	129,797
-	-	-	321
-	-	-	5,181
-	-	-	5,502
-	-	-	2,384
106	112	-	7,127
-	-	-	10,302
-	-	-	1,682
-	-	-	1,220
-	-	-	13
-	-	-	23,840
-	-	-	4,285
-	-	-	41,342
-	-	885	885
-	2,461	-	10,486
-	-	-	675
-	2,461	-	11,161
106	2,573	885	198,198

City of Van Horne
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	Van Horne		
	General	Benefited Fire District	Fire Equipment Replacement
Disbursements:			
Public safety:			
Police:			
Services and commodities	14,040	-	-
Fire:			
Services and commodities	12,041	-	-
Capital outlay	10,066	-	-
	<u>22,107</u>	-	-
Ambulance:			
Services and commodities	10,179	-	-
Capital outlay	48,053	-	-
	<u>58,232</u>	-	-
	<u>94,379</u>	-	-
Public works:			
Street maintenance:			
Personal services	3,424	-	-
Services and commodities	31,597	-	-
	<u>35,021</u>	-	-
Street lighting:			
Services and commodities	10,929	-	-
Traffic safety:			
Services and commodities	912	-	-
	<u>46,862</u>	-	-
Culture and recreation:			
Park and recreation:			
Personal services	590	-	-
Services and commodities	4,451	-	-
	<u>5,041</u>	-	-
Community center:			
Services and commodities	745	-	-
Library:			
Personal services	12,464	-	-
Services and commodities	11,550	-	-
Capital outlay	3,729	-	-
	<u>27,743</u>	-	-
	<u>33,529</u>	-	-

First Responders Equipment Replacement	Library	Park and Recreation	Total
-	-	-	14,040
-	-	-	12,041
-	-	-	10,066
-	-	-	22,107
-	-	-	10,179
-	-	-	48,053
-	-	-	58,232
-	-	-	94,379
-	-	-	3,424
-	381	-	31,978
-	381	-	35,402
-	-	-	10,929
-	-	-	912
-	381	-	47,243
-	-	-	590
-	-	550	5,001
-	-	550	5,591
-	-	-	745
-	-	-	12,464
-	-	-	11,550
-	-	-	3,729
-	-	-	27,743
-	-	550	34,079

City of Van Horne
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Van Horne Benefited Fire District	Fire Equipment Replacement
General government:			
Legislative:			
Mayor and Council:			
Personal services	3,115	-	-
Clerk:			
Personal services	6,760	-	-
Services and commodities	13,080	-	-
	<u>19,840</u>	-	-
Legal services:			
Services and commodities	28,374	-	-
City hall:			
Services and commodities	2,785	-	-
Insurance:			
Services and commodities	4,776	-	-
	<u>58,890</u>	-	-
Total disbursements	<u>233,660</u>	-	-
Excess (deficiency) of receipts over (under) disbursements	<u>(54,710)</u>	<u>11,920</u>	<u>3,764</u>
Other financing sources (uses):			
Sale of general fixed assets	10,036	-	-
Operating transfers in (out):			
General:			
General	-	-	9,728
Fire Equipment Replacement	(9,728)	-	-
First Responders Equipment Replacement	9,064	-	-
Special Revenue:			
First Responders	22,882	-	-
Debt Service	(5,960)	-	-
Total other financing sources (uses)	<u>26,294</u>	-	<u>9,728</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(28,416)</u>	<u>11,920</u>	<u>13,492</u>
Balance beginning of year, as restated (note 11)	<u>56,758</u>	-	<u>56,095</u>
Balance end of year	<u>\$ 28,342</u>	<u>11,920</u>	<u>69,587</u>

See accompanying independent auditor's report.

First Responders Equipment Replacement	Library	Park and Recreation	Total
-	-	-	3,115
-	-	-	6,760
-	-	-	13,080
-	-	-	19,840
-	-	-	28,374
-	-	-	2,785
-	-	-	4,776
-	-	-	58,890
-	381	550	234,591
106	2,192	335	(36,393)
-	-	-	10,036
(9,064)	-	-	664
-	-	-	(9,728)
-	-	-	9,064
-	-	-	22,882
-	-	-	(5,960)
(9,064)	-	-	26,958
(8,958)	2,192	335	(9,435)
8,958	3,933	375	126,119
-	6,125	710	116,684

