



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

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**NEWS RELEASE**

FOR RELEASE July 2, 2007

Contact: Andy Nielsen  
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Auditor of State David A. Vaudt today released an audit report on the City of Humeston, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$2,170,283 for the year ended June 30, 2006. The receipts included \$108,983 in property tax, \$288,692 from charges for service, \$94,104 from operating grants, contributions and restricted interest, \$961,111 from capital grants, contributions and restricted interest, \$1,472 from unrestricted interest on investments, \$713,085 from bond and note proceeds and \$2,836 from other general receipts.

Disbursements for the year totaled \$1,799,016, and included \$1,113,067 for capital projects, \$213,439 for public safety and \$69,153 for public works. Also, disbursements for business type activities totaled \$255,548.

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

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**CITY OF HUMESTON**

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

**JUNE 30, 2006**

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**City of Humeston**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2006)</b>		
Russell Wright	Mayor	Jan 2006
Chester Gault	Council Member	Jan 2006
Gregory Huff	Council Member	Jan 2006
William Carlton	Council Member	Jan 2008
Donald Richard	Council Member	Jan 2008
David Gunzenhauser	Council Member	Jan 2008
<b>(After January 2006)</b>		
Russell Wright	Mayor	Jan 2010
Neil Adams (Appointed)	Council Member	Nov 2007
William Carlton	Council Member	Jan 2008
Donald Richard	Council Member	Jan 2008
David Gunzenhauser	Council Member	Jan 2008
Chester Gault	Council Member	(Deceased)
Gregory Huff	Council Member	(Resigned Apr 2007)
Linda Hanson	Clerk/Treasurer	Jan 2006
Stacy Stephens	Clerk/Treasurer	Indefinite
Monty Franklin	Attorney	Indefinite

**City of Humeston**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Humeston, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

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, 2005, 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 Humeston as of June 30, 2006, 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 discussed in Note 13, the City of Humeston did not comply with certain requirements governing allowable costs/cost principles applicable to the Water and Waste Disposal Systems for Rural Communities Program. As a result, costs of \$37,947 were questioned. Resolving this non-compliance is ultimately the responsibility of the U.S. Department of Agriculture. The ultimate disallowance of the questioned costs, if any, cannot presently be determined.

As described in Note 12, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2007 on our consideration of the City of Humeston’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Humeston’s basic financial statements. Other supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 29, 2007

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Humeston 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, 2006. 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, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### 2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$459,000 due to the receipt of grants, donations and the issuance of notes for capital projects.
- The cash basis net assets of the City's business type activities decreased approximately \$88,000 due to disbursements for water and sewer capital projects.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **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 operational results of funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include operation of the water and sanitary sewer system and garbage collection. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Library Memorial, 3) the Debt Service Fund, 4) the Capital Projects Fund and 4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

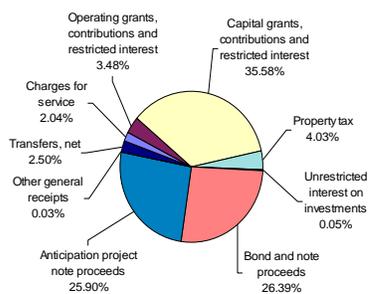
The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

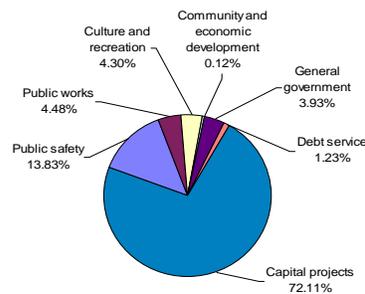
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$253,811 to \$712,673. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 55,077
Operating grants, contributions and restricted interest	94,104
Capital grants, contributions and restricted interest	961,111
General receipts:	
Property tax	108,983
Unrestricted interest on investments	1,472
Bond and note proceeds	713,085
Anticipation project note proceeds	700,000
Anticipation project notes redeemed	(700,000)
Other general receipts	911
Transfers, net	67,587
Total receipts and transfers	2,002,330
Disbursements:	
Public safety	213,439
Public works	69,153
Culture and recreation	66,312
Community and economic development	1,816
General government	60,631
Debt service	19,050
Capital projects	1,113,067
Total disbursements	1,543,468
Increase in cash basis net assets	458,862
Cash basis net assets beginning of year	253,811
Cash basis net assets end of year	\$ 712,673

