

CITY OF HUMBOLDT, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2008

**T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants**

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CITY OF HUMBOLDT, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Walter Jensen	Mayor	Jan 2010
Steve Boomgarden	Council Member	Jan 2012
John Sleiter	Council Member	Jan 2012
Leroy Jorgensen	Council Member	Jan 2012
Darrell Rusher	Council Member	Jan 2010
Jim Vermeer	Council Member	Jan 2010
Lorie Bennett	Administrator	
Gloria Christensen	City Clerk	Jan 2009
Sierra Skow	Deputy City Clerk	Jan 2009
John Wickre	Zoning Admin. Officer	Jan 2010
Gloria Christensen	Mid-Iowa Regional Housing Authority Representative	Jan 2010
Eric Eide	Attorney	Jan 2009
Mike Worthington	Park Commission	Jan 2012
Bill Sundell	Park Commission	Jan 2012
Kim Jensen	Park Commission	Jan 2010
Jill Colerick	Library Trustee	July 2012
Donna Day	Library Trustee	July 2009
Craig Christensen	Library Trustee	July 2012
Donna Currier	Library Trustee	July 2012
Linda Clasen	Library Trustee	July 2009
Bryon Wadsley	Airport Commission	Jan 2011
Dave Dodgen	Airport Commission	Jan 2013
John Cero	Airport Commission	Jan 2014
Robert Dodd	Airport Commission	Jan 2009
Ed Allen	Airport Commission	Jan 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Candy Robinson	Planning & Zoning Commission	Jan 2013
Julie Clendenen	Planning & Zoning Commission	Jan 2010
Scott Lerdal	Planning & Zoning Commission	Jan 2009
Scott Curran	Planning & Zoning Commission	Jan 2010
Jay Bancroft	Planning & Zoning Commission	Jan 2014
Steve Sande	Planning & Zoning Commission	Jan 2014
Vouth Varangkounh	Planning & Zoning Commission	Jan 2009
Dennis Robinson	Planning & Zoning Commission	Jan 2014
Karla Mckibbon	Planning & Zoning Commission	Jan 2009
Scott Lerdal	Zoning Adjustment Board	Jan 2011
Conrad Burgers	Zoning Adjustment Board	Jan 2013
John Van Horn	Zoning Adjustment Board	Jan 2009
Tom Nelson	Zoning Adjustment Board	Jan 2011
Robert Abens	Zoning Adjustment Board	Jan 2012
Helen Wickre	Preservation Board	Jan 2010
John Vanhorn	Preservation Board	Jan 2010
Marilyn Huntermark	Preservation Board	Jan 2010
Mary Carlson	Preservation Board	Jan 2011
Roger Gochenour	Preservation Board	Jan 2011
Louis Fontana	Municipal Waterworks Chairman	Jan 2010
Russell Christensen	Municipal Waterworks Trustee	Jan 2012
Joe Hadar	Municipal Waterworks Trustee	Jan 2014
Lorie Bennett	Municipal Waterworks Secretary	Appointed
Dale Behrens	Water Superintendent	Appointed



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Humboldt, Iowa, as of and for the year ended June 30, 2008, 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 Humboldt's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 that 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.

In our opinion, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Humboldt as of June 30, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2008, on our consideration of the City of Humboldt's internal control over financial reporting and our tests of 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 5 through 11 and 24 through 25 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 inquires 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 Humboldt's basic financial statements. We have previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

T.P. Anderson & Company, P.C.

December 29, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Humboldt, Iowa 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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 31%, or approximately \$1.8 million from fiscal 2007 to fiscal 2008. Property tax proceeds including TIF property tax increased approximately \$58,000. Bond proceeds decreased approximately \$1,705,000 from the prior year while grant proceeds decreased approximately \$270,000.
- Disbursements decreased 2.7%, or approximately \$128,000 in fiscal 2008 from fiscal 2007. Capital projects disbursements decreased approximately \$69,000, community and economic development disbursements decreased approximately \$166,000, and public works disbursements decreased approximately \$150,000. Spending on public safety increased by 20% in fiscal year 2008.
- The City's (including the results of the Humboldt Municipal Waterworks) total cash basis net assets decreased 13%, or approximately \$672,859 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased approximately \$637,000 and the assets of the business type activities decreased by approximately \$126,000, and the Humboldt Municipal Waterworks increased \$90,000.

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 cash basis Statement of Activities and Net Assets. This statement provides information about the cash basis activities of the City as a whole and presents an overview of the City's cash basis finances.

The cash basis 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 of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds, the City's indebtedness and receipts and disbursements compared to prior years.

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 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 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 which helps answer this question.

The Statement of Activities and Net Assets presents the City's cash basis net assets. Over time, increases or decreases in the City's cash basis 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 three kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the solid waste and the sanitary sewer system. These activities are financed primarily by user charges.
- Component Units include the waterworks. The activities are financed by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic service. 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, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required cash basis financial statement for governmental funds include 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 four Enterprise Funds to provide separate information for the solid waste, sewer rental, sewer sinking and sewer reserve funds.

