

CITY OF LOVILIA, IOWA
CAPITAL PROJECTS FUND

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

JUNE 30, 2004

Anderson, Larkin & Co. P.C.

CITY OF LOVILIA, IOWA
CAPITAL PROJECTS FUND

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Anderson, Larkin & Co. P.C.

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying statement of cash receipts, disbursements and changes in cash balances of the City of Lovilia, Iowa Capital Projects Fund as of and for the year ended June 30, 2004. These financial statements are the responsibility of the City of Lovilia, Iowa Capital Projects Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statement presents only the Capital Projects Fund and does not purport to, and does not, present fairly the financial position of the City of Lovilia, Iowa as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 of Lovilia, Iowa Capital Projects Fund have not been audited for all prior years.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the results of the cash transactions of the City of Lovilia, Iowa Capital Projects Fund as of and for the year ended June 30, 2004, in conformity with the basis of accounting described in Note 1.

As described in Note 5, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus, and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our reports dated June 2, 2005 on our consideration of the City of Lovilia, Iowa Capital Projects Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 2 through 3 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Lovilia, Iowa Capital Project Fund's financial statements. Other supplementary information, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

ANDERSON, LARKIN & CO P C

Ottumwa, Iowa
June 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Lovilia, Iowa Capital Projects Fund provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Capital Projects Fund's financial statements, which follow

Because the Capital Projects Fund is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Fund's financial position and results of operations

2004 FINANCIAL HIGHLIGHTS

- Receipts of the Capital Projects Fund increased 234%, or approximately \$134,394, from fiscal 2003 to fiscal 2004. Increases in grant receipts account for all of this increase. In addition to grant receipts, the Capital Projects Fund received \$546,827 in note proceeds during the year ended June 30, 2004.
- Disbursements increased 1229%, or approximately \$686,632, in fiscal 2004 from fiscal 2003. Capital outlay disbursements account for all of this increase.
- The Capital Projects Fund's total cash basis net assets decreased 261%, or approximately \$3,911 from June 30, 2003 to June 30, 2004.

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 financial statement and provides an analytical overview of the Capital Projects Fund's financial activities.

The Financial Statement tells how the fund was financed in the short term as well as what remains for future spending

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

Other Supplementary Information includes the Schedule of Expenditures of Federal Awards

Basis of Accounting

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

Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CAPITAL PROJECTS FUND'S FINANCIAL ACTIVITIES

Fund Financial Statement

1) Governmental funds account for most of a 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 Capital Projects Fund. The financial statement provides a detailed, short-term view of the Capital Projects Fund's operations. Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Capital Projects Fund's operations.

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

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The Capital Projects Fund's cash balance decreased from a year ago, decreasing from \$1,500 to \$(2,411). The analysis that follows focuses on the changes in cash balances

Changes in Cash Basis Net Assets

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Intergovernmental	\$191,765	\$57,371
Note proceeds	<u>546,827</u>	<u>-</u>
Total receipts	738,592	57,371
Disbursements:		
Capital outlay	<u>742,503</u>	<u>55,871</u>
Change in cash basis net assets	(3,911)	1,500
Cash basis net assets beginning of year	<u>1,500</u>	<u>-</u>
Cash basis net assets end of year	\$ <u>(2,411)</u>	\$ <u>1,500</u>

The Capital Projects Fund's total receipts increased by 1187%, or \$681,221. The total cost of all programs increased by approximately \$686,632, or 1229%. The increase in receipts was the result of increases in grant receipts and loan proceeds.

The cost of all fund activities this year was \$742,503 compared to \$55,871 last year. The increase in disbursements was the result of increases in capital outlay disbursements.

CONTACTING THE CAPITAL PROJECTS FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City of Lovilia, Iowa Capital Projects Fund's finances and to show the Capital Projects Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Doran Haywood, City Clerk, P.O. Box 145, Lovilia, Iowa.

FINANCIAL STATEMENTS

Anderson, Larkin & Co. P.C.

CITY OF LOVILIA, IOWA
CAPITAL PROJECTS FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
YEAR ENDED JUNE 30, 2004

Receipts:		
Intergovernmental	\$	191,765
Disbursements:		
Capital outlay		<u>742,503</u>
Deficiency of receipts under disbursements		(550,738)
Other financing sources:		
Note proceeds		<u>546,827</u>
Deficiency of receipts and other financing sources under expenditures		(3,911)
Balance beginning of year		<u>1,500</u>
Balance end of year	\$	<u>(2,411)</u>

Anderson, Larkin & Co. P.C.

CITY OF LOVILIA, IOWA
CAPITAL PROJECTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lovilia, Iowa Capital Projects Fund is a political subdivision of the State of Iowa located in Monroe County. The City was first incorporated in 1900 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

The financial statement presents only the Capital Projects Fund and does not purport to, and does not, present fairly the financial position of the City of Lovilia, Iowa, as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Fund 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 Fund are such that exclusion would cause the Fund'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 Fund 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 Fund.