Receipts by Source



Disbursements by Function



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 114,129
Sewer	67,056
Garbage	52,430
Customer deposits	1,925
Total receipts	<u>235,540</u>
Disbursements and transfers:	
Water	85,701
Sewer	129,557
Garbage	40,290
Transfers	67,587
Total disbursements and transfers	<u>323,135</u>
Decrease in cash basis net assets	(87,595)
Cash basis net assets beginning of year	<u>143,204</u>
Cash basis net assets end of year	<u>\$ 55,609</u>

The total business type activities cash balance decreased from a year ago, decreasing from \$143,204 to \$55,609. The decrease is due primarily to disbursements from the Sewer Fund for an upcoming sewer project and the transfer of funds to the Capital Projects Fund for a water project.

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

As the City of Humeston completed the year, its governmental funds reported a combined fund balance of \$712,673, an increase of nearly \$459,000 above last year's balance of \$253,811. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$24,485 from the prior year to a year-end balance of \$64,745. This decrease is primarily due to disbursements for capital assets.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$8,499 to \$2,938 during the fiscal year. This decrease was attributable to an increase in the cost of oil for street repairs and the purchase of a loader.
- The Special Revenue, Library Memorial Fund cash balance increased \$24,905 to \$67,179 during the fiscal year. This increase is due to donations collected for memorials.
- The Capital Projects Fund cash balance increased \$444,939 to \$540,939 during the fiscal year. This increase is due to the receipt of note proceeds and donations for street and library projects.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$37,234 to a year-end balance of \$41,027. This decrease was due primarily to a transfer to the Capital Projects Fund for a water project.
- The Sewer Fund cash balance decreased \$62,501 to a year-end balance of \$46,176. The decrease was due to disbursements for the sewer project.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget. Total disbursements were \$363,946 in excess of the budget. Disbursements in the public safety, public works, culture and recreation, general government and business type activities functions were \$193,639, \$4,953, \$41,812, \$42,731 and \$109,548, respectively, more than the budget. The public safety function was \$193,639 more than budgeted primarily due to \$175,000 disbursed from federal grants received to purchase a fire truck and other fire equipment by the Humeston Fire Department which were not included in the budget. The business type activities function was \$109,548 more than budgeted due to the sewer improvement and extension project progressing faster than anticipated. The public works, culture and recreation and general government functions exceeded the budget due to unexpected disbursements.

The City's receipts were \$51,252 less than budgeted. Miscellaneous receipts were \$467,284 more than budgeted, primarily due to the City receiving unanticipated contributions from outside donors for library building and street improvement projects. Intergovernmental receipts were \$550,678 less than budgeted, primarily due to incorrectly budgeting revenue note proceeds as intergovernmental receipts rather than as an other financing source.

## DEBT ADMINISTRATION

At June 30, 2006, the City had \$719,085 in bonds, notes and other long-term debt outstanding, compared to none last year. The chart below segregates the City's debt into its component parts.

Outstanding Debt at Year-End	
	June 30, 2006
Water revenue note	\$ 500,000
General obligation notes	200,000
Revenue bonds	7,085
Real estate contract	12,000
Total	<u>\$ 719,085</u>

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 is \$212,000; below its constitutional debt limit of approximately \$621,000.

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

The City of Humeston's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. The City's FY 2007 assessed value has decreased \$97,384 from the FY 2006 level.

The FY 2007 budget contains total receipts of \$695,784 and disbursements of \$644,600. This budget is considerably less than the FY 2006 budget which contained total receipts of \$1,508,450 and disbursements of \$1,435,070. The FY 2006 budget included approximately \$1,100,000 for capital projects which are not included in the FY 2007 budget.