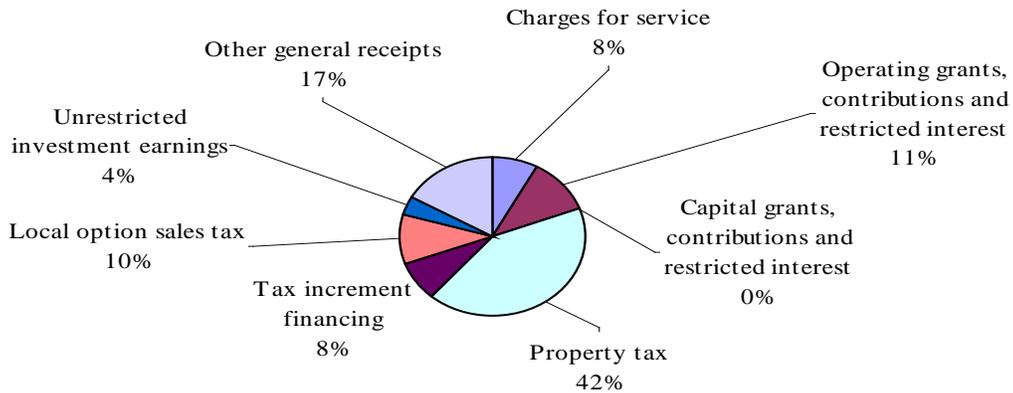
The required cash basis financial statement for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

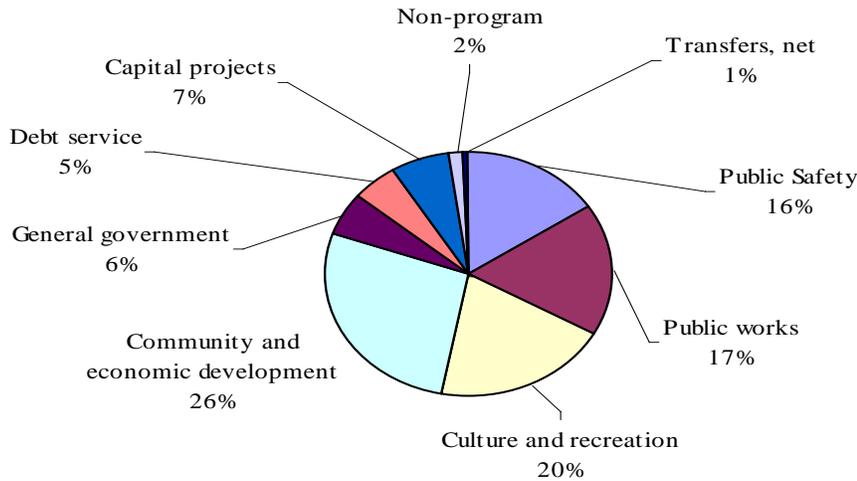
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$3.7 million to \$3.0 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2008	2007
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 311	\$ 386
Operating grants, contributions and restricted interest	441	505
Capital grants, contributions and restricted interest	3	209
General receipts:		
Property tax	1,656	1,545
Tax increment financing	312	365
Local option sales tax	393	389
Unrestricted investment earnings	148	159
Bond / loan proceeds	-	1,705
Other general receipts	659	346
Transfers, net	-	103
Total receipts and transfers	3,923	5,712
Disbursements:		
Public safety	718	600
Public works	783	933
Culture and recreation	909	850
Community and economic development	1,246	1,412
General government	272	243
Debt service	231	230
Capital projects	297	366
Non program	75	54
Transfers, net	29	-
Total disbursements	4,560	4,688
Increase in cash basis net assets	(637)	1,024
Cash basis net assets beginning of year	3,681	2,657
Cash basis net assets end of year	\$ 3,044	\$ 3,681

Receipts by Source



Disbursements by Source



The City’s total receipts for governmental activities decreased by 31%, or \$1.8 million. The total cost of all programs and services decreased by approximately \$128,000 or 2.7%, with no new programs added this year. The significant decrease in receipts was primarily the result of bond proceeds and the decrease in cost of programs and services was primarily due to an decrease in capital projects disbursements as a result of the completion of the aquatic center.

The cost of all governmental activities this year was \$4.6 million compared to \$4.7 million last year. However, as shown in the Statement of Activities and Net Assets on pages 12, the amount taxpayers ultimately financed for these activities was only 3.8 million because some of the cost was paid by those directly benefited from the programs (\$311,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$444,000). Overall, the City’s governmental program receipts, including intergovernmental aid and fees for service, decreased in 2008 from approximately \$1,100,000 to

approximately \$755,000 from the prior fiscal year. The City paid for the remaining “public benefit” portion of governmental activities with approximately \$2,361,000 in tax (some of which could only be used for certain programs), and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Solid waste	\$ 312	\$ 306
Sewer rental	787	720
General receipts:		
Miscellaneous	6	-
Unrestricted interest on investments	34	36
Transfers, net	135	6
Total receipts	1,274	1,068
Disbursements and transfers:		
Solid waste	412	321
Sewer rental	988	381
Sewer sinking	-	339
Total disbursements and transfers	1,400	1,041
Increase (decrease) in cash balance	(126)	27
Cash basis net assets beginning of year	1,057	1,030
Cash basis net assets end of year	\$ 931	\$ 1,057

Total business type activities receipts for the fiscal year were \$1.274 million compared to \$1.068 million last year. The cash balance decreased by approximately \$126,000 from the prior year.