City of Van Horne
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Employee Benefits	Emergency
Receipts:			
Property tax	\$ -	44,313	3,800
Tax increment financing collections	-	-	-
Other city tax:			
Mobile home tax	-	110	9
Utility tax replacement excise tax	-	1,781	153
	-	1,891	162
Use of money and property:			
Interest on investments	-	-	-
Intergovernmental:			
Road use tax allocation	58,292	-	-
Miscellaneous:			
Gifts and fund raisers	-	-	-
Total receipts	58,292	46,204	3,962
Disbursements:			
Public safety:			
Fire protection services:			
Services and commodities	-	-	-
Ambulance:			
Services and commodities	-	-	-
Public works:			
Personal services	-	14,800	-
Services and commodities	23,297	-	-
	23,297	14,800	-

Van Horne Recreation Board	Future Green	Tax Increment Financing	First Responders	Volunteer Fire Department	Total
-	-	-	-	-	48,113
-	-	15,312	-	-	15,312
-	-	-	-	-	119
-	-	-	-	-	1,934
-	-	-	-	-	2,053
141	-	-	556	92	789
-	-	-	-	-	58,292
7,858	1,460	-	10,934	15,092	35,344
7,999	1,460	15,312	11,490	15,184	159,903
-	-	-	9,720	-	9,720
-	-	-	-	11,348	11,348
-	-	-	9,720	11,348	21,068
-	-	-	-	-	14,800
-	-	-	-	-	23,297
-	-	-	-	-	38,097

City of Van Horne
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Employee Benefits	Emergency
Disbursements (continued):			
Culture and recreation:			
Personal services	-	1,749	-
Services and commodities	-	-	-
Capital outlay	-	-	-
	-	1,749	-
General government:			
Personal services	-	1,144	-
Total disbursements	23,297	17,693	-
Excess (deficiency) of receipts over (under) disbursements	34,995	28,511	3,962
Other financing uses:			
Operating transfers out:			
General:			
General	-	-	-
Excess (deficiency) of receipts over (under) disbursements and other financing uses	34,995	28,511	3,962
Balance beginning of year, as restated (note 11)	30,266	20,167	34,169
Balance end of year	\$ 65,261	48,678	38,131

See accompanying independent auditor's report.

Van Horne Recreation Board	Future Green	Tax Increment Financing	First Responders	Volunteer Fire Department	Total
-	-	-	-	-	1,749
4,761	3,019	-	-	-	7,780
13,161	-	-	-	-	13,161
17,922	3,019	-	-	-	22,690
-	-	-	-	-	1,144
17,922	3,019	-	9,720	11,348	82,999
(9,923)	(1,559)	15,312	1,770	3,836	76,904
-	-	-	(22,882)	-	(22,882)
(9,923)	(1,559)	15,312	(21,112)	3,836	54,022
15,545	6,221	-	37,198	6,945	150,511
5,622	4,662	15,312	16,086	10,781	204,533

Schedule 3

City of Van Horne
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2003

Receipts:	
Property tax	\$ 22,020
	<hr/>
Tax increment financing collections	16,641
	<hr/>
Other city tax:	
Mobile home tax	51
Utility tax replacement excise tax	818
	<hr/>
	869
	<hr/>
Total receipts	39,530
	<hr/>
Disbursements:	
Debt service:	
Principal redeemed	61,142
Interest paid	23,394
Registrar fees	1,853
	<hr/>
Total disbursements	86,389
	<hr/>
Deficiency of receipts under disbursements	(46,859)
Other financing sources:	
Operating transfers in:	
General:	
General	5,960
	<hr/>
Deficiency of receipts and other financing sources under disbursements	(40,899)
Balance beginning of year	7,131
	<hr/>
Balance end of year	\$ (33,768)
	<hr/>

See accompanying independent auditor's report.

