



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

May 27, 2008

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.

The City has implemented new reporting standards for the year ended June 30, 2007, 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 \$1,016,790 for the year ended June 30, 2007. The receipts included \$173,851 in property tax, \$295,861 from charges for service, \$145,809 from operating grants, contributions and restricted interest, \$53,163 from capital grants, contributions and restricted interest, \$54,105 from local option sales tax, \$55,015 from tax increment financing, \$122,665 from loan proceeds, \$108,905 from the sale of real property, \$7,005 from unrestricted interest on investments and \$411 from other general receipts.

Disbursements for the year totaled \$1,000,569, and included \$239,697 for community and economic development, \$140,646 for public works and \$94,499 for culture and education. Also, disbursements for business type activities totaled \$305,166.

A copy of the audit 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 VAN HORNE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	18
Notes to Financial Statements		19-25
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		26-27
Notes to Required Supplementary Information – Budgetary Reporting		28
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	30-31
Schedule of Indebtedness	2	32-33
Bond and Note Maturities	3	34-35
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 <u>Government Auditing Standards</u>		37-38
Schedule of Findings		39-45
Staff		46

City of Van Horne

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ronald Donald	Mayor	Jan 2008
Martin Junge	Mayor Pro tem	Jan 2010
Sheryl Fischer	Council Member	Jan 2008
Robert Schadle	Council Member	Jan 2008
Matthew Miner	Council Member	Jan 2010
Jim Parmenter	Council Member	Jan 2010
Linda Klopping	Clerk/Administrator	Indefinite
Larry Schlue	Attorney	Indefinite

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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 Van Horne, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Van Horne'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, 2006.

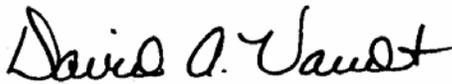
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the preceding paragraph, the financial statements referred to above present 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 Van Horne as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 12, during the year ended June 30, 2007, 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.

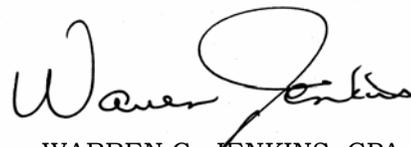
In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2008 on our consideration of the City of Van Horne's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 26 through 28 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 Van Horne's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, 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, 2006, 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 14, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Van Horne 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, 2007. 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.

2007 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 7.6%, or approximately \$35,000, due primarily to donations and fund raising received in the Recreation Board, Friends of the Library and Fireman's Association Funds.
- The cash basis net assets of the City's business type activities decreased 30.5%, or approximately \$19,000, due primarily to disbursements exceeding receipts in the Sewer Fund.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's outstanding debt.

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 and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water and sewer systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic 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, Local Option Sales Tax and Employee Benefits, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

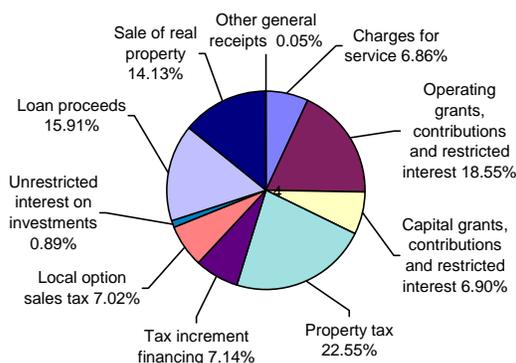
The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

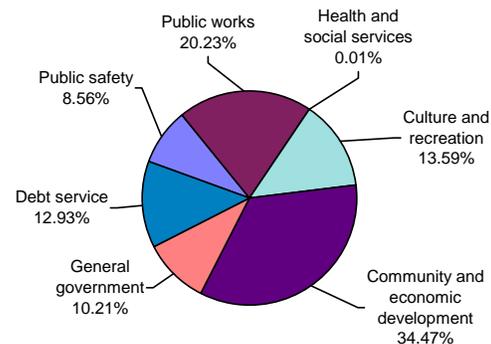
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$457,737 at June 30, 2006 to \$492,572 at June 30, 2007. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service	\$ 52,897
Operating grants, contributions and restricted interest	142,971
Capital grants, contributions and restricted interest	53,163
General receipts:	
Property tax	173,851
Tax increment financing	55,015
Local option sales tax	54,105
Unrestricted interest on investments	6,834
Loan proceeds	122,665
Sale of real property	108,905
Other general receipts	411
Total receipts	<u>770,817</u>
Disbursements:	
Public safety	59,539
Public works	140,646
Health and social services	48
Culture and recreation	94,499
Community and economic development	239,697
General government	71,029
Debt service	89,945
Total disbursements	<u>695,403</u>
Change in cash basis net assets before transfers	75,414
Transfers, net	<u>(40,579)</u>
Change in cash basis net assets	34,835
Cash basis net assets beginning of year	<u>457,737</u>
Cash basis net assets end of year	<u>\$ 492,572</u>

Receipts by Source



Disbursements by Function



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 132,912
Sewer	110,052
Operating grants, contributions and restricted interest	2,838
General receipts:	
Unrestricted interest on investments	171
Total receipts	<u>245,973</u>
Disbursements:	
Water	163,553
Sewer	141,613
Total disbursements	<u>305,166</u>
Change in cash basis net assets before transfers	(59,193)
Transfers, net	<u>40,579</u>
Change in cash basis net assets	(18,614)
Cash basis net assets beginning of year	<u>61,013</u>
Cash basis net assets end of year	<u>\$ 42,399</u>

Total business type activities cash balance decreased 30.5%, or \$18,614, decreasing from \$61,013 at June 30, 2006 to \$42,399 at June 30, 2007. The decrease is due to disbursements exceeding receipts in the Sewer Fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Van Horne completed the year, its governmental funds reported a combined fund balance of \$492,572, an increase of more than \$34,000 above last year's total of \$457,737 at June 30, 2006. 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 \$18,412 from June 30, 2006 to \$162,866 at June 30, 2007. The decrease is a result of a \$12,000 transfer made to the Special Revenue, Road Use Tax Fund.
- The Special Revenue, Road Use Tax Fund cash balance increased \$19,005 from June 30, 2006 to \$148,845 at June 30, 2007. This increase is attributable to a \$12,000 transfer received from the General Fund.
- The Special Revenue, Local Option Sales Tax Fund had receipts and transfers out of \$54,105, resulting in no cash balance at June 30, 2007.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$110 from June 30, 2006 to \$9,692 at June 30, 2007.
- The Debt Service Fund cash balance increased \$174 from the prior year to a negative balance of \$3,246. The negative cash balance resulted from a prior year deficit.
- The Capital Projects Fund cash balance decreased to a negative balance of \$1,126 at June 30, 2007. The negative cash balance resulted from project costs for the Van Horne 2006 Addition project exceeding the loan proceeds received.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund balance increased \$11,470 to a year-end deficit balance of \$23,448. This increase was due primarily to the collection of debt reduction fee.
- The Sewer Fund cash balance decreased \$30,084 to a year-end balance of \$65,847. The decrease was a result of disbursements exceeding receipts during the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on November 13, 2006 and resulted in an increase in budgeted disbursements of \$450,000. The amendment was made in the community and economic development function for the Van Horne 2006 Addition project and in the culture and recreation function for the recreation facility.

Even with the budget amendment, the City exceeded the budget for the culture and recreation and general government functions for the year ended June 30, 2007. The City had sufficient cash balances to absorb these additional expenditures.

The City’s actual receipts were \$28,384 less than budgeted. The City received \$27,801 less than budgeted in other city tax and \$52,709 less than budgeted in intergovernmental due to receiving less in local option sales tax than expected and not receiving a \$50,000 grant for the recreation facility by June 30, 2007. In addition, the City did not budget an amount for miscellaneous receipts, for which it received \$64,743.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$1,933,665 in long-term debt outstanding, compared to \$1,925,000 last year. The increase was due to a general obligation corporate purpose loan agreement project anticipation note. As of June 30, 2007, \$122,665 had been drawn by the City to pay the cost of constructing street, sidewalk, sanitary sewer, storm sewer and water improvements related to the Van Horne 2006 Addition.

Outstanding Debt at Year-End		
	June 30,	
	2007	2006
General obligation bonds/notes	\$ 681,000	734,000
Revenue bonds	1,090,000	1,141,000
Loan agreement	40,000	50,000
Project anticipation note	122,665	-
Total	\$1,933,665	1,925,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$843,665 is significantly below its constitutional debt limit of approximately \$1,468,000.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City of Van Horne’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. The City’s FY2008 total taxable valuation has decreased .27%, or approximately \$42,000, from the FY2007 level, but the City was able to set the FY2008 levy at \$12.73235 per \$1,000 of taxable valuation, the same as FY2007.

The FY2008 budget contains total receipts of \$1,065,151 and disbursements of \$1,240,127. This budget is a significant change from the original FY2007 budget which contained total receipts and disbursements of \$717,001. The FY2008 budget includes increases in intergovernmental and charges for service receipts for a grant for street resurfacing and an increase in the Water Fund debt reduction fee, respectively, and increases in public safety and public works disbursements for the purchase of a fire truck and street construction costs, respectively.

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 Linda Koppling, City Clerk, P.O. Box 359, Van Horne, Iowa 52346.

Basic Financial Statements

City of Van Horne

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 59,539	1,023	61,126	-
Public works	140,646	46,824	59,996	-
Health and social services	48	-	-	-
Culture and recreation	94,499	384	21,849	53,163
Community and economic development	239,697	-	-	-
General government	71,029	4,666	-	-
Debt service	89,945	-	-	-
Total governmental activities	695,403	52,897	142,971	53,163
Business type activities:				
Water	163,553	132,912	1,361	-
Sewer	141,613	110,052	1,477	-
Total business type activities	305,166	242,964	2,838	-
Total	\$ 1,000,569	295,861	145,809	53,163

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Tax increment financing
 Local option sales tax
 Unrestricted interest on investments
 Loan proceeds
 Sale of real property
 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
 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
2,610	-	2,610
(33,826)	-	(33,826)
(48)	-	(48)
(19,103)	-	(19,103)
(239,697)	-	(239,697)
(66,363)	-	(66,363)
(89,945)	-	(89,945)
(446,372)	-	(446,372)
-	(29,280)	(29,280)
-	(30,084)	(30,084)
-	(59,364)	(59,364)
(446,372)	(59,364)	(505,736)
150,407	-	150,407
23,444	-	23,444
55,015	-	55,015
54,105	-	54,105
6,834	171	7,005
122,665	-	122,665
108,905	-	108,905
411	-	411
(40,579)	40,579	-
481,207	40,750	521,957
34,835	(18,614)	16,221
457,737	61,013	518,750
\$ 492,572	42,399	534,971
\$ 148,845	-	148,845
188,955	7,883	196,838
154,772	34,516	189,288
\$ 492,572	42,399	534,971

City of Van Horne

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

As of and for the year ended June 30, 2007

	General	Special Revenue		
		Road Use Tax	Local Option Sales Tax	Tax Increment Financing
Receipts:				
Property tax	\$ 112,665	-	-	-
Tax increment financing	-	-	-	55,015
Other city tax	4,399	-	54,105	-
Licenses and permits	1,494	-	-	-
Use of money and property	6,765	69	-	-
Intergovernmental	7,382	59,995	-	-
Charges for service	46,824	-	-	-
Miscellaneous	24,421	-	-	-
Total receipts	203,950	60,064	54,105	55,015
Disbursements:				
Operating:				
Public safety	36,381	-	-	-
Public works	73,069	66,585	-	-
Health and social services	48	-	-	-
Culture and recreation	65,112	-	-	-
Community and economic development	115,906	-	-	-
General government	42,111	-	-	-
Debt service	-	-	-	-
Total disbursements	332,627	66,585	-	-
Excess (deficiency) of receipts over (under) disbursements	(128,677)	(6,521)	54,105	55,015
Other financing sources (uses):				
Loan proceeds	-	-	-	-
Sale of real property	108,905	-	-	-
Operating transfers in	13,360	25,526	-	-
Operating transfers out	(12,000)	-	(54,105)	(54,905)
Total other financing sources (uses)	110,265	25,526	(54,105)	(54,905)
Net change in cash balances	(18,412)	19,005	-	110
Cash balances beginning of year	181,278	129,840	-	9,582
Cash balances end of year	\$ 162,866	148,845	-	9,692
Cash Basis Fund Balances				
Reserved for library memorial	\$ 3,722	-	-	-
Unreserved:				
General fund	159,144	-	-	-
Special revenue funds	-	148,845	-	9,692
Debt service fund	-	-	-	-
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ 162,866	148,845	-	9,692

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
22,674	-	32,098	167,437
-	-	-	55,015
770	-	1,245	60,519
-	-	-	1,494
-	-	1,006	7,840
-	-	39,334	106,711
-	-	-	46,824
-	-	68,986	93,407
23,444	-	142,669	539,247
-	-	23,158	59,539
-	-	992	140,646
-	-	-	48
-	-	29,387	94,499
-	123,791	-	239,697
-	-	28,918	71,029
89,945	-	-	89,945
89,945	123,791	82,455	695,403
(66,501)	(123,791)	60,214	(156,156)
-	122,665	-	122,665
-	-	-	108,905
66,675	-	-	105,561
-	-	(25,130)	(146,140)
66,675	122,665	(25,130)	190,991
174	(1,126)	35,084	34,835
(3,420)	-	140,457	457,737
(3,246)	(1,126)	175,541	492,572
-	-	-	3,722
-	-	-	159,144
-	-	175,541	334,078
(3,246)	-	-	(3,246)
-	(1,126)	-	(1,126)
(3,246)	(1,126)	175,541	492,572

Exhibit C

City of Van Horne

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

As of and for the year ended June 30, 2007

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 132,912	110,052	242,964
Operating disbursements:			
Business type activities	137,373	70,944	208,317
Excess (deficiency) of operating receipts over (under) operating disbursements	(4,461)	39,108	34,647
Non-operating receipts (disbursements):			
Interest on investments	171	-	171
Miscellaneous	1,361	1,477	2,838
Debt service	(26,180)	(70,669)	(96,849)
Total non-operating receipts (disbursements)	(24,648)	(69,192)	(93,840)
Deficiency of receipts under disbursements before transfers	(29,109)	(30,084)	(59,193)
Operating transfers in	40,579	-	40,579
Net change in cash balances	11,470	(30,084)	(18,614)
Cash balances beginning of year	(34,918)	95,931	61,013
Cash balances end of year	\$ (23,448)	65,847	42,399
Cash Basis Fund Balances			
Reserved for debt service	\$ 2,073	5,810	7,883
Unreserved	(25,521)	60,037	34,516
Total cash basis fund balances	\$ (23,448)	65,847	42,399

See notes to financial statements.

City of Van Horne

Notes to Financial Statements

June 30, 2007

(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, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

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 First Responders, Incorporated (First Responders) 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. First Responders has 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.

Friends of the Van Horne Public Library, Incorporated (Friends of the Library) 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. Friends of the Library has been established to provide volunteer services, library awareness or literacy, public relations, advocacy and fund raising to the Van Horne Public Library. Although Friends of the Library is legally separate from

the City, its purpose is to benefit the City by providing the above services and soliciting contributions and managing those funds.

The Van Horne Fireman's Association, Incorporated (Fireman's Association) 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 Fireman's 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 Fireman's 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.

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.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for the collection and use of the local option sales tax.

The Tax Increment Financing Fund is used to account for urban renewal projects financed with tax increment financing.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and 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.

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, 2007, disbursements exceeded the amounts budgeted in the culture and recreation and general government functions.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2007 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, as amended by Statement No. 40.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds/Notes			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 54,000	21,330	75,330	52,000	42,593	94,593
2009	55,000	19,260	74,260	55,000	40,552	95,552
2010	37,000	17,160	54,160	56,000	38,395	94,395
2011	38,000	16,050	54,050	58,000	36,195	94,195
2012	39,000	14,910	53,910	61,000	33,909	94,909
2013-2017	212,000	56,370	268,370	343,000	131,525	474,525
2018-2022	246,000	22,590	268,590	417,000	58,066	475,066
2023-2024	-	-	-	48,000	2,160	50,160
Total	\$ 681,000	167,670	848,670	1,090,000	383,395	1,473,395

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:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) 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.

Water Revenue Bonds

The resolution approving the issuance of the water revenue bonds includes the following provisions:

- (d) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- (e) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (f) 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.

Loan Agreement

On December 15, 2005, the City entered into a loan agreement with Van Horne Cooperative Telephone Company Iowa for \$50,000 to purchase land for a recreation facility. The loan requires annual payments of \$10,000, plus interest at 3% per annum, beginning December 15, 2006. Final maturity of the loan is December 15, 2010.

During the year ended June 30, 2007, the City paid \$10,000 of principal and \$1,500 of interest on the loan. The remaining balance on the loan at June 30, 2007 was \$40,000.

(4) Project Anticipation Note

On December 4, 2006, the City entered into an agreement with Chelsea Savings Bank for the issuance of a general obligation corporate purpose project anticipation note. The principal amount of the note is not to exceed \$400,000 and the note bears interest at 4.75% per annum. In August 2007, the original maturity date of July 1, 2007 was extended to December 1, 2007. In January 2008, the maturity date was extended to June 1, 2008. The note was issued to construct street, sidewalk, sanitary sewer, storm sewer and water improvements. At June 30, 2007, the City had drawn \$122,665 of the \$400,000 authorized.

(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.

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, 2007 was \$6,069, equal to the required contribution for the year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation days 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 payable to employees at June 30, 2007, primarily relating to the General Fund, was \$2,100. This liability has been computed based on rates of pay in effect at June 30, 2007.

(7) Construction Commitment

During the year ended June 30, 2007, the City entered into a contract for \$268,754 for the Van Horne 2006 Addition. The contract includes construction of street, sidewalk, sanitary sewer, storm sewer and water improvements. At June 30, 2007, \$69,447 of the contract had been completed. The remaining \$199,307 will be paid as work progresses.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Van Horne Benefited Fire District	<u>\$ 13,360</u>
Special Revenue: Road Use Tax	General Special Revenue: Local Option Sales Tax	12,000 <u>13,526</u> <u>25,526</u>
Debt Service	Special Revenue: Van Horne Benefited Fire District Tax Increment Financing	11,770 <u>54,905</u> <u>66,675</u>
Enterprise: Water	Special Revenue: Local Option Sales Tax	<u>40,579</u>
Total		<u>\$ 146,140</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 Balances

The Debt Service Fund had a deficit balance of \$3,246 at June 30, 2007. The deficit balance was a result of disbursements exceeding receipts in prior years. The deficit will be eliminated through the receipt of additional property taxes.

The Capital Projects Fund had a deficit balance of \$1,126 at June 30, 2007. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of additional proceeds from the project note.

The Enterprise, Water Fund had a deficit balance of \$23,448 at June 30, 2007. The deficit balance was the result of a prior year deficit balance. The deficit will be eliminated through the collection of additional receipts from a debt reduction fee implemented by the City.

(11) Subsequent Event

In February 2008, the City entered into a grant agreement with the Iowa Department of Transportation (IDOT) to resurface 1st Avenue. The IDOT will reimburse the City 80% of eligible costs on the 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, 2007. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

City of Van Horne
 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, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 167,437	-	-
Tax increment financing	55,015	-	-
Other city tax	60,519	-	-
Licenses and permits	1,494	-	-
Use of money and property	7,840	171	898
Intergovernmental	106,711	-	14,203
Charges for service	46,824	242,964	-
Miscellaneous	93,407	2,838	31,502
Total receipts	539,247	245,973	46,603
Disbursements:			
Public safety	59,539	-	23,158
Public works	140,646	-	-
Health and social services	48	-	-
Culture and recreation	94,499	-	126
Community and economic development	239,697	-	-
General government	71,029	-	-
Debt service	89,945	-	-
Business type activities	-	305,166	-
Total disbursements	695,403	305,166	23,284
Excess (deficiency) of receipts over (under) disbursements	(156,156)	(59,193)	23,319
Other financing sources, net	190,991	40,579	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	34,835	(18,614)	23,319
Balances beginning of year	457,737	61,013	74,125
Balances end of year	\$ 492,572	42,399	97,444

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
167,437	166,264	166,264	1,173
55,015	55,135	55,135	(120)
60,519	88,320	88,320	(27,801)
1,494	650	650	844
7,113	2,500	2,500	4,613
92,508	95,217	145,217	(52,709)
289,788	308,915	308,915	(19,127)
64,743	-	-	64,743
<u>738,617</u>	<u>717,001</u>	<u>767,001</u>	<u>(28,384)</u>
36,381	53,235	53,235	16,854
140,646	152,385	152,385	11,739
48	1,800	1,800	1,752
94,373	39,820	89,820	(4,553)
239,697	1,000	401,000	161,303
71,029	61,701	61,701	(9,328)
89,945	89,945	89,945	-
305,166	317,115	317,115	11,949
<u>977,285</u>	<u>717,001</u>	<u>1,167,001</u>	<u>189,716</u>
(238,668)	-	(400,000)	161,332
<u>231,570</u>	<u>-</u>	<u>400,000</u>	<u>(168,430)</u>
(7,098)	-	-	(7,098)
<u>444,625</u>	<u>360,148</u>	<u>360,148</u>	<u>84,477</u>
<u>437,527</u>	<u>360,148</u>	<u>360,148</u>	<u>77,379</u>

City of Van Horne

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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 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 ten major classes of disbursements known as functions, not by fund. These nine 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. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$450,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation and general government functions.

Other Supplementary Information

City of Van Horne

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

Year ended June 30, 2007

	Employee Benefits	Van Horne Benefited Fire District
Receipts:		
Property tax	\$ 32,098	-
Other city tax	1,245	-
Use of money and property	-	-
Intergovernmental	-	25,131
Miscellaneous	-	-
Total receipts	<u>33,343</u>	<u>25,131</u>
Disbursements:		
Operating:		
Public safety	-	-
Public works	992	-
Culture and recreation	2,039	-
General government	28,918	-
Total disbursements	<u>31,949</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	1,394	25,131
Other financing uses:		
Operating transfers out	-	(25,130)
Net change in cash balances	1,394	1
Cash balances beginning of year	<u>40,298</u>	<u>-</u>
Cash balances end of year	<u>\$ 41,692</u>	<u>1</u>
Cash Basis Fund Balances		
Unreserved:		
Special revenue funds	<u>\$ 41,692</u>	<u>1</u>

See accompanying independent auditor's report.

Special Revenue							
Recreation Board	Library	Future Green	First Responders	Friends of the Library	Firemen's Association	Total	
-	-	-	-	-	-	-	32,098
-	-	-	-	-	-	-	1,245
108	-	-	726	-	172	-	1,006
-	-	-	13,028	-	1,175	-	39,334
35,019	1,178	1,287	7,710	11,395	12,397	-	68,986
35,127	1,178	1,287	21,464	11,395	13,744	-	142,669
-	-	-	19,146	-	4,012	-	23,158
-	-	-	-	-	-	-	992
21,108	2,310	3,804	-	126	-	-	29,387
-	-	-	-	-	-	-	28,918
21,108	2,310	3,804	19,146	126	4,012	-	82,455
14,019	(1,132)	(2,517)	2,318	11,269	9,732	-	60,214
-	-	-	-	-	-	-	(25,130)
14,019	(1,132)	(2,517)	2,318	11,269	9,732	-	35,084
14,475	5,443	6,116	39,627	4,582	29,916	-	140,457
28,494	4,311	3,599	41,945	15,851	39,648	-	175,541
28,494	4,311	3,599	41,945	15,851	39,648	-	175,541

City of Van Horne
 Schedule of Indebtedness
 June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Fire station	Jan 1, 1994	3.25-5.25%	\$ 250,000
Sewer improvement	Aug 30, 2002	3.00	800,000
Total			
Revenue bonds:			
Sewer	Sep 10, 2002	4.30	\$ 925,000
Water	Jun 14, 2004	3.00	420,000
Total			
Project anticipation note	Dec 4, 2006	4.75	\$ 400,000
Loan agreement:			
Recreation facility land	Dec 15, 2005	3.00	\$ 50,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
60,000	-	20,000	40,000	3,140
674,000	-	33,000	641,000	20,220
<u>\$ 734,000</u>	<u>-</u>	<u>53,000</u>	<u>681,000</u>	<u>23,360</u>
797,000	-	36,000	761,000	34,271
344,000	-	15,000	329,000	10,320
<u>\$1,141,000</u>	<u>-</u>	<u>51,000</u>	<u>1,090,000</u>	<u>44,591</u>
-	122,665	-	122,665	-
50,000	-	10,000	40,000	1,500

City of Van Horne
Bond and Note Maturities
June 30, 2007

Year Ending June 30,	General Obligation Bonds/Notes				
	Fire Station		Sewer Improvement		Total
	Issued January 1, 1994		Issued August 30, 2002		
	Interest Rates	Amount	Interest Rates	Amount	
2008	5.25%	\$ 20,000	3.00%	\$ 34,000	
2009	5.25	20,000	3.00	35,000	55,000
2010		-	3.00	37,000	37,000
2011		-	3.00	38,000	38,000
2012		-	3.00	39,000	39,000
2013		-	3.00	40,000	40,000
2014		-	3.00	41,000	41,000
2015		-	3.00	42,000	42,000
2016		-	3.00	44,000	44,000
2017		-	3.00	45,000	45,000
2018		-	3.00	46,000	46,000
2019		-	3.00	48,000	48,000
2020		-	3.00	49,000	49,000
2021		-	3.00	51,000	51,000
2022		-	3.00	52,000	52,000
2023		-		-	-
2024		-		-	-
Total		<u>\$ 40,000</u>		<u>\$ 641,000</u>	<u>681,000</u>

Year Ending June 30,	Revenue Bonds				
	Sewer		Water		Total
	Issued September 10, 2002		Issued June 14, 2004		
	Interest		Interest		
Rates	Amount	Rates	Amount		
2008	4.30%	\$ 37,000	3.00%	\$ 15,000	52,000
2009	4.30	39,000	3.00	16,000	55,000
2010	4.30	40,000	3.00	16,000	56,000
2011	4.30	42,000	3.00	16,000	58,000
2012	4.30	44,000	3.00	17,000	61,000
2013	4.30	46,000	3.00	17,000	63,000
2014	4.30	48,000	3.00	18,000	66,000
2015	4.30	50,000	3.00	19,000	69,000
2016	4.30	52,000	3.00	19,000	71,000
2017	4.30	54,000	3.00	20,000	74,000
2018	4.30	57,000	3.00	20,000	77,000
2019	4.30	59,000	3.00	21,000	80,000
2020	4.30	62,000	3.00	22,000	84,000
2021	4.30	64,000	3.00	22,000	86,000
2022	4.30	67,000	3.00	23,000	90,000
2023		-	3.00	24,000	24,000
2024		-	3.00	24,000	24,000
Total		<u>\$ 761,000</u>		<u>\$ 329,000</u>	<u>1,090,000</u>

**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**



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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 Van Horne, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 14, 2008. 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, 2006. 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 of Van Horne's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Van Horne's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Van Horne's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Van Horne's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Van Horne's financial statements that is more than inconsequential will not be prevented or detected by the City of Van Horne's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Van Horne's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (B) and (C) are material weaknesses.

Compliance and Other Matters

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 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 no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 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.

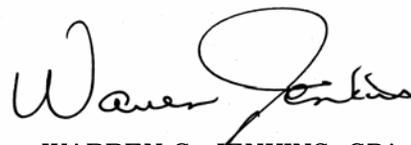
The City of Van Horne's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Van Horne's responses and, accordingly, we express no opinion on them.

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 14, 2008

City of Van Horne
Schedule of Findings
Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas:
- (1) Cash – prepares bank reconciliations and performs 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 and recording.
 - (5) Disbursements – check preparation, recording, 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.

For the accounts maintained separately by the Recreation Board, Library and Future Green, as well as the City's blended component units, including the First Responders, Friends of the Library and Fireman's Association, one individual has control over each of the following areas:

- (1) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (2) Disbursements – check writing, approval, posting and reconciling.
- (3) Cash – handling and recording cash and preparing bank reconciliations.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and other organizations should review their operating procedures to obtain the maximum internal control possible under the circumstances. The City and the blended component units should utilize current personnel and officials to provide additional control through review of financial transactions and reports. Such reviews should be performed by independent persons and should be evidenced by initials or signature of the reviewer and the date of the review.

City of Van Horne

Schedule of Findings

Year ended June 30, 2007

Responses –

City – The City Clerk will provide the Mayor with the original bank statement and a reconciled packet of outstanding checks and balances monthly for the Mayor’s approval and signature. The mayor signs all checks and scrutinizes supporting documentation and employee time cards. We will implement additional controls where possible. The City will ensure an independent person performs a periodic review of the accounting and bank records of the separately maintained accounts.

First Responders – We will have the President review all items and initial them.

Friends of the Library – Dual signatures are required for all transactions. Detailed statements are prepared and presented on any changes in funds.

Fireman’s Association – The Fire Chief will initial and compare the treasurer’s report to bank statement monthly and will look at all checks written and supporting documents.

Conclusion – Responses accepted.

- (B) Records of Accounts – The City maintains bank accounts for the Library, Recreation Board and Future Green separate from the City Clerk’s accounting records. The transactions and the resulting balances are not recorded in the Clerk’s records. 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.”

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 – We will discuss having the various departments submit monthly or quarterly bank statements, fiscal reports and reconciliations.

Conclusion – Response accepted.

- (C) Financial Reporting – During the audit, we identified material amounts of property tax misposted to various funds. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Recommendation – The City should implement procedures to ensure property tax receipts are properly recorded in the City’s financial statements.

Response – The City Clerk will be much more diligent in double checking all posting to ensure all transactions are posted properly. The Clerk will also contact the software company to help dispose of the non-departmental fund and ensure all future property taxes are receipted to the proper funds.

Conclusion – Response accepted.

City of Van Horne

Schedule of Findings

Year ended June 30, 2007

- (D) 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 controls.
- (5) Increase effectiveness and efficiency in the City.

Response – The Clerk will compile an accurate policies and procedure manual and update it as necessary.

Conclusion – Response accepted.

- (E) 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 deficiencies in the City's computer based systems were noted:

- (1) The City does not have a written disaster recovery plan.
- (2) Back-ups of the computers are not performed daily, weekly and monthly.
- (3) No anti-virus software was installed on the City's computer.

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. Back-ups of the City's computers should be performed daily, weekly and monthly. Anti-virus software should be installed on the City's computer.

Response – Anti-virus software has been reinstalled. The disaster recovery manual will be finished and updated on a schedule. The clerk will develop a backup schedule and follow it.

Conclusion – Response accepted.

City of Van Horne
Schedule of Findings
Year ended June 30, 2007

(F) Disbursements – Two invoices were not properly cancelled to prevent repayment.

Recommendation – All invoices should be cancelled to prevent repayment.

Response – All invoices will be cancelled.

Conclusion – Response accepted.

(G) First Responders – Supporting documentation was not retained for one disbursement selected for testing.

Recommendation – Supporting documentation should be retained for all disbursements.

Response – We will try to do better about having receipts for all transactions.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Van Horne
 Schedule of Findings
 Year ended June 30, 2007

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the culture and recreation and general government 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 sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The Clerk will be much more diligent in amending the budget before expending monies over the budgeted amount.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Description	Amount
Martin Junge, Mayor Pro tem, Owner of O’Grady Chemical	Repair and supplies	\$ 639

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

- (5) 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.
- (6) Council Minutes No transactions were found that we believe should have been approved in the Council minutes but were not.

The minutes of the June 2007 Council meeting and the Library Board minutes were not signed.

Recommendation – The Council and Library minutes should be signed to authenticate the action taken.

City of Van Horne

Schedule of Findings

Year ended June 30, 2007

Response – The City Clerk will request signed copies of the library minutes and will be more diligent in making sure all minutes are signed and filed properly.

Conclusion – Response accepted.

(7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

(8) Deficit Balances – The following funds had deficit balances at June 30, 2007:

<u>Fund</u>	<u>Amount</u>
Debt Service	\$ 3,246
Capital Projects	1,126
Enterprise: Water	23,448

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

Response – The City is striving to return all funds to a sound financial position. By finding a large water leak and implementing a debt reduction charge we are well on our way to meeting this goal.

Conclusion – Response accepted.

(9) Loan Agreement – During the year ended June 30, 2006, the City entered into a loan agreement with Van Horne Cooperative Telephone Company to borrow \$50,000 to purchase land for a recreation facility. The City did not comply with the provisions of Chapters 384.24A and 384.26(5)(a) of the Code of Iowa which require certain authorization procedures to be followed, including publication of the intended action and time and place of the meeting and the right to petition for an election. In addition, the City paid the principal and interest on the loan agreement from the Debt Service Fund.

Recommendation – The City should comply with Chapters 384.24A and 384.26 of the Code of Iowa when entering into loan agreements. Also, the City should consult legal counsel regarding the loan repayment from the Debt Service Fund.

Response – The City will consult with legal counsel to rectify the procedures used in borrowing funds to purchase the REC field and will comply with the Iowa Code in the future.

Conclusion – Response accepted.

City of Van Horne

Schedule of Findings

Year ended June 30, 2007

- (10) Public Hearing for Public Improvement - The City did not publish notice of public hearing for the 2006 Van Horne Addition project not less than 4 nor more than 20 days before the hearing as required by Chapters 384.102 and 362.3 of the Code of Iowa. The notice of public hearing was published 34 days prior to the public hearing.

Recommendation – The City should publish the notice of public hearing for public improvements as required.

Response – The City Clerk will be much more diligent in double checking the date of publications.

Conclusion – Response accepted.

- (11) Revenue Bonds - The net revenues of the Water and Sewer Funds were not sufficient to meet the requirements of the revenue bond resolutions. The bond provisions require user rates to be established at a level to maintain net revenues of not less than 110% of the bond principal and interest due in the fiscal year.

Recommendation – The City should comply with the provisions of the water and sewer revenue bonds.

Response – The City will look into increasing water and sewer rates.

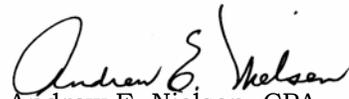
Conclusion – Response accepted.

City of Van Horne

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Billie Jo Heth, Senior Auditor
Aaron P. Wagner, CPA, Staff Auditor


Andrew E. Nielsen, CPA
Deputy Auditor of State