Total disbursements and transfers for the fiscal year increased by 34% to a total of \$1.4 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As The City of Humboldt completed the year, its governmental funds reported a combined fund balance of \$3,094,302, which is a decrease of \$637,165 below last year’s total of \$3,731,467. 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 \$268,719 from the prior year to \$1,104,287. This decrease resulted from a planned budgeted reduction in fund balance.
- The Local Option Sales Tax Fund decreased \$49,450 to \$488,874 during the fiscal year. The decrease resulted from transfers to other budgetary funds. The larger expenditures financed by the transfers were \$175,000 for the 2008 Street Improvement Project, \$108,296 to pay the Sumner Avenue Capital Loan Notes, and \$159,900 for the Sanitary Sliplining Project.
- The Urban Renewal Tax Increment Financing Fund decreased \$379,698. The decrease is due to receiving bond/loan proceeds in fiscal year 2007 and spending it during fiscal year 2008.
- The Louthan Fund received \$22,494 in interest which resulted in an increased fund balance of \$490,762 at June 30, 2008.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Solid Waste Fund cash balance decreased by \$95,225 to \$288,930 due primarily to regular operations.
- The Sewer Fund cash balance decreased by \$30,473 to \$641,832 at June 30, 2008 also due primarily to regular operations.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 8, 2008 and resulted in decreased revenues and increased disbursements of \$88,224 and \$377,890, respectively. The increased expenditures resulted mainly from increased expenses expected for Community and Economic Development.

The budgeted expenditures exceeded the amount budgeted in the general government program area for the year ended June 30, 2008.

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$8,879 million in bonds and other long-term debt, compared to approximately \$7.772 million last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30,	
	2008	2007
General obligation bonds	\$ 3,423	\$ 4,184
Special assessment bonds and notes	33	69
Urban renewal tax increment financing bonds	1,080	1,080
Revenue notes	3,461	3,547
Total	\$ 7,997	\$ 8,880

Debt decreased as a result of normally scheduled repayment of debt. The discretely presented component unit authorized borrowing up to \$317,300 for the planning and design of a new water plant. At June 30, 2008, \$289,354 of the total authorized had been drawn down.

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 \$3,423,393 is significantly below its constitutional debt limit of \$9.9 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City of Humboldt’s total assessed valuation decreased from \$197,311,960 on January 1, 2007 to \$191,989,478 on January 1, 2008, a decrease of 2.7%. The City’s taxable valuation also decreased, from \$115,444,255 in FY 07-08 to \$112,205,457 in FY 08-09 or 2.81%. The residential rollback decreased, from 45.5596% to 44.0803%. The decrease in the taxable valuations and decrease in the rollback result in the \$8.10 / \$1,000 General levy revenues decreasing \$26,234 from the previous year. With this in mind, the city proposed an increase in the total tax levy of \$0.24542/\$1000, from \$14,0409 in FY 07-08 to \$14.28630 in FY 08-09.

The City has been able to maintain its total tax levy in the past by using down some fund balances. Continued additional industrial development, new housing construction and the gradual reduction in the residential tax abatements will assist the City in increasing taxable valuations in the coming years.

The Fiscal Year 2009 budget shows \$13,837,367 in anticipated revenues. This is an increase of \$7,939,807 from Fiscal Year 2008 actual revenues of \$5,897,560. The increase is largely due to financing projects pending, including anticipated grants, awards and loans for Airport and Water Department projects.

Anticipated expenditures in the Fiscal Year 2009 budget are \$14,702,378. Actual expenditures in Fiscal Year 2008 were \$6,570,418. The increase is \$8,131,960, and largely reflects the differences between costs of capital projects in the respective years. Construction costs of a water plant are projected to be \$7,540,000 (including planning and design costs).

On December 16, 2008 voters approved a proposition to disband the Municipal Waterworks Board of Trustees.

The Council approved a 3.5% wage increase for all City of Humboldt employees, effective July 1, 2008. User rates for water and sewer are also projected to increase during Fiscal Year 2009.

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 Humboldt's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Gloria Christensen, City Clerk, 29 5th Street South, Humboldt, Iowa 50548.