City of Van Horne
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water	Sewer Rental	Solid Waste	Water Meter Deposit	Total
Receipts:					
Use of money and property:					
Interest on investments	\$ -	-	-	138	138
Charges for service:					
Sale of water	96,953	-	-	-	96,953
Sewer rental fees	-	115,334	-	-	115,334
Refuse collection fees	-	-	41,327	-	41,327
	<u>96,953</u>	<u>115,334</u>	<u>41,327</u>	<u>-</u>	<u>253,614</u>
Miscellaneous:					
Sales tax refund	-	24,155	-	-	24,155
Deposits and fees	6,886	400	-	2,850	10,136
	<u>6,886</u>	<u>24,555</u>	<u>-</u>	<u>2,850</u>	<u>34,291</u>
Total receipts	<u>103,839</u>	<u>139,889</u>	<u>41,327</u>	<u>2,988</u>	<u>288,043</u>
Disbursements:					
Business type activities:					
Personal services	52,181	15,610	5,949	-	73,740
Services and commodities	45,714	58,538	30,757	1,350	136,359
Capital outlay	6,613	1,041,956	-	-	1,048,569
Debt service:					
Principal redeemed	-	30,000	-	-	30,000
Interest paid	-	36,037	-	-	36,037
Administration fee	-	8,712	-	-	8,712
Total disbursements	<u>104,508</u>	<u>1,190,853</u>	<u>36,706</u>	<u>1,350</u>	<u>1,333,417</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(669)</u>	<u>(1,050,964)</u>	<u>4,621</u>	<u>1,638</u>	<u>(1,045,374)</u>
Other financing sources (uses):					
General obligation note proceeds	-	799,778	-	-	799,778
Revenue bond proceeds	-	393,850	-	-	393,850
Operating transfers in (out):					
Enterprise:					
Water Meter Deposits	4,103	-	-	-	4,103
Water	-	-	-	(4,103)	(4,103)
Total other financing sources (uses)	<u>4,103</u>	<u>1,193,628</u>	<u>-</u>	<u>(4,103)</u>	<u>1,193,628</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>3,434</u>	<u>142,664</u>	<u>4,621</u>	<u>(2,465)</u>	<u>148,254</u>
Balances beginning of year	<u>(11,729)</u>	<u>(11,450)</u>	<u>35,432</u>	<u>16,668</u>	<u>28,921</u>
Balances end of year	<u>\$ (8,295)</u>	<u>131,214</u>	<u>40,053</u>	<u>14,203</u>	<u>177,175</u>

See accompanying independent auditor's report.

Schedule 5

City of Van Horne
Schedule of Cash Transactions
Expendable Trust Fund
Year ended June 30, 2003

	<u>Library Memorial</u>
Receipts:	
None	\$ -
Disbursements:	
None	-
Excess of receipts over disbursements	-
Balance beginning of year	<u>2,000</u>
Balance end of year	<u>\$ 2,000</u>

See accompanying independent auditor’s report.

City of Van Horne
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2003

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for State			
Revolving Funds	66.458	CS-19-2153-01	\$ 225,871
	66.458	CS-19-2153-02	<u>666,666</u>
Total			<u><u>\$ 892,537</u></u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant and loan activity of the City of Van Horne and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

See accompanying independent auditor's report.

City of Van Horne



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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Independent Auditor's Report on 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 Van Horne, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 18, 2004. Our report expressed an unqualified opinion 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Van Horne's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance that, although not material to the financial statements, is required to be reported under Government Auditing Standards and is described in Part II of the accompanying Schedule of findings and Questioned Costs. In addition, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City of Van Horne's operations for the year ended June 30, 2003 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 year statutory comments have been resolved except for items IV-B-03, IV-G-03, IV-I-03, IV-J-03, IV-K-03 and IV-L-03.

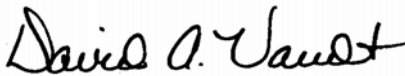
Internal Control Over Financial Reporting

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

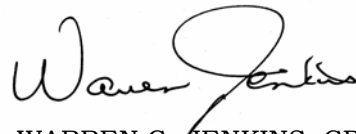
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected 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 II-A-03 and II-C-03 are material weaknesses. Prior year reportable conditions have not been resolved and are repeated as items II-A-03, II-B-03, II-C-03, II-D-03, II-E-03 and II-G-03.

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 Van Horne and other parties to whom the City of Van Horne 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 Van Horne 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

March 18, 2004

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

City of Van Horne



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Van Horne, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. The City of Van Horne's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Van Horne's management. Our responsibility is to express an opinion on the City of Van Horne's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Van Horne's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Van Horne's compliance with those requirements.

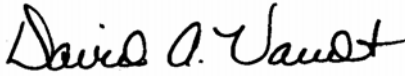
In our opinion, the City of Van Horne complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

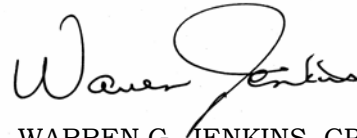
The management of the City of Van Horne is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 non-compliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 Van Horne and other parties to whom the City of Van Horne may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 18, 2004

City of Van Horne

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

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

- (a) An unqualified opinion was issued on the financial statements which 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.
- (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.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.458 – Capitalization Grants for State Revolving Fund.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Van Horne did not qualify as a low-risk auditee.

