



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE June 14, 2007

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Auditor of State David A. Vaudt today released an audit report on the City of Springville, Iowa.

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

The City's receipts totaled \$1,998,056 for the year ended June 30, 2006. The receipts included \$357,218 in property tax, \$300,584 from charges for service, \$349,412 from operating grants, contributions and restricted interest, \$118,269 from local option sales tax, \$5,618 from unrestricted interest on investments, \$851,702 from project anticipation note proceeds and \$15,253 from other general receipts.

Disbursements for the year totaled \$1,881,078, and included \$917,742 for public works, \$334,683 for culture and recreation and \$135,945 for public safety. Also, disbursements for business type activities totaled \$299,967.

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 SPRINGVILLE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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City of Springville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
William Cooper	Mayor	Jan 2006
Rick Heeren	Mayor Pro tem	Jan 2008
Deb Vaughn	Council Member	Jan 2006
Al Woods	Council Member	Jan 2006
Robin Ballantyne	Council Member	Jan 2008
Jeff Grimley	Council Member	Jan 2008
(After January 2006)		
William Cooper	Mayor	Jan 2010
Rick Heeren	Mayor Pro tem	Jan 2008
Robin Ballantyne	Council Member	Jan 2008
Jeff Grimley	Council Member	Jan 2008
Jack Clothier	Council Member	Jan 2010
Sean Williams	Council Member	Jan 2010
Sheila Ainesworth	Clerk/Treasurer	Indefinite
Jeff Taylor	Attorney	Indefinite

City of Springville



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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 Springville, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Springville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Springville as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 7, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated March 12, 2007 on our consideration of the City of Springville'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 24 through 26 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 Springville'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, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 12, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Springville provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$104,000, due primarily to local option sales tax collected and not completely spent during the year and Debt Service Fund property tax collections.
- The cash basis net assets of the City's business type activities increased approximately \$13,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and 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 results of operations 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, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and recycle/garbage systems. These activities are financed primarily by user fees.

Fund Financial Statements

The City has two kinds of funds:

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

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

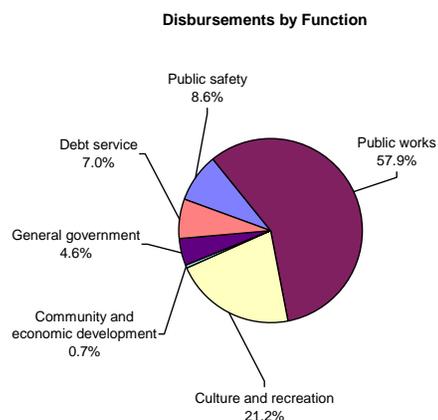
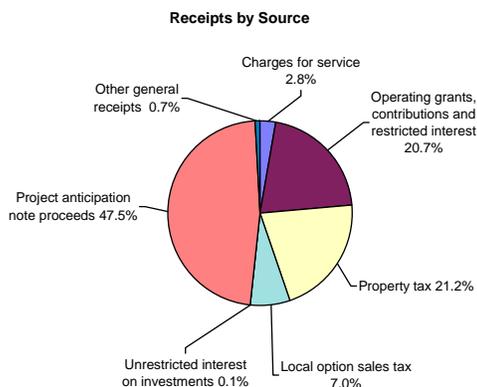
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water, sewer and recycle/garbage operations. The Water and Sewer Funds are considered to be major funds 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 \$199,245 to \$303,069. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 46,376
Operating grants, contributions and restricted interest	349,412
General receipts:	
Property tax	357,218
Local option sales tax	118,269
Unrestricted interest on investments	1,198
Project anticipation note proceeds	800,659
Other general receipts	11,803
Total receipts	<u>1,684,935</u>
Disbursements:	
Public safety	135,945
Public works	917,742
Culture and recreation	334,683
Community and economic development	10,529
General government	72,264
Debt service	109,948
Total disbursements	<u>1,581,111</u>
Increase in cash basis net assets	103,824
Cash basis net assets beginning of year	<u>199,245</u>
Cash basis net assets end of year	<u>\$ 303,069</u>