The FY 2007 levy rate is \$15.57498 per \$1,000 of taxable valuation, an increase from \$15.26611 per \$1,000 of taxable valuation in FY 2006. The employee benefit levy increased from \$1.86661 per \$1,000 of taxable valuation in FY 2006 to \$4.20425 per \$1,000 of taxable valuation in FY 2007 due to health insurance cost increases. The debt service levy rate decreased from \$2.96186 per \$1,000 of taxable valuation in FY 2006 to \$2.94439 per \$1,000 of taxable valuation for FY 2007.

These parameters were taken into account when adopting the budget for FY 2007.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Stacy Stephens, City Clerk, P.O. Box 188, Humeston, IA 50123.

## **Basic Financial Statements**

City of Humeston

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	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	\$ 213,439	11,458	6,031	175,107
Public works	69,153	-	46,371	-
Culture and recreation	66,312	38,647	41,702	-
Community and economic development	1,816	-	-	-
General government	60,631	4,972	-	-
Debt service	19,050	-	-	-
Capital projects	1,113,067	-	-	786,004
Total governmental activities	1,543,468	55,077	94,104	961,111
Business type activities:				
Water	85,701	114,129	-	-
Sewer	129,557	67,056	-	-
Garbage	40,290	52,430	-	-
Total business type activities	255,548	233,615	-	-
Total	\$ 1,799,016	288,692	94,104	961,111

**General Receipts:**

Property and other city tax levied for:  
 General purposes  
 Debt service  
 Unrestricted interest on investments  
 Bond and note proceeds  
 Anticipation project note proceeds  
 Anticipation project note repayment  
 Miscellaneous  
 Transfers  
 Total general receipts and transfers  
 Change in cash basis net assets  
 Cash basis net assets beginning of year  
 Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:  
 Streets  
 Library memorial  
 Debt service  
 Capital projects  
 Other purposes  
 Unrestricted

**Total cash basis net assets**

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
----------------------------	-----------------------------	-------

(20,843)	-	(20,843)
(22,782)	-	(22,782)
14,037	-	14,037
(1,816)	-	(1,816)
(55,659)	-	(55,659)
(19,050)	-	(19,050)
(327,063)	-	(327,063)
(433,176)	-	(433,176)

-	28,428	28,428
-	(62,501)	(62,501)
-	12,140	12,140
-	(21,933)	(21,933)
(433,176)	(21,933)	(455,109)

87,788	-	87,788
21,195	-	21,195
1,472	-	1,472
713,085	-	713,085
700,000	-	700,000
(700,000)	-	(700,000)
911	1,925	2,836
67,587	(67,587)	-

892,038	(65,662)	826,376
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458,862	(87,595)	371,267
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253,811	143,204	397,015
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\$ 712,673	55,609	768,282
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\$ 2,938	-	2,938
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67,179	-	67,179
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21,195	678	21,873
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540,939	-	540,939
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15,677	-	15,677
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64,745	54,931	119,676
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\$ 712,673	55,609	768,282
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City of Humeston

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

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Library Memorial
Receipts:			
Property tax	\$ 84,600	-	-
Other city tax	3,189	-	-
Licenses and permits	740	-	-
Use of money and property	3,406	-	1,831
Intergovernmental	186,509	45,463	3,012
Charges for service	36,030	-	-
Miscellaneous	22,118	907	25,037
Total receipts	336,592	46,370	29,880
Disbursements:			
Operating:			
Public safety	213,439	-	-
Public works	14,284	54,869	-
Culture and recreation	60,527	-	5,785
Community and economic development	1,816	-	-
General government	60,631	-	-
Debt service	-	-	-
Capital projects	8,770	-	-
Total disbursements	359,467	54,869	5,785
Excess (deficiency) of receipts over (under) disbursements	(22,875)	(8,499)	24,095
Other financing sources (uses):			
Anticipation project note proceeds	-	-	-
Anticipation project note repayment	-	-	-
Bond and note proceeds	-	-	-
Operating transfers in	-	-	-
Operating transfers out	(1,610)	-	-
Total other financing sources (uses)	(1,610)	-	-
Net change in cash balances	(24,485)	(8,499)	24,095
Cash balances beginning of year	89,230	11,437	43,084
Cash balances end of year	\$ 64,745	2,938	67,179
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	64,745	-	-
Special revenue funds	-	2,938	67,179
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 64,745	2,938	67,179

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	20,427	105,027
-	768	3,957
-	-	740
4,487	-	9,724
363,020	-	598,004
-	1,617	37,647
418,497	-	466,559
786,004	22,812	1,221,658
-	-	213,439
-	-	69,153
-	-	66,312
-	-	1,816
-	-	60,631
19,050	-	19,050
1,104,297	-	1,113,067
1,123,347	-	1,543,468
(337,343)	22,812	(321,810)
700,000	-	700,000
(700,000)	-	(700,000)
713,085	-	713,085
69,197	-	69,197
-	-	(1,610)
782,282	-	780,672
444,939	22,812	458,862
96,000	14,060	253,811
540,939	36,872	712,673
-	21,195	21,195
-	-	64,745
-	-	70,117
540,939	-	540,939
-	15,677	15,677
540,939	36,872	712,673

**City of Humeston**

City of Humeston

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

As of and for the year ended June 30, 2006

	Enterprise			Total
	Water	Sewer	Nonmajor Garbage	
Operating receipts:				
Charges for service	\$ 114,129	67,056	52,430	233,615
Operating disbursements:				
Business type activities	78,449	123,411	40,290	242,150
Excess (deficiency) of operating receipts over (under) operating disbursements	35,680	(56,355)	12,140	(8,535)
Non-operating receipts (disbursements):				
Customer deposits	1,925	-	-	1,925
Debt service	(7,252)	(6,146)	-	(13,398)
Total non-operating receipts (disbursements)	(5,327)	(6,146)	-	(11,473)
Excess (deficiency) of receipts over (under) disbursements	30,353	(62,501)	12,140	(20,008)
Operating transfers out	(67,587)	-	-	(67,587)
Net change in cash balances	(37,234)	(62,501)	12,140	(87,595)
Cash balances beginning of year	78,261	108,677	(43,734)	143,204
Cash balances end of year	\$ 41,027	46,176	(31,594)	55,609
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ 678	-	-	678
Unreserved	40,349	46,176	(31,594)	54,931
Total cash basis fund balances	\$ 41,027	46,176	(31,594)	55,609

See notes to financial statements.

City of Humeston

Notes to Financial Statements

June 30, 2006

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

The City of Humeston is a political subdivision of the State of Iowa located in Wayne County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

The Library Memorial Fund is used to account for library projects financed by donations.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through proprietary funds.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government and business type activities functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 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.

At June 30, 2006, the City had the following investment:

Type	Carrying Amount	Fair Value	Maturity
U.S. Treasury Bond	\$ 23,000	25,413	Nov 15, 2027

**(3) Anticipation Notes**

On July 5, 2005, the City issued a \$200,000 general obligation loan agreement anticipation note and a \$500,000 water revenue loan agreement anticipation project note to pay the costs of constructing improvements and extensions to the waterworks system. The notes bear interest at 5.0% per annum and mature on August 1, 2006. The notes were repaid March 3, 2006 by issuance of a \$500,000 USDA Rural Development water revenue note dated March 3, 2006 which bears interest at 4.375% per annum and matures on March 1, 2046 and by issuance of \$200,000 general obligation water improvement notes dated June 21, 2006 which bear interest at 4.90% per annum and mature on June 1, 2016. Interest of \$17,370 was paid during the year ended June 30, 2006.

**(4) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation water improvement notes are as follows:

Year	Interest	Principal	Interest	Total
Ending	Rates			
June 30,				
2007	4.90%	\$ 16,420	9,050	25,470
2008	4.90	16,676	8,794	25,470
2009	4.90	17,503	7,967	25,470
2010	4.90	18,372	7,098	25,470
2011	4.90	19,283	6,187	25,470
2012 - 2016	4.90	111,746	15,604	127,350
Total		\$ 200,000	54,700	254,700

Sewer Revenue Bonds – On November 7, 2005, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$168,000 of sewer revenue bonds with interest at 3.0% per annum. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the City’s sewer system. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred.

At June 30, 2006, the City had drawn \$13,085, including a \$1,680 initiation fee, of the \$168,000 authorized. A formal repayment schedule has not been adopted for the debt. The City has repaid \$6,000, leaving a balance of \$7,085 at June 30, 2006.

The resolution providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate revenue bond sinking account within the Enterprise Fund for the purpose of making the bond principal and interest payments when due. The City has not established the required sinking account.

USDA Rural Development Water Revenue Note – The City issued a water revenue note totaling \$500,000 on March 3, 2006 to defray a portion of the cost of constructing improvements and extensions to the waterworks system. The note is payable to the U.S. Department of Agriculture (USDA) in annual installments of \$27,060, including interest at 4.375% per annum. During the year ended June 30, 2006, no principal payments were made and interest of \$7,252 was paid to the USDA, leaving a principal balance due at June 30, 2006 of \$500,000.

The resolution providing for the issuance of the water revenue note includes the following provisions.

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) The City shall make annual payments to the USDA of interest only in the years 2006 and 2007 and of \$27,060, including interest at 4.375% per annum, in the years 2008 through 2046, inclusive.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making the above payments when due.
- (c) Additional monthly transfers of \$226 shall be made to a water revenue note reserve account until the sum of \$27,060 has been accumulated. This account is restricted for making the annual principal and interest payments whenever there is sufficient money in the water revenue note sinking account.

The City has not established the sinking and reserve accounts required by the water revenue note resolution.

**(5) Real Estate Contract**

The City entered into a contract on July 6, 2005 to purchase real estate for \$14,000. The contract requires payment of \$2,000 during the year ended June 30, 2006 and annual installments of \$3,000, interest free, each July 1 for four years beginning on July 1, 2006. The balance of the real estate contract was \$12,000 at June 30, 2006.

**(6) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$4,627, equal to the required contribution for the year.

**(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2006, primarily relating to the General Fund, is approximately \$2,000. This liability has been computed based on rates of pay in effect at June 30, 2006.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Capital Projects	General	\$ 1,610
	Enterprise:	
	Water	67,587
Total		<u>\$ 69,197</u>

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

**(9) 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.

**(10) Deficit Balance**

The Enterprise, Garbage Fund had a deficit balance of \$31,594 at June 30, 2006. The deficit balance was a result of purchasing a garbage truck in a prior year prior to availability of funds. The deficit will be eliminated upon receipt of garbage fees.

**(11) Subsequent Events**

In August 2006, the City entered into construction contracts totaling \$257,086 for a sewer project. The City also received a Vision Iowa, Community Attraction and Tourism grant for \$275,000 for a Revitalize Humeston project.

**(12) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and a fund financial statement which present information for individual major funds rather than by fund type.

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

**(13) Questioned Costs**

The City did not comply with certain requirements governing allowable costs/cost principles applicable to the Water and Waste Disposal Systems for Rural Communities Program. As detailed in item III-A-06 in the Schedule of Findings and Questioned Costs, costs of \$37,947 were questioned for the grant period covering the year ended June 30, 2006. The City may be required to repay the U.S. Department of Agriculture for the questioned costs. Resolving this non-compliance is ultimately the responsibility of the U.S. Department of Agriculture. The ultimate disallowance of the questioned costs, if any, cannot presently be determined.

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 105,027	-
Other city tax	3,957	-
Licenses and permits	740	-
Use of money and property	9,724	-
Intergovernmental	598,004	-
Charges for service	37,647	233,615
Miscellaneous	466,559	1,925
Total receipts	1,221,658	235,540
Disbursements:		
Public safety	213,439	-
Public works	69,153	-
Culture and recreation	66,312	-
Community and economic development	1,816	-
General government	60,631	-
Debt service	19,050	-
Capital projects	1,113,067	-
Business type activities	-	255,548
Total disbursements	1,543,468	255,548
Excess (deficiency) of receipts over (under) disbursements	(321,810)	(20,008)
Other financing sources, net	780,672	(67,587)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	458,862	(87,595)
Balances beginning of year	253,811	143,204
Balances end of year	\$ 712,673	55,609

See accompanying independent auditor's report.

Total	Original and Final Budgeted Amounts	Final to Total Variance
105,027	106,024	(997)
3,957	4,344	(387)
740	700	40
9,724	500	9,224
598,004	1,148,682	(550,678)
271,262	247,000	24,262
468,484	1,200	467,284
<u>1,457,198</u>	<u>1,508,450</u>	<u>(51,252)</u>
213,439	19,800	(193,639)
69,153	64,200	(4,953)
66,312	24,500	(41,812)
1,816	2,100	284
60,631	17,900	(42,731)
19,050	20,570	1,520
1,113,067	1,140,000	26,933
255,548	146,000	(109,548)
<u>1,799,016</u>	<u>1,435,070</u>	<u>(363,946)</u>
(341,818)	73,380	415,198
<u>713,085</u>	-	<u>713,085</u>
371,267	73,380	297,887
<u>397,015</u>	<u>134,436</u>	<u>262,579</u>
<u>768,282</u>	<u>207,816</u>	<u>560,466</u>

City of Humeston

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The City did not amend its budget during the year ended June 30, 2006.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government and business type activities functions.

**Other Supplementary Information**

**City of Humeston**

## City of Humeston

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

As of and for the year ended June 30, 2006

	Debt Service	Permanent Cemetery Perpetual Care	Total
Receipts:			
Property tax	\$ 20,427	-	20,427
Other city tax	768	-	768
Charges for service	-	1,617	1,617
Total receipts	21,195	1,617	22,812
Disbursements:			
None	-	-	-
Net change in cash balances	21,195	1,617	22,812
Cash balances beginning of year	-	14,060	14,060
Cash balances end of year	\$ 21,195	15,677	36,872
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Debt service fund	\$ 21,195	-	21,195
Permanent fund	-	15,677	15,677
Total cash basis fund balances	\$ 21,195	15,677	36,872

See accompanying independent auditor's report.

City of Humeston  
 Schedule of Indebtedness  
 Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Anticipation project notes:			
General obligation water loan agreement	Jul 5, 2005	5.00%	\$ 200,000
Water revenue loan agreement	Jul 5, 2005	5.00	500,000
Total			
Revenue bonds:			
Sewer	Nov 7, 2005	3.00%	\$ 168,000
General obligation notes:			
Water improvement	Jun 21, 2006	4.90%	\$ 200,000
Revenue note:			
Water	Mar 3, 2006	4.375%	\$ 500,000
Real estate contract	Jul 6, 2005	0.00%	\$ 14,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
-	200,000	200,000	-	5,177
-	500,000	500,000	-	12,193
\$ -	700,000	700,000	-	17,370
-	13,085	6,000	7,085	146
-	200,000	-	200,000	-
-	500,000	-	500,000	7,252
-	14,000	2,000	12,000	-

**Schedule 3**

City of Humeston  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Water and Waste Disposal Systems for Rural Communities	10.760	91-02	\$ 144,000
U.S. Department of Homeland Security:			
Office of Domestic Preparedness:			
Assistance to Firefighters Grant	97.044	EMW-2004-FG-13740	98,758
	97.044	3-19-0005-04-2004	76,349
			<u>175,107</u>
Total direct			<u>319,107</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	04-WS-046	229,760
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS192295-01	10,904
Total indirect			<u>240,664</u>
Grand total			<u>\$ 559,771</u>

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Humeston 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 basic financial statements.

See accompanying independent auditor's report.



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Humeston, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 29, 2007. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 Humeston'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 reportable 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 caused by error or fraud 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 item II-A-06 is a material weakness.

## Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance that is required to be reported under Government Auditing Standards and is described in Part II of the accompanying Schedule of Findings and Questioned Costs as item III-A-06. We also noted certain immaterial instances of non-compliance or other matters 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's operations for the year ended June 30, 2006 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.

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 Humeston and other parties to whom the City 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Humeston 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 29, 2007

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

**City of Humeston**



**OFFICE OF AUDITOR OF STATE**  
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Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Humeston, 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 each of its major federal programs for the year ended June 30, 2006. The City's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs are the responsibility of the City's management. Our responsibility is to express an opinion on the City of Humeston's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, 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 OMB Circular A-133 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Humeston complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

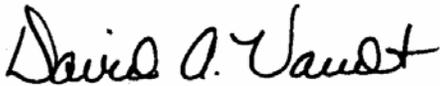
Internal Control Over Compliance

The management of the City of Humeston is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements 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.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-B-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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 grant agreements caused by error or fraud 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. Our consideration of the internal control over compliance 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, we believe item III-B-06 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 Humeston and other parties to whom the City 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 29, 2007

City of Humeston

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

- (a) Qualified opinions were 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 a material weakness.
- (c) The audit disclosed non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major programs was disclosed by the audit of the financial statements. The reportable condition is considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
  - CFDA Number 14.228 – Community Development Block Grants/State's Program.
  - CFDA Number 97.044 – Assistance to Firefighters Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Humeston did not qualify as a low-risk auditee.

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Year ended June 30, 2006

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

**REPORTABLE CONDITIONS:**

II-A-06 Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (3) Investments – investing, recording and custody.
- (4) Long-term debt – recording, reconciling and performing cash functions.
- (5) Receipts – collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, preparing checks, recording and reconciling.
- (8) Payroll – preparing and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – We will review our procedures and comply with this recommendation.

Conclusion – Response accepted.

II-B-06 Investments – Although copies of investment renewal notices were retained, the City did not maintain an investment register.

Recommendation – A complete detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase date, redemption date, interest rate, amount of principal and interest received.

Response – The Clerk will prepare a register of investments for review monthly.

Conclusion – Response accepted.

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II-C-06 Records of Accounts/Separately Maintained Records – The Humeston Fire Department, the Humeston First Responders, the Humeston Library Memorial and the Mormon Trail Community Services Corporation for the City’s swimming pool operations each maintain bank accounts and accounting records separate from the City Clerk’s records. The transactions and the resulting balances were not reported to the City Council each month, the transactions were not recorded in the City Clerk’s records and the activities were not included in the City’s certified budget. Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose.”

Also, for each of these accounts one person has primary control over receipts, deposits, disbursements, reconciling bank accounts and reporting financial activity. These transactions and balances were included in the financial statements in this audit report.

Recommendation – The Humeston Fire Department, the Humeston First Responders, the Humeston Library Memorial and the Mormon Trail Community Services Corporation financial transactions and balances should be included in the City Clerk’s monthly financial reports and budget process. Internal controls could be strengthened and operating efficiency could be increased by integrating the accounting receipts and disbursements with the City accounting records.

Response – We will require financial reports be submitted to the Clerk periodically and will notify the separate boards to review reports.

Conclusion – Response acknowledged. Also, internal controls could be strengthened if accounting functions were integrated with the City’s records and budget process.

II-D-06 Accounting System and New Chart of Accounts – The City has accounting software for financial reporting. However, the City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments as approved by the City Finance Committee on September 25, 2002. As a result, several receipts and disbursements were not classified to the proper function in accordance with the Uniform Chart of Accounts. These were classified and resolved for audit purposes.

Recommendation – To provide better financial information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments.

Response – We will review this.

Conclusion – Response acknowledged. The required City budget forms and the City annual financial reports both use the Uniform Chart of Accounts for Iowa City Government as approved by the City Finance Committee. We agree the City Finance Committee’s recommended chart of accounts is not mandatory. However, the City should establish an accounting system which includes accounts that permit efficient and accurate budgeting and reporting consistent with the required state forms.

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Year ended June 30, 2006

II-E-06 Financial Accounting and Reporting – A Council member submits monthly financial reports including fund balances, receipts, disbursements and budget comparisons to the Council. Because of the report format, it is difficult to determine whether fund balances are reconciled to bank balances for all funds of the City. Also, adjustments made to fund balances were not properly reported as interfund transfers which should have been approved by the Council.

Recommendation – The City should establish a format for reporting monthly Clerk’s balances by fund. The report should identify each fund with beginning and ending balances which include investments in the balances. The report should also show transfers between funds and a reconciliation with bank balances each month.

Response – We will have the Clerk prepare monthly reports to display the fund balances, reconcile with the bank and get Council approval for interfund transfers.

Conclusion – Response accepted.

II-F-06 Receipts – Prenumbered receipts were not issued for all City collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all City money. Receipts should be deposited directly to the bank account. Account classifications should be shown on the receipt to ensure proper recording under the Uniform Chart of Accounts.

Response – We will issue prenumbered receipts for all collections and will include account classifications.

Conclusion – Response accepted.

II-G-06 Electronic Data Processing 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:

The City does not have written policies for:

- Internet and personal usage.
- Maintaining password privacy and confidentiality.

Also, the City does not have a written disaster recovery plan. The City also does not maintain backup tapes in a secured off site location.

City of Humeston

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Year ended June 30, 2006

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 and backup tapes should be secured in an off site location.

Response – We will develop policies for these.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

II-H-06 Federal Grant Contract Compliance – During the year ended June 30, 2006, the City claimed costs totaling \$37,947 for reimbursement under two federal programs. See audit finding III-A-06.

City of Humeston

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Year ended June 30, 2006

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCE OF NON-COMPLIANCE:**

**CFDA Number 10.760: Water and Waste Disposal Systems for Rural Communities**  
**Pass-through Agency Number: 91-02**  
**Federal Award Year: 2005**

III-A-06 Unallowable Costs – The City claimed and received reimbursement of \$37,947 for contractor costs under the Water and Waste Disposal Systems for Rural Communities program. The City previously claimed and received reimbursement of the same costs under the Community Development Block Grants/State's Program.

Recommendation – The City should contact the grantor agency to determine the disposition of this matter.

Response – We will contact the grantor agency to determine the disposition.

Conclusion – Response accepted.

**REPORTABLE CONDITIONS:**

**CFDA Number 14.228: Community Development Block Grant/State's Program**  
**Pass-through Agency Number: 06-CD-000**  
**Federal Award Year: 2004**  
**Passed through the Iowa Department of Economic Development**

III-B-06 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, depositing and recording of receipts, including those related to federal programs. See item II-A-06.

City of Humeston

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Year ended June 30, 2006

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

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We will amend the budget in the future if necessary.

Conclusion – Response accepted.

IV-B-06 Questionable Disbursements – A disbursement was noted we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Don’s Floral	Flower arrangement	\$ 27

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 Council should determine and document the public purpose served by this 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.

Response – We will approve a policy that will document the public purpose for disbursements of this nature in the future.

Conclusion – Response accepted.

IV-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-06 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

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IV-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-06 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-06 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions, except as follows:

The sewer and water revenue note resolutions require the City to establish sinking accounts and a water revenue note reserve account. The City has not established these accounts.

Recommendation – The City should establish the required accounts according to the sewer revenue bond and water revenue note resolutions and make the required monthly transfers.

Response – We will establish the required funds as soon as possible.

Conclusion – Response accepted.

IV-I-06 Debt Service Fund – The City levied for debt service during the year ended June 30, 2006 although no general obligation debt was due to be paid during the fiscal year.

Recommendation – The City should levy, collect and use debt service tax only for general obligation debt payments in the future. Subsequent budgets should reflect the money already collected prior to debt payment and reduce tax levies accordingly.

Response – We will show this fund balance and will be using this for the general obligation notes.

Conclusion – Response accepted.

IV-J-06 Financial Condition – The Enterprise, Garbage Fund had a deficit balance of \$31,594 at June 30, 2006.

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

Response – The deficit was caused by the purchase of a garbage truck and will take care of itself from future year collections.

Conclusion – Response accepted.

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City of Humeston

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Paula J. White, 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 a distinct 'E'.

Andrew E. Nielsen, CPA  
Deputy Auditor of State