City of Van Horne

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

A special report dated January 31, 2003, covering the period June 1, 2000 through December 31, 2002, identified \$7,776.44 of improper disbursements and \$731.91 of questionable disbursements.

REPORTABLE CONDITIONS:

II-A-03 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:

- (1) Cash/banking – prepares bank reconciliation along with other cash receipt and disbursement functions.
- (2) Investments – has custody of investments and performs all record keeping.
- (3) Long-term debt – maintains long-term debt records and performs cash functions.
- (4) Receipts – collecting, depositing, journalizing, posting and recording.
- (5) Disbursements – preparation, recording, check writing, check signing and reconciling.
- (6) Utilities – billing, collecting and posting.
- (7) Payroll – recording, reconciling, check preparation and distribution.
- (8) Financial reporting – preparing, recording and reconciling.
- (9) Information system – (computer usage) – performing all general accounting functions and controlling all data input and output.

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

Response – The City of Van Horne’s Mayor and Council are taking a much more active role in checking these accounts.

Conclusion – Response accepted.

II-B-03 Records of Accounts – The accounting records for the Library, Van Horne Recreation Board and Future Green are maintained separately. These transactions and the resulting balances are not recorded in the Clerk’s records. Chapter 384.20 of the Code of Iowa states in part that “a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.”

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk’s records.

Response – They will be allowed to maintain control of their accounts. However, the City will request an annual report that includes all income and expenditures.

Conclusion – Response accepted.

II-C-03 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings collections and delinquent accounts were not reconciled throughout the year. The utility collections were not reconciled to deposits. Also, no delinquency reports were found for the year ended June 30, 2003.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations, monitor delinquencies and keep a copy of the delinquency report for each month.

Response – These accounts will become part of our computer generated financial report and will be reviewed by the Council monthly. A delinquency report will also be included in the monthly packets.

Conclusion – Response acknowledged. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits.

II-D-03 Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel and act as a quick reference to staff members and officials.
- (2) Help streamline accounting operations by achieving uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- (4) Help preserve the key elements in the City’s internal control structure.
- (5) Increase effectiveness and efficiency in the City.

Response – The City will make a concentrated effort to develop an accounting and procedures manual.

Conclusion – Response accepted.

II-E-03 Information Systems – During our review of internal control, the existing control activities in the City’s computer based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City’s computer based systems were noted:

- (1) All employees utilize only one user log-in and password and the password is not required to be changed on a regular basis.
- (2) The City does not have a written disaster recovery plan.

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

Response – This will be looked into. We are working with Benton County Emergency Management office to develop a disaster recovery plan.

Conclusion – Response accepted.

II-F-03 Transfers – Fund/account transfers were not approved by the City Council as each transfer was to be made. Also, City Council approval of fund/account transfers were not documented in the City Council minutes record.

Recommendation – All individual fund/account transfers should be approved by the City Council with the approval documented in the minutes record.

Response – This will be done. All fund transfers will be approved by the Council preceding the transfer.

Conclusion – Response accepted.

II-G-03 Disbursements – Certain disbursements were not approved and some disbursements were not approved by the Council prior to disbursement. The City does not have a written disbursement approval policy allowing certain items to be paid prior to Council approval.

The City Clerk controlled the use of the Mayor’s facsimile signature stamp.

Recommendation – All City disbursements should be approved by the Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to Council approval, a listing should be provided to the Council at the next Council meeting for review and approval.

Also, checks issued should be countersigned by a person who does not otherwise participate in the preparation of checks. Prior to signing, the checks and supporting documents should be reviewed for propriety.

Response – This is being done. There is no longer a mayoral signature stamp.

Conclusion – Response accepted.

II-H-03 Investments – Detailed written investment records were not maintained.

Recommendation – The City should keep a written detailed investment record for all City investment activity. At a minimum, the record should include investment number, date purchased, maturity date, interest rate, interest earned, fund(s) held for, copies of the original investment document and paid interest stubs.

Response – This will be done.

Conclusion – Response accepted.

II-I-03 Monthly Financial Reports and Computer Records – Financial reports provided to the City Council each month contained only the general checking account activity and did not contain all of the financial information accounted for by the City Clerk at City Hall. Additionally, complete bank to book reconciliations were not completed as only the general checking account information was contained on the City's computer system.

Recommendation – All City funds and account activity should be included on the City's computer system in order to provide City officials with complete monthly financial reports. All financial reports should be reconciled to the bank each month and the bank to book reconciliation should be attached to the monthly financial report in support of financial information. One of the purposes of such a reconciliation is to determine whether the actual assets agree with the recorded accountability. Also, to provide better financial information and control and to assist in locating and correcting errors in a timely manner, the computer information should be reconciled to receipt and disbursement printouts on a monthly basis.

Response – This will be done.

Conclusion – Response accepted.

City of Van Horne
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over major programs were noted.

City of Van Horne

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-03 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2003.

IV-B-03 Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the public safety, culture and recreation and business type activities functions. Additionally, disbursements in the public safety, debt service and business type activities functions exceeded budgeted amounts prior to a budget amendment. 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 sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Correct budget and spending procedures will be followed. We will amend prior to overspending the budget.

Conclusion – Response accepted.

IV-C-03 Questionable Disbursements – Disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 are detailed in a Report on Special Investigation of the City of Van Horne issued by the Office of Auditor of State dated January 31, 2003.

Additional disbursements noted for the year ended June 30, 2003 we believe may not meet the requirement of public purpose, as noted above, are as follows:

<u>Description</u>	<u>Amount</u>
Future Green Donation	\$ 800
Tree of Lights Donation	250

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document in the minutes record the specific public purpose served by each of these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including

the requirements for proper documentation surrounding each individual transaction.

Response – We will look into these expenditures and discuss whether they meet the public's best interest. We will then document how we feel they meet the public's best interest.

Conclusion – Response accepted.

- IV-D-03 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-E-03 Business Transactions – No transactions between the City and City officials or employees were noted.
- IV-F-03 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-G-03 Council Minutes – Except as noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

The City Council went into closed sessions on December 14, 2002, December 21, 2002, January 14, 2003 and January 28, 2003 to discuss an employee's performance. The meetings were not closed in accordance with Chapter 21 of the Code of Iowa, commonly known as the open-meetings law, and were not taped as required.

Additionally, the City did not publish minutes within 15 days, did not include a summary of disbursements from each fund, did not include a summary of all receipts and did not include the purpose of claims approved as required by Chapter 372.13(6) of the Code of Iowa.

Library minutes were not signed.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa by stating the purpose for which the meeting is being closed and the vote of each individual Council Member. The City should keep detailed minutes of all discussion, identify persons present and action occurring at a closed session, and should also tape record all of the closed session. These documents are to be sealed and are not public records open to public inspection.

The City should publish minutes as required by Chapter 372.13(6) of the Code of Iowa. Also, Library minutes should be signed to support approval of actions approved by the Board.

Response – This will be followed.

Conclusion – Response accepted.

- IV-H-03 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.

IV-I-03 City Code – The City Code has not been recodified within the past five years.

Recommendation – Chapter 380.8(2) of the Code of Iowa states in part, “At least once every five years, a City shall compile a Code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys.” The City should review this for compliance.

Response – This is currently being done and will be completed by July 2004.

Conclusion – Response accepted.

IV-J-03 TIF Collections – The City recorded a portion of tax increment financing collections directly into the Debt Service Fund.

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

Response – This will be followed.

Conclusion – Response accepted.

IV-K-03 Sewer Revenue Bonds – The City has not established the Enterprise Fund, Sewer Revenue Bond Sinking Account as required by the sewer revenue bond indenture.

Recommendation – City officials should review the sewer revenue bond resolution and comply with provisions of the resolution. The City should establish the Enterprise Fund, Sewer Revenue Bond Sinking Account and make the necessary transfers as required by the bond indenture.

Response – A sewer sinking fund will be established.

Conclusion – Response accepted.

IV-L-03 Deficit Balances – The following funds/accounts had deficit balances at June 30, 2003:

<u>Fund/Account</u>	<u>Amount</u>
Debt Service	\$ 33,768
Enterprise: Water	8,295

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

Response – We are looking into correcting this.

Conclusion – Response accepted.

IV-M-03 2001 Wastewater Treatment Project – The 2001 Wastewater Treatment Project was accounted for in the Enterprise Fund, Sewer Rental Account.

Recommendation – Although the project is complete at June 30, 2003, the City should consider creating a separate Capital Projects Fund for significant future projects.

Response – This will be done for future significant capital projects.

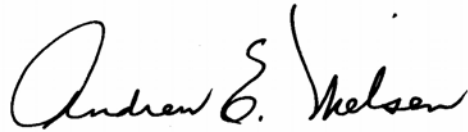
Conclusion – Response accepted.

City of Van Horne

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Daniel L. Grady, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State