Basic Financial Statements

CITY OF HUMBOLDT, IOWA

Exhibit A

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Component Unit
	Disbursements	Charges for Service	Operating Grants	Capital Grants	Governmental Activities	Business type Activities	Total	
			Contributions and Restricted Interest	Contributions and Restricted Interest				
Primary Government								
Governmental activities:								
Public safety	622,585	40,471	3,500	-	(578,614)	-	(578,614)	-
Public works	877,931	-	437,347	2,786	(437,798)	-	(437,798)	-
Culture and recreation	908,995	270,612	-	-	(638,383)	-	(638,383)	-
Community and economic development	1,246,099	-	-	-	(1,246,099)	-	(1,246,099)	-
General government	271,955	-	-	-	(271,955)	-	(271,955)	-
Debt Service	230,533	-	-	-	(230,533)	-	(230,533)	-
Capital projects	297,435	-	-	-	(297,435)	-	(297,435)	-
Non program	74,590	-	-	-	(74,590)	-	(74,590)	-
Total governmental activities	4,530,123	311,083	440,847	2,786	(3,775,407)	-	(3,775,407)	-
Business type activities								
Solid waste	411,854	311,511	-	-	-	(100,343)	(100,343)	-
Sewer	988,149	792,497	-	-	-	(195,652)	(195,652)	-
Total business type activities	1,400,003	1,104,008	-	-	-	(295,995)	(295,995)	-
Total primary government	5,930,126	1,415,091	440,847	2,786	(3,775,407)	(295,995)	(4,071,402)	-
Component units:								
Water	640,295	758,237	-	-	-	-	-	117,942
Total component units	640,295	758,237	-	-	-	-	-	117,942
General Receipts:								
Property tax levied for:								
General purposes					1,423,695	-	1,423,695	-
Tax increment financing					312,532	-	312,532	-
Debt Service					232,050	-	232,050	-
Local option sales tax					393,347	-	393,347	-
Unrestricted interest on investments					147,521	34,800	182,321	5,757
Bond Proceeds					-	-	-	67,938
Miscellaneous					658,499	-	658,499	4,463
Transfers					(29,404)	135,500	106,096	(106,096)
Total general receipts and transfers					3,138,240	170,300	3,308,540	(27,938)
Change in cash basis net assets					(637,167)	(125,695)	(762,862)	90,004
Cash basis net assets beginning of year					3,680,699	-	3,680,699	407,517
Cash basis net assets end of year					3,043,532	(125,695)	2,917,837	497,521
Cash Basis Net Assets:								
Restricted								
Permanent					463,325	-	463,325	-
Debt Service					(998)	408,195	407,197	-
Other Purposes					1,527,690	-	1,527,690	-
Unrestricted					1,053,515	522,570	1,576,085	497,521
					3,043,532	930,765	3,974,297	497,521

See Notes to Financial Statements

CITY OF HUMBOLDT, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds			
	General	Local Option Sales Tax	Urban Renewal Tax Increment	Employee Benefits
Receipts:				
Property tax	1,082,926	-	-	309,289
Tax increment financing collections	-	-	312,532	-
Other city tax	-	393,347	-	-
Licenses and permits	20,715	-	-	-
Use of money and property	130,500	-	-	-
Intergovernmental	6,286	-	-	-
Charges for service	311,083	-	-	-
Special assessments	-	-	-	-
Miscellaneous	70,442	-	340,098	84,133
Total receipts	<u>1,621,952</u>	<u>393,347</u>	<u>652,630</u>	<u>393,422</u>
Disbursements:				
Operating:				
Public Safety	512,916	-	-	109,669
Public Works	234,903	-	-	91,347
Culture & Recreation	808,732	-	-	97,763
Community & economic development	57,266	-	1,126,079	-
General government	179,894	-	-	29,224
Debt service	-	-	-	-
Capital projects	-	-	-	-
Non-program	-	-	-	34,019
Total Disbursements	<u>1,793,711</u>	<u>-</u>	<u>1,126,079</u>	<u>362,022</u>
Excess (deficiency) of receipts over disbursements	(171,759)	393,347	(473,449)	31,400
Other financing sources (uses):				
Bond/loan proceeds	-	-	-	-
Operating transfers in	38,670	-	93,751	-
Operating transfers out	(135,629)	(442,795)	-	-
Total other financing sources (uses)	<u>(96,959)</u>	<u>(442,795)</u>	<u>93,751</u>	<u>-</u>
Net change in cash balances	(268,718)	(49,448)	(379,698)	31,400
Cash balances beginning of year	<u>1,322,238</u>	<u>538,324</u>	<u>1,184,485</u>	<u>24,234</u>
Cash balances end of year	<u><u>1,053,520</u></u>	<u><u>488,876</u></u>	<u><u>804,787</u></u>	<u><u>55,634</u></u>
Cash Basis Fund Balances				
Unreserved:				
General fund	1,053,520	-	-	-
Special revenue funds	-	488,876	804,787	55,634
Debt Service	-	-	-	-
Capital projects	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u><u>1,053,520</u></u>	<u><u>488,876</u></u>	<u><u>804,787</u></u>	<u><u>55,634</u></u>

Special Revenue	Permanent	Other Nonmajor	Total
Road Use Tax	Louthan	Governmental Funds	
-	-	263,530	1,655,745
-	-	-	312,532
-	-	-	393,347
-	-	-	20,715
-	22,494	2,854	155,848
437,347	-	-	443,633
-	-	-	311,083
-	-	39,940	39,940
-	-	94,844	589,517
<u>437,347</u>	<u>22,494</u>	<u>401,168</u>	<u>3,922,360</u>
-	-	-	622,585
534,549	-	17,132	877,931
-	-	2,500	908,995
-	-	62,754	1,246,099
-	-	62,837	271,955
-	-	230,533	230,533
-	-	297,435	297,435
-	-	40,571	74,590
<u>534,549</u>	<u>-</u>	<u>713,762</u>	<u>4,530,123</u>
(97,202)	22,494	(312,594)	(607,763)
-	-	-	-
330,629	-	317,435	780,485
(96,544)	-	(134,921)	(809,889)
<u>234,085</u>	<u>-</u>	<u>182,514</u>	<u>(29,404)</u>
136,883	22,494	(130,080)	(637,167)
(79,765)	468,268	222,915	3,680,699
<u>57,118</u>	<u>490,762</u>	<u>92,835</u>	<u>3,043,532</u>
-	-	-	1,053,520
57,118	27,437	93,845	1,527,697
-	-	(998)	(998)
-	-	(12)	(12)
-	463,325	-	463,325
<u>57,118</u>	<u>490,762</u>	<u>92,835</u>	<u>3,043,532</u>

CITY OF HUMBOLDT, IOWA

Exhibit C

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Solid Waste	Sewer	Total
Operating receipts:			
Charges for service	\$ 311,511	786,643	\$ 1,098,154
Miscellaneous	-	5,854	5,854
Total operating receipts	311,511	792,497	1,104,008
Operating disbursements:			
Business type activities	411,854	988,149	1,400,003
Total operating disbursements	411,854	988,149	1,400,003
(Deficit) of operating receipts under operating disbursements	(100,343)	(195,652)	(295,995)
Non-operating receipts:			
Interest on investments	5,119	29,681	34,800
Total non-operating receipts	5,119	29,681	34,800
Excess (deficit) of receipts and non-operating receipts over (under) disbursements	(95,224)	(165,971)	(261,195)
Other financing sources (uses):			
Operating transfers in	-	135,500	135,500
Total other financing sources (uses)	-	135,500	135,500
Net change in cash balances	(95,224)	(30,471)	(125,695)
Cash balances beginning of year	384,155	672,305	1,056,460
Cash balances end of year	\$ 288,931	641,834	930,765
Cash Basis Fund Balances			
Reserved for debt service	-	408,195	408,195
Unreserved	288,931	233,639	522,570
Total cash basis fund balances	\$ 288,931	641,834	\$ 930,765

See Notes of Financial Statements

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

The City of Humboldt is a political subdivision of the State of Iowa located in Humboldt County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities and landfill services for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Humboldt has included all funds, organizations, account groups, 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 Humboldt (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of their operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. Audited financial statements of the individual component unit can be obtained from the City of Humboldt's business office.

Discretely Presented Component Unit - The Humboldt Municipal Waterworks is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Municipal Waterworks is governed by a three-member board appointed by the City Council and the Waterworks' operating budget is subject to the approval of the City Council.

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: Humboldt County Conference Board, Humboldt County

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

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

Emergency Management Commission, Humboldt County Joint E911 Service Board, Law Enforcement Center Commission, The North Central Iowa Solid Waste Agency, Humboldt County Landfill, and MIDAS Council of Governments.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets – Cash Basis reports information on all 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 services.

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

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

Unrestricted net assets consist of net assets that do not meet 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 that are not paid from other funds.

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

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

Special Revenue:

The Local Option Sales Tax (LOST) Fund is utilized to account for the local option sales tax receipts and disbursements.

The Urban Renewal Tax Increment Financing Fund is utilized to account for the TIF districts receipts and disbursements.

The Employee Benefits Fund is used to account for the property tax received for paying employee benefits.

The Road Use Tax Fund is used to account for the road use tax allocated to Humboldt from the state and the expenses paid for with these funds.

Permanent Fund:

The Louthan Fund is a donor-restricted permanent fund established to benefit youth activity in Humboldt. The original amount contributed by the donor (\$463,325) is not available for expenditure and is classified as permanent fund balance on exhibit B. The accumulated earnings available for expenditure in accordance with the donor's intentions (\$27,437) is classified as special revenue fund balance on exhibit B.

The City reports the following major proprietary funds:

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste disposal system.

The Sewer Fund accounts for operation and maintenance of the City's wastewater treatment and sanitary sewer system and includes the sinking funds which have a \$33,423 balance and account for the payment of interest and principal on the City's 2001 Wastewater Revenue Bonds and the reserve funds which have a balance of \$369,772 and are required by the SRF loan. The Sewer Fund also includes \$5,000 in a Sewer Improvement fund as required by the 2001 Wastewater Revenue Bonds. The funds may be utilized to pay principal or interest on the SRF loan and for additional improvements, extensions or reports to the system.

C. Measurement Focus and Basis of Accounting

The City of Humboldt 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 the U.S. generally accepted accounting principles.

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies - continued

Under 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, 2008, disbursements exceeded the amounts budgeted in the community and economic development function.

(2) Cash and Investments

The City's deposits at June 30, 2008 (which include certificates of deposit totaling \$1,890,319) 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; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

The City had no investments as of June 30, 2008.

Interest Rate Risk

The City's investment policy limits investment of operating funds (fund expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

(2) Cash and Investments - continued

Interest received on cash balances of the City of Humboldt amounted to \$182,321 for the year ended June 30, 2008. The discretely presented component unit had interest of \$5,757 for the year ended June 30, 2008. These receipts are included under Use of Money and Property for Governmental Funds and Interest on Investments for proprietary activities.

The City opened and maintained two bank accounts in conjunction with the implementation of the City's revolving loan program. These accounts are restricted for use in the city's revolving loan program and are included as part of the Urban Renewal Tax Increment Special Revenue Fund Balance on Exhibit B. The accounts had balances of \$68,339 and \$177,165 at June 30, 2008.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation, urban renewal tax increment financing revenue bonds, revenue notes and other long-term debt are as follows:

Year Ending	General Obligation		Urban Renewal Tax Increment (TIF)		Revenue Notes		Other Long Term Debt		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	506,643	127,554	20,000	44,573	501,354	124,342	14,193	1,612	1,042,190	298,081
2010	323,116	112,464	45,000	43,793	221,000	116,032	8,235	1,007	597,351	273,296
2011	278,634	102,074	85,000	42,038	229,000	107,369	3,775	506	596,409	251,987
2012	295,000	92,847	85,000	38,723	238,000	98,392	3,775	317	621,775	230,279
2013	310,000	82,590	90,000	35,365	248,000	89,062	2,569	128	650,569	207,145
2014	325,000	71,218	95,000	31,765	256,000	79,341	-	-	676,000	182,324
2015	255,000	58,708	100,000	27,918	267,000	69,306	-	-	622,000	155,932
2016	270,000	48,228	105,000	23,818	277,000	58,839	-	-	652,000	130,885
2017	230,000	37,185	110,000	19,460	289,000	47,981	-	-	629,000	104,626
2018	210,000	27,600	110,000	14,840	300,000	36,652	-	-	620,000	79,092
2019	205,000	18,690	115,000	10,162	311,000	24,892	-	-	631,000	53,744
2020	215,000	9,673	120,000	5,220	324,000	12,701	-	-	659,000	27,596
	3,423,393	788,831	1,080,000	337,675	3,461,354	864,909	32,547	3,570	7,997,294	1,994,985

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, \$297,435 of general obligation bond principal and interest were paid from the Capital Project – Sumner Avenue Fund.

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued \$1,080,000 of urban renewal tax increment financing revenue bonds in April 2007 for the

purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds.

The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$1,417,675, payable through June 2022. For the current year, interest paid and total TIF receipts were \$48,287 and \$312,532, respectively.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3,376,000 in sewer revenue notes issued in August 1999. Proceeds from the notes provided financing for the construction of the wastewater treatment plant. The notes are payable solely from water customer net receipts and are payable through 2020. The total principal and interest remaining to be paid on the notes is \$4,036,909. For the current year, principal and interest paid and total customer net receipts were \$336,339 and \$305,868, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sinking fund for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the monthly sinking fund deposit to sewer revenue reserve fund shall be made until the maximum principal and interest due in any year under the loan has been accumulated, approximately \$347,000. This fund is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system. The minimum required balance had been accumulated at June 30, 2008.
- (d) Additional monthly transfers of \$300 to the sewer improvement fund until the fund accumulates \$5,000. This fund is restricted for the purpose of paying for principal and interest on the revenue notes when the sinking and reserve accounts do not have sufficient funds. The required balance of \$5,000 had been accumulated at June 30, 2008.

(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 plan members are required to contribute 3.90% of their annual covered salary and the City is required to

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

(4) Pension and Retirement Benefits

contribute 6.05% of covered payroll. 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 years ended June 30, 2008, 2007, and 2006 were \$79,395, \$73,850, and \$71,552 respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use. Earned vacation is paid when used or when employment is terminated. Personal hours are not paid upon termination of employment. Sick leave is paid when used or upon retirement up to 15 days given that an employee has been a regular full time or regular part time employee of the City of Humboldt for at least 10 consecutive years immediately prior to retirement. Employees may convert up to twenty-four hours of sick leave to eight hours of vacation for every six months, January to June and July to December in which no sick leave is utilized. This conversion of sick leave to vacation shall not be allowed if it results in the employee's cumulative total of sick leave to be less than eighty hours. These accumulations are not recognized as expenditures by the City until they are paid. The City's approximate maximum liability for unrecognized accrued employee benefits, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u> <u>6-30-08</u>
Sick pay & personal days	\$ 385,938
Vacation pay	<u>70,107</u>
TOTAL	<u>\$ 456,045</u>

The liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Contracts

The City (prior to December 31, 1995) contracted with the Humboldt County Landfill Commission for landfill use for solid waste disposal for residences and businesses within the City. Effective December 31, 1995 the City withdrew from the Humboldt County Landfill. The City will continue to be liable for their share of post closure costs that amounted to \$7,994 for the year ended June 30, 2008.. The City will have an estimated annual liability of approximately \$5,000 for the post-closure costs which will last for approximately 25 years.

Due to the withdrawal from Humboldt County Landfill, the City has entered into an agreement with the North Central Solid Waste Agency for solid waste disposal. Total payments by the City under this agreement for the year ended June 30, 2008 were \$14,930.

The City has also contracted the Humboldt County Public Safety Commission for use of the law enforcement center building. For the year ended June 30, 2008, the City paid \$88,877 pursuant to this agreement. The City has also contracted with a private contractor for the operation and maintenance of the municipal sewer plant for the three years ended December 31, 2009. Payments under this contract totaled \$165,439 for the year.

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

(7) Risk Management - continued

The City of Humboldt 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City of Humboldt also self-insures a portion of its employees' health insurance. The City uses a third party administrator to determine appropriate claims. At June 30, 2008, there were no unpaid claims due.

(8) Interfund Transfers

The detail of interfund transfers, for the year ended June 30, 2008 is as follows:

Transfer In	Transfer From	Amount
General	Special Revenue Fund	
	Emergency	\$ 31,170
	Road Use Tax	7,500
		38,670
Special Revenue Fund Urban Renewal TIF	Special Revenue Fund State and Federal Grants	\$ 93,751
Capital Project Fund Sumner Ave	Special Revenue Fund	
	Road Use Tax	\$ 83,044
	Local Option Sales tax	108,295
	Component Unit Water	106,096
		297,435
Capital Projects Fund Aquatic Center	General	\$ 5,000
Enterprise Funds Sewer	Special Revenue	
	Local Option Sales Tax	\$ 129,500
	Road Use Tax	6,000
		135,500
Special Revenue Road Use Tax	Special Revenue	
	Local Option Sales Tax	\$ 205,000
	Community Projects	10,000
	General	115,629
		330,629

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

(8) Interfund Transfers - continued

Community Projects Fund Cable TV Fund	General	<u>\$ 13,000</u>
Community Projects Fund Trees Forever	General	<u>\$ 2,000</u>

All transfers were made with prior approval of the City Council and generally move resources from the fund statutorily required to collect the resource to the fund statutorily required to disburse the resources.

(9) Property Taxes

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Humboldt. Property taxes become liens on property as of July 1, 2007 and are payable in September 2007 and March 2008. The valuation for the taxes was based on January 1, 2006 assessed property valuations, and are based on a certified budget from March of 2007.

(10) Deficit Fund Balance

The Economic Development Office Fund, Debt Service Fund, Drainage District, State and Federal Grants and the Aquatic Center Fund had deficit fund balances of \$4,698, \$998, \$13,177, \$1,475 and \$12 respectively at June 30, 2008. The deficit balances were a result of project costs and debt obligations being paid prior to the collection of the related receipts.

(11) Frit Cleanup

The City of Humboldt issued the \$1,080,000 in TIF revenue bonds during the 2007 Fiscal year to finance the cleanup of an environmentally hazardous industrial site within the city (the former FRIT Industries). At June 30, 2008, the city had paid \$750,000 of the cost of the project and \$250,000 remained on the contract.

(12) Contingent Liability

In connection with the construction of the Family Aquatic Center, the City guaranteed by pledging the full faith and credit of the City, a note payable by the Friends of the Parks, a legally separate charitable organization. The Friends of the Parks is governed by a five member board of directors and its proceeds are used to benefit the City of Humboldt's park system and aquatic center. At June 30, 2008, the Friends of the Parks owed \$165,110 on the note.

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

(13) Correction of an Error

During fiscal year 2006, the Humboldt Municipal Waterworks, a component unit of the City of Humboldt, borrowed \$50,768 to finance planning for the construction of a new water plant. The proceeds were incorrectly recorded as miscellaneous income in the City of Humboldt's General Fund at that time.

The following corrections have been made to restate the beginning cash balance in the General Fund:

Exhibit A	Governmental	Component Unit
Beginning cash basis net assets – as previously presented	\$ 3,731,467	\$ 356,749
Correction	<u>(50,768)</u>	<u>50,768</u>
Beginning cash basis net assets – as corrected	<u>3,680,699</u>	<u>407,517</u>
Exhibit B		
<u>General Fund</u>		
Cash balance – beginning of year as previously presented	\$ 1,373,006	
Correction	<u>(50,768)</u>	
Cash balance – beginning of year as corrected	1,322,238	
Schedule 2 – page 27		
Beginning Balance – Water Plant Planning and Design	170,648	
Correction	<u>50,768</u>	
Beginning Balance - Water Plant Planning and Design	<u>221,416</u>	

(13) Subsequent Event

On December 16, 2008 voters in the City of Humboldt voted to disband the Humboldt Municipal Waterworks Board of Trustees and have the financial matters for the Humboldt Municipal Waterworks accounted for and presided over by the city council. This will change the presentation of the Humboldt Municipal Waterworks financial information on the FY 2009 financial statements from a component unit of the city to a proprietary fund.

Required Supplementary Information

CITY OF HUMBOLDT, IOWA

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

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2008

	Governmental Funds Activity	Proprietary Funds Activity	Less Funds not Required to be Budgeted	Net
Receipts:				
Property tax	\$ 1,655,745	-	-	1,655,745
Tax increment financing collections	312,532	-	-	312,532
Other city tax	393,347	-	-	393,347
Licenses and permits	20,715	-	-	20,715
Use of money and property	155,848	34,800	-	190,648
Intergovernmental	443,633	-	-	443,633
Charges for service	311,083	1,104,008	-	1,415,091
Special assessments	39,940	-	-	39,940
Miscellaneous	589,517	-	-	589,517
Total receipts	<u>3,922,360</u>	<u>1,138,808</u>	-	<u>5,061,168</u>
Disbursements:				
Program				
Public Safety	622,585	-	-	622,585
Public Works	877,931	-	-	877,931
Culture & Recreation	908,995	-	-	908,995
Community & economic development	1,246,099	-	-	1,246,099
General government	271,955	-	-	271,955
Debt Service	230,533	-	-	230,533
Capital projects	297,435	-	-	297,435
Business type activities	-	1,400,003	-	1,400,003
Non-program	74,590	-	74,590	-
Total Disbursements	<u>4,530,123</u>	<u>1,400,003</u>	<u>74,590</u>	<u>5,855,536</u>
Excess (deficiency) of receipts over disbursements	(607,763)	(261,195)	(74,590)	(794,368)
Other financing sources (uses)	<u>(29,404)</u>	<u>(125,695)</u>	-	<u>(155,099)</u>
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	(637,167)	(386,890)	(74,590)	(949,467)
Balance - beginning of year	<u>3,731,467</u>	<u>1,056,460</u>	-	<u>4,787,927</u>
Balance - end of year	<u>\$ 3,094,300</u>	<u>669,570</u>	<u>(74,590)</u>	<u>3,838,460</u>

See Accompanying Independent Auditor's Report

<u>Budgeted Amounts</u>		
<u>Original</u>	<u>Final</u>	<u>Final to Net Variance</u>
1,587,560	1,587,560	68,185
316,575	485,025	(172,493)
438,149	438,149	(44,802)
18,425	18,425	2,290
197,938	197,938	(7,290)
811,084	572,910	(129,277)
1,271,900	1,217,900	197,191
20,000	40,000	(60)
328,550	344,050	245,467
<u>4,990,181</u>	<u>4,901,957</u>	<u>159,211</u>
649,823	675,733	53,148
987,775	945,375	67,444
1,118,120	923,620	14,625
666,452	1,285,052	38,953
239,251	262,251	(9,704)
230,535	230,535	2
350,155	297,435	-
1,415,330	1,415,330	15,327
-	-	-
<u>5,657,441</u>	<u>6,035,331</u>	<u>179,795</u>
(667,260)	(1,133,374)	339,006
(155,099)	(155,099)	-
(822,359)	(1,288,473)	339,006
<u>3,915,161</u>	<u>3,915,161</u>	<u>872,766</u>
<u>3,092,802</u>	<u>2,626,688</u>	<u>1,211,772</u>

CITY OF HUMBOLDT, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2008

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, each major Special Revenue Fund and each major Capital Project 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 Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. 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, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and 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 decreased budgeted receipts and increased budgeted disbursements respectively by \$88,224 and \$377,890. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008 disbursements exceeded the amounts budgeted in the general government function.

CITY OF HUMBOLDT, IOWA

Statement of Cash Receipts, Disbursements
and Changes in Cash Balance
Nonmajor Governmental Funds
As of and for the year ended June 30, 2008

	Special Revenue Funds				
	Emergency	Community Projects	13A Drainage District	State and Federal Grants	Street Assessments
Receipts:					
Property tax	31,480	-	-	-	-
Use of money and property	-	2,854	-	-	-
Special assessments	-	-	-	-	39,940
Miscellaneous	-	30,656	-	-	-
Total receipts	31,480	33,510	-	-	39,940
Disbursements:					
Public Safety	-	-	-	-	-
Public Works	-	-	17,132	-	-
Culture & Recreation	-	2,500	-	-	-
Community & economic development	-	-	-	-	-
General government	-	62,837	-	-	-
Debt Service	-	-	-	-	-
Capital projects	-	-	-	-	-
Non-program	-	-	-	-	40,571
Total Disbursements	-	65,337	17,132	-	40,571
Excess of receipts over disbursements	31,480	(31,827)	(17,132)	-	(631)
Other financing sources (uses):					
Operating transfers in	-	15,000	-	-	-
Operating transfers out	(31,170)	(10,000)	-	(93,751)	-
Total other financing sources (uses)	(31,170)	5,000	-	(93,751)	-
Net change in cash balances	310	(26,827)	(17,132)	(93,751)	(631)
Cash balances beginning of year	31,295	106,042	3,955	92,275	3,008
Cash balances end of year	31,605	79,215	(13,177)	(1,476)	2,377
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	31,605	79,215	(13,177)	(1,476)	2,377
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	-
Total cash basis fund balances	\$ 31,605	79,215	(13,177)	(1,476)	\$ 2,377

Economic Development Office	Capital Project Funds				Total
	Debt Service	Sumner Ave.	Aquatic Center		
-	232,050	-	-	-	263,530
-	-	-	-	-	2,854
-	-	-	-	-	39,940
64,188	-	-	-	-	94,844
64,188	232,050	-	-	-	401,168
-	-	-	-	-	-
-	-	-	-	-	17,132
-	-	-	-	-	2,500
62,754	-	-	-	-	62,754
-	-	-	-	-	62,837
-	230,533	-	-	-	230,533
-	-	297,435	-	-	297,435
-	-	-	-	-	40,571
62,754	230,533	297,435	-	-	713,762
1,434	1,517	(297,435)	-	-	(312,594)
-	-	297,435	5,000	-	317,435
-	-	-	-	-	(134,921)
-	-	297,435	5,000	-	182,514
1,434	1,517	-	5,000	-	(130,080)
(6,132)	(2,516)	-	(5,012)	-	222,915
(4,698)	(999)	-	(12)	-	92,835
(4,698)	-	-	-	-	93,846
-	-	-	(12)	-	(12)
-	(999)	-	-	-	(999)
\$ (4,698)	\$ (999)	-	-	-	92,835

CITY OF HUMBOLDT, IOWA

Schedule 2

SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2008

Obligation	Date Issued	Interest Rate	Amount Original Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds									
Family Aquatic Center	4/20/2005	2.80%	2,500,000	2,245,000	-	140,000	2,105,000	90,133	-
Sumner Avenue Project	9/1/2003	2.10%	1,315,000	510,000	-	280,000	230,000	17,035	-
TIF General Obligation Bond/Notes									
Hy Capacity	4/1/2006	5.00%	16,500	13,518	-	3,134	10,384	637	-
Jet Co.	1/10/2006	3.60%	390,000	360,000	-	35,000	325,000	14,553	-
Riverview Heights	7/1/2000	5.75%	420,000	230,000	-	230,000	-	13,020	-
Humboldt Fabrication/RAMCO	10/1/2000	5.75%		70,156	-	27,147	43,009	2,643	-
Capital Loan Notes Ser. 2004A	9/23/2004	2.30%	210,000	130,000	-	40,000	90,000	4,150	-
Rustix Restaurant	10/