The cash basis net assets of the City's governmental funds increased from \$199,245 to \$303,069, due primarily to local option sales tax collected and not completely spent during the year and Debt Service Fund property tax collections.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2006</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 119,211
Sewer	103,643
Recycle	31,354
General receipts:	
Projection anticipation note proceeds	51,043
Unrestricted interest on investments	4,420
Other	3,450
Total receipts	<u>313,121</u>
Disbursements :	
Water	145,510
Sewer	129,416
Recycle/garbage	25,041
Total disbursements	<u>299,967</u>
Increase in cash basis net assets	13,154
Cash basis net assets beginning of year	<u>143,437</u>
Cash basis net assets end of year	<u>\$ 156,591</u>

Total business type activities cash basis net assets increased approximately \$13,000 from a year ago, from \$143,437 to \$156,591.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Springville completed the year, its governmental funds reported a combined fund balance of \$303,069, an increase of more than \$103,000 above last year's total of \$199,245. 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 \$28,791 from the prior year to a year-end balance of \$56,117. This decrease is due to library project and street project disbursements.
- The Local Option Sales Tax Fund cash balance increased \$61,469 to \$128,039 during the fiscal year. The increase was due to tax collected and not entirely spent during the year.
- The Debt Service Fund cash balance increased \$67,876 to \$67,906 during the fiscal year. The increase was primarily due to an increase in property tax received.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$20,592 to a year-end balance of \$63,776, primarily due to an increase in wages paid.
- The Sewer Fund cash balance increased \$27,433 to a year-end balance of \$85,479, primarily due to a decrease in disbursements for capital improvements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 16, 2006 and resulted in an increase in operating disbursements of approximately \$926,000 relating primarily to the public works, debt service and business type activities functions. The City sold project anticipation notes and incorrectly included these in budgeted receipts for use of money and property.

The City's receipts were \$518,378 less than budgeted, primarily due to project anticipation notes proceeds recorded as an other financing source rather than use of money and property where it was budgeted.

Total disbursements were \$1,250,287 less than the amended budget. Disbursements in the public works, debt service and business type activities functions were \$418,372, \$613,882 and \$124,633, respectively, less than the amended budget. Disbursements for the street project were less than anticipated, the City incorrectly made an amendment to pay for project disbursements out of the debt service function instead of from the public works function and sewer project disbursements were less than anticipated.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$1,611,495 in general obligation notes, revenue notes and project anticipation notes outstanding, compared to \$846,500 last year. The chart below segregates the City's debt into its component parts.

Outstanding Debt at Year-End	
	June 30, 2006
General obligation notes	\$ 609,055
Revenue notes	150,738
General obligation project anticipation notes	851,702
Total	<u>\$ 1,611,495</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is \$1,460,757, below its constitutional debt limit of approximately \$2,075,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Springville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. The City's FY2007 taxable valuation has increased approximately \$392,000 from FY2006.

The FY2007 budget contains total receipts of \$902,708 and disbursements of \$1,090,368. This budget is lower than the amended FY2006 budget which contained total receipts of \$1,570,231 and disbursements of \$3,040,753. The FY2006 budget included project anticipation note proceeds of \$1,300,000 and the disbursements budget included approximately \$1,000,000 of capital project disbursements for the library and street improvement projects.

The FY2007 levy is \$14.45718 per \$1,000 of taxable valuation, an increase from \$10.50564 per \$1,000 of taxable valuation for FY2006. The debt service levy increased from \$2.40564 per \$1,000 of taxable valuation for FY2006 to \$ 6.35718 per \$1,000 of taxable valuation for FY2007 due to the issuance of general obligation project anticipation notes.

These parameters were taken into account when adopting the budget for FY2007.

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 Sheila Ainesworth, City Clerk, 304 Broadway Street, Springville, IA 52336.

Basic Financial Statements

City of Springville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 135,945	2,081	109,404
Public works	917,742	-	91,818
Culture and recreation	334,683	42,813	148,190
Community and economic development	10,529	-	-
General government	72,264	1,482	-
Debt service	109,948	-	-
Total governmental activities	1,581,111	46,376	349,412
Business type activities:			
Water	145,510	119,211	-
Sewer	129,416	103,643	-
Recycle/garbage	25,041	31,354	-
Total business type activities	299,967	254,208	-
Total	\$ 1,881,078	300,584	349,412

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 Project anticipation note proceeds
 Miscellaneous

Total general receipts

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:

Local option sales tax
 Debt service
 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
(24,460)	-	(24,460)
(825,924)	-	(825,924)
(143,680)	-	(143,680)
(10,529)	-	(10,529)
(70,782)	-	(70,782)
(109,948)	-	(109,948)
(1,185,323)	-	(1,185,323)
-	(26,299)	(26,299)
-	(25,773)	(25,773)
-	6,313	6,313
-	(45,759)	(45,759)
(1,185,323)	(45,759)	(1,231,082)
179,394	-	179,394
177,824	-	177,824
118,269	-	118,269
1,198	4,420	5,618
800,659	51,043	851,702
11,803	3,450	15,253
1,289,147	58,913	1,348,060
103,824	13,154	116,978
199,245	143,437	342,682
\$ 303,069	156,591	459,660
\$ 128,039	-	128,039
95,820	24,000	119,820
51,007	-	51,007
28,203	132,591	160,794
\$ 303,069	156,591	459,660

Exhibit B

City of Springville

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

As of and for the year ended June 30, 2006

	Special Revenue				Total
	General	Local Option Sales Tax	Debt Service	Nonmajor	
Receipts:					
Property tax	\$ 174,418	-	172,576	-	346,994
Other city tax	5,990	118,269	5,248	-	129,507
Licenses and permits	3,564	-	-	-	3,564
Use of money and property	6,096	-	-	470	6,566
Intergovernmental	28,649	-	-	91,345	119,994
Charges for service	4,375	-	-	-	4,375
Miscellaneous	179,245	-	-	94,031	273,276
Total receipts	402,337	118,269	177,824	185,846	884,276
Disbursements:					
Operating:					
Public safety	46,460	-	-	89,485	135,945
Public works	772,745	53,033	-	91,964	917,742
Culture and recreation	329,789	3,767	-	1,127	334,683
Community and economic development	10,529	-	-	-	10,529
General government	72,264	-	-	-	72,264
Debt service	-	-	109,948	-	109,948
Total disbursements	1,231,787	56,800	109,948	182,576	1,581,111
Excess (deficiency) of receipts over (under) disbursements	(829,450)	61,469	67,876	3,270	(696,835)
Other financing sources:					
Project anticipation note proceeds	800,659	-	-	-	800,659
Net change in cash balances	(28,791)	61,469	67,876	3,270	103,824
Cash balances beginning of year	84,908	66,570	30	47,737	199,245
Cash balances end of year	\$ 56,117	128,039	67,906	51,007	303,069
Cash Basis Fund Balances					
Reserved for:					
Debt service	\$ -	-	67,906	-	67,906
Street improvements	27,914	-	-	-	27,914
Unreserved:					
General fund	28,203	-	-	-	28,203
Special revenue funds	-	128,039	-	51,007	179,046
Total cash basis fund balances	\$ 56,117	128,039	67,906	51,007	303,069

See notes to financial statements.

City of Springville

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

As of and for the year ended June 30, 2006

	Enterprise			Total
	Water	Sewer	Nonmajor Recycle/ Garbage	
Operating receipts:				
Charges for service	\$ 119,211	103,643	31,354	254,208
Operating disbursements:				
Business type activities	145,510	78,354	25,041	248,905
Excess (deficiency) of operating receipts over (under) operating disbursements	(26,299)	25,289	6,313	5,303
Non-operating receipts (disbursements):				
Interest on investments	2,257	2,163	-	4,420
Project anticipation note proceeds	-	51,043	-	51,043
Capital improvements	-	(51,062)	-	(51,062)
Other	3,450	-	-	3,450
Total non-operating receipts (disbursements)	5,707	2,144	-	7,851
Net change in cash balances	(20,592)	27,433	6,313	13,154
Cash balances beginning of year	84,368	58,046	1,023	143,437
Cash balances end of year	\$ 63,776	85,479	7,336	156,591
Cash Basis Fund Balances				
Unreserved	\$ 63,776	85,479	7,336	156,591

See notes to financial statements.

City of Springville

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Springville is a political subdivision of the State of Iowa located in Linn 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, sewer and recycle/garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Springville 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 Springville (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 operational relationship with the City.

Blended Component Units

Friends of the Springville Fire Department and Friends of the Springville Memorial Library are legally separate from the City but are so intertwined with the City they are, in substance, part of the City. Friends of the Springville Fire Department and Friends of the Springville Memorial Library are organized under Chapter 504A of the Code of Iowa as non-profit corporations and collect donations which are used to purchase items not included in the City's budget. The financial transactions have been reported as Special Revenue Funds of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, Linn County Emergency Management Commission and Linn 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 and enterprise funds are aggregated and reported as nonmajor governmental and enterprise 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.

The Special Revenue, Local Option Sales Tax Fund is used to account for local option sales tax received and its uses.

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

The City reports the following major proprietary funds:

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

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes Payable

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

Year Ending June 30,	General Obligation		Revenue Notes		Total	
	Notes		Principal	Interest	Principal	Interest
	Principal	Interest*				
2007	\$ 35,496	25,885	17,971	6,030	53,467	31,915
2008	36,154	24,377	18,689	5,311	54,843	29,688
2009	37,841	22,840	19,437	4,563	57,278	27,403
2010	39,556	21,231	20,214	3,786	59,770	25,017
2011	41,303	19,550	21,023	2,977	62,326	22,527
2012 - 2016	190,705	70,810	53,404	3,750	244,109	74,560
2017 - 2021	160,000	35,445	-	-	160,000	35,445
2022 - 2023	68,000	4,335	-	-	68,000	4,335
Total	\$ 609,055	224,473	150,738	26,417	759,793	250,890

* The interest rate is variable and could change.

Revenue Notes

The resolution providing for the issuance of the revenue notes provides the notes are payable solely from the net revenues of the sewer utility and shall not be a general obligation of the City, nor payable in any manner by taxation.

During the year ended June 30, 2006, the City paid principal and interest for sewer revenue notes of \$24,000 from the Debt Service Fund instead of from the Enterprise, Sewer Fund. The City will make a corrective transfer of \$24,000 from the Enterprise, Sewer Fund to the Debt Service Fund.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$11,300, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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, 2006, primarily relating to the General Fund was \$3,600. This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) 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.

(7) Accounting Change

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

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 346,994	-	-
Other city tax	129,507	-	-
Licenses and permits	3,564	-	-
Use of money and property	6,566	-	470
Intergovernmental	119,994	7,870	-
Charges for service	4,375	254,208	-
Miscellaneous	273,276	-	94,031
Total receipts	<u>884,276</u>	<u>262,078</u>	<u>94,501</u>
Disbursements:			
Public safety	135,945	-	89,485
Public works	917,742	-	-
Culture and recreation	334,683	-	1,127
Community and economic development	10,529	-	-
General government	72,264	-	-
Debt service	109,948	-	-
Business type activities	-	299,967	-
Total disbursements	<u>1,581,111</u>	<u>299,967</u>	<u>90,612</u>
Excess (deficiency) of receipts over (under) disbursements	(696,835)	(37,889)	3,889
Other financing sources, net	800,659	51,043	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	103,824	13,154	3,889
Balances beginning of year	199,245	143,437	23,671
Balances end of year	<u>\$ 303,069</u>	<u>156,591</u>	<u>27,560</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
346,994	228,234	228,234	118,760
129,507	56,973	126,973	2,534
3,564	3,300	3,300	264
6,096	15,627	625,627	(619,531)
127,864	114,772	121,597	6,267
258,583	259,000	259,000	(417)
179,245	68,000	205,500	(26,255)
<u>1,051,853</u>	<u>745,906</u>	<u>1,570,231</u>	<u>(518,378)</u>
46,460	60,134	60,134	13,674
917,742	1,193,000	1,336,114	418,372
333,556	311,400	366,525	32,969
10,529	39,500	43,000	32,471
72,264	86,450	86,550	14,286
109,948	53,830	723,830	613,882
299,967	370,500	424,600	124,633
<u>1,790,466</u>	<u>2,114,814</u>	<u>3,040,753</u>	<u>1,250,287</u>
(738,613)	(1,368,908)	(1,470,522)	731,909
<u>851,702</u>	<u>1,300,000</u>	<u>1,300,000</u>	<u>448,298</u>
113,089	(68,908)	(170,522)	283,611
<u>319,011</u>	<u>193,510</u>	<u>193,510</u>	<u>125,501</u>
<u>432,100</u>	<u>124,602</u>	<u>22,988</u>	<u>409,112</u>

City of Springville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the 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 ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund 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, one budget amendment increased budgeted disbursements by \$925,939. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Springville

City of Springville

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

As of and for the year ended June 30, 2006

	Special Revenue			Total
	Road Use Tax	Friends of the Springville Fire Department	Friends of the Springville Memorial Library	
Receipts:				
Use of money and property	\$ -	469	1	470
Intergovernmental	91,345	-	-	91,345
Miscellaneous	-	91,128	2,903	94,031
Total receipts	<u>91,345</u>	<u>91,597</u>	<u>2,904</u>	<u>185,846</u>
Disbursements:				
Operating:				
Public safety	-	89,485	-	89,485
Public works	91,964	-	-	91,964
Culture and recreation	-	-	1,127	1,127
Total disbursements	<u>91,964</u>	<u>89,485</u>	<u>1,127</u>	<u>182,576</u>
Excess (deficiency) of receipts over (under) disbursements	(619)	2,112	1,777	3,270
Cash balances beginning of year	<u>24,066</u>	<u>23,671</u>	<u>-</u>	<u>47,737</u>
Cash balances end of year	<u>\$ 23,447</u>	<u>25,783</u>	<u>1,777</u>	<u>51,007</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	<u>\$ 23,447</u>	<u>25,783</u>	<u>1,777</u>	<u>51,007</u>

See accompanying independent auditor's report.

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Water	Mar 1, 1996	5.15%	\$ 275,000
Corporate purpose	Jan 15, 2004	4.25 *	535,000
Property acquisition	Sep 3, 2004	4.25 *	175,000
Total			
Revenue notes:			
Sewer	Feb 6, 2004	4.00%	\$ 206,000
General obligation project anticipation notes:			
Library	Dec 6, 2004	3.50%	\$ 400,000
Street improvements	Sep 6, 2005	4.50	900,000
Total			

* The interest rate is variable and is subject to change.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
34,564	-	34,564	-	1,340
485,000	-	20,000	465,000	20,613
158,919	-	14,864	144,055	6,754
<u>\$ 678,483</u>	<u>-</u>	<u>69,428</u>	<u>609,055</u>	<u>28,707</u>
168,017	-	17,279	150,738	6,721
-	69,824	-	69,824	-
-	781,878	-	781,878	9,432
<u>\$ -</u>	<u>851,702</u>	<u>-</u>	<u>851,702</u>	<u>9,432</u>

Schedule 3

City of Springville

Note Maturities

June 30, 2006

Year Ending June 30,	General Obligation Notes					Revenue Notes	
	Corporate Purpose		Property Acquisition		Total	Sewer	
	Issued January 15, 2004		Issued September 3, 2004			Issued February 6, 2004	
	Interest Rates*	Amount	Interest Rates*	Amount		Interest Rates	Amount
2007	4.25%	\$ 20,000	4.25%	\$ 15,496	35,496	4.00%	\$ 17,971
2008	4.25	20,000	4.25	16,154	36,154	4.00	18,689
2009	4.25	21,000	4.25	16,841	37,841	4.00	19,437
2010	4.25	22,000	4.25	17,556	39,556	4.00	20,214
2011	4.25	23,000	4.25	18,303	41,303	4.00	21,023
2012	4.25	23,000	4.25	19,081	42,081	4.00	21,864
2013	4.25	26,000	4.25	19,892	45,892	4.00	22,738
2014	4.25	26,000	4.25	20,732	46,732	4.00	8,802
2015	4.25	28,000		-	28,000		-
2016	4.25	28,000		-	28,000		-
2017	4.25	28,000		-	28,000		-
2018	4.25	32,000		-	32,000		-
2019	4.25	32,000		-	32,000		-
2020	4.25	34,000		-	34,000		-
2021	4.25	34,000		-	34,000		-
2022	4.25	34,000		-	34,000		-
2023	4.25	34,000		-	34,000		-
Total		<u>\$465,000</u>		<u>\$ 144,055</u>	<u>609,055</u>		<u>\$ 150,738</u>

* The interest rate is variable and is subject to change.

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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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 Springville, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 12, 2007. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Springville'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, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Springville and other parties to whom the City of Springville 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 Springville 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 12, 2007

City of Springville

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – reconciling bank accounts, initiating cash receipts and disbursement transactions and handling and recording cash.
 - (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
 - (4) Long-term debt – recording, reconciling and performing cash functions.
 - (5) Receipts – collecting, depositing, journalizing and posting.
 - (6) Utility receipts – billing, collection, depositing, posting and reconciling.
 - (7) Disbursements – purchasing, check signing, recording and reconciling.
 - (8) Payroll – preparing and distributing.
 - (9) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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

Response – The City of Springville will develop a plan to maximize internal control of the segregation of duties utilizing available personnel. This plan would necessitate the review and update of job descriptions of involved city personnel including the City Clerk, Deputy City Clerks, Mayor and Mayor Pro tem. Additionally, procedures to ensure proper checks and balances will be developed.

Conclusion – Response accepted

City of Springville

Schedule of Findings

Year ended June 30, 2006

- (B) Electronic Data Processing Systems – The City does not have written policies for its computer based system to require the user to periodically change log-ins/passwords.

Recommendation – The City should develop written policies to require the user to periodically change log-ins/passwords.

Response – The City of Springville will develop a written policy to ensure that logins/passwords are changed quarterly.

Conclusion – Response accepted.

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

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

Response – The City of Springville will develop a written policy regulating the use of credit cards. The policy will include who's authorized to use the credit card(s), what the credit card(s) can be used for, the limit that can be spent and the need for required documentation of purchases.

Conclusion – Response accepted.

- (D) Note Proceeds – The City issued general obligation project anticipation notes for the library and street improvement projects. The note proceeds were deposited into the General Fund and the Enterprise, Sewer Fund.

Recommendation – Note proceeds for each project should be deposited into separate Capital Projects Funds to properly account for how the note proceeds are used.

Response – The City of Springville will create separate Capital Projects Funds to track how the note proceeds are used for any future projects. Additionally, procedures to ensure note proceeds are deposited in the proper Capital Projects Fund will be developed.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Springville

Schedule of Findings

Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- (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 – No business transactions between the City and City officials or employees were noted.
- (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 insure 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.
- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Payment of Notes – Principal and interest were paid from the General Fund for the year ended June 30, 2006 for the general obligation notes dated September 3, 2004. Chapter 384.4 of the Code of Iowa states, in part “Moneys pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

In addition, the sewer revenue note resolution states “The note is payable from the net revenues of the utility which will be applied to the payment of interest on and principal of the note on each June 1.” Therefore, principal and interest should be paid from the Enterprise, Sewer Fund and not the Debt Service Fund.

Recommendation – The City should transfer from the General Fund to the Debt Service Fund for future funding contributions for general obligation notes. Payments of note principal and interest should be disbursed from the Debt Service Fund.

In addition, the principal and interest on the sewer revenue notes should be paid from the Enterprise, Sewer Fund and the City should make a corrective transfer of \$24,000 from the Enterprise, Sewer Fund to the Debt Service Fund.

Response – The City of Springville will ensure the general obligation property acquisition note and the sewer revenue refunding note are paid from the appropriate funds. In addition, a corrective transfer of \$24,000 will be entered into the June 2006 ledger to record a transfer from the Sewer Fund to the Debt Service Fund.

Conclusion – Response accepted.

City of Springville

Schedule of Findings

Year ended June 30, 2006

- (9) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The City of Springville will have our bank(s) provide us with the front and back images of our cancelled checks in either scanned or electronic format.

Conclusion – Response accepted.

- (10) City Code of Ordinances – The City Code of Ordinances has not been recodified since 1997.

Recommendation – Chapter 380.8(2) of the Code of Iowa requires the City Code of Ordinances be recodified at least once every five years.

Response – The City of Springville is currently working to complete the codification and will ensure that the Code of Ordinances will be kept up-to-date in the future.

Conclusion – Response accepted.

City of Springville

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Daniel L. Grady, Staff Auditor
Matthew R. Ritchey, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State