It was determined that the City of Lovilia, Iowa Capital Projects Fund does not have any component units that meet the criteria listed in the preceding paragraph.

B. Fund Accounting

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

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

C. Basis of Accounting

The City of Lovilia, Iowa Capital Projects Fund maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Fund 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 fund in accordance with U.S. generally accepted accounting principles.

NOTE 2: CASH AND INVESTMENTS

The Fund's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF LOVILIA, IOWA
CAPITAL PROJECTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 2: CASH AND INVESTMENTS (Continued)

The City of Lovilia, Iowa Capital Projects Fund 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.

NOTE 3: RISK MANAGEMENT

The City of Lovilia, Iowa Capital Projects Fund 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 of Lovilia, Iowa Capital Projects Fund 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. The Fund is covered by the City of Lovilia, Iowa's insurance policies.

NOTE 4: DEFICIT FUND BALANCE

The City of Lovilia, Iowa Capital Projects Fund had a deficit balance of \$2,411 at June 30, 2004. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated with a transfer from the sewer revenue fund.

NOTE 5: ACCOUNTING CHANGE AND RESTATEMENTS

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, were implemented for the year ended June 30, 2004. As a result of implementing the aforementioned statements, no restatement of beginning net assets is necessary.

CITY OF LOVILIA, IOWA
CAPITAL PROJECTS FUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant	14.228	02-WS-077	\$ 191,765
Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS192233-02	460,306
			\$ <u>652,071</u>

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

Anderson, Larkin & Co. P.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Lovilia, Iowa Capital Projects Fund as of and for the year ended June 30, 2004, and have issued our report thereon dated June 2, 2005. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Lovilia, Iowa Capital Projects Fund's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lovilia, Iowa Capital Projects Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Lovilia, Iowa Capital Projects Fund's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as item II-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above 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 Lovilia, Iowa and other parties to whom the City of Lovilia, Iowa Capital Projects Fund 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 Lovilia, Iowa Capital Projects Fund 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.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
June 2, 2005

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and
Members of the City Council

Compliance

We have audited the compliance of the City of Lovilia, Iowa Capital Projects Fund with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The City of Lovilia, Iowa Capital Projects Fund's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Lovilia, Iowa Capital Project Fund's management. Our responsibility is to express an opinion on the City of Lovilia, Iowa Capital Projects Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lovilia, Iowa Capital Projects Fund'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 of Lovilia, Iowa Capital Projects Fund's compliance with those requirements.

In our opinion, the City of Lovilia, Iowa Capital Projects Fund complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of Lovilia, Iowa Capital Projects Fund is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Lovilia, Iowa Capital Projects Fund'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 of Lovilia, Iowa Capital Projects Fund's ability to administer its major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 the reportable condition described above 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 Lovilia, Iowa and other parties to whom the City of Lovilia, Iowa Capital Projects Fund 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.

ANDERSON, LARKIN & CO P.C.

Ottumwa, Iowa
June 2, 2005

Anderson, Larkin & Co. P.C.

CITY OF LOVILIA, IOWA
CAPITAL PROJECTS FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

PART I: SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the 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 program was CFDA Number 66.458 - Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Lovilia, Iowa Capital Projects Fund did not qualify as a low-risk auditee.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Instances of Non-Compliance

No matters were noted.

Reportable Conditions

II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the year ended June 30, 2004, the City Clerk had control over each of the following areas for the City of Lovilia, Iowa Capital Projects Fund:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – handling and recording
- (3) Receipts – collecting, depositing and posting.
- (4) Disbursements – purchasing, preparing checks and recording.

CITY OF LOVILIA, IOWA
CAPITAL PROJECTS FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS: (Continued)

Recommendation

We realize that with two part-time office employees, segregation of duties is difficult. However, the City of Lovilia, Iowa Capital Projects Fund should review its operating procedures to obtain the maximum internal control possible under the circumstances. The Fund should consider involving City Council members.

Response

We will consider the above recommendations.

Conclusion

Response accepted.

PART III: FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

Instances of Non-Compliance

No matters were noted.

Reportable Condition

CFDA Number 66.458: Capitalization Grants for Clean Water State Revolving Funds
Pass-through Agency Number: CS192233-02
Federal Award Year: 2004
Environmental Protection Agency
Passed through the Iowa Department of Natural Resources

III-A-04 Segregation of Duties Over Federal Receipts and Disbursements – The City of Lovilia, Iowa Capital Projects Fund did not properly segregate collection, deposit and record-keeping for receipts and authorization, payment and record-keeping for disbursements, including those related to federal programs. See item II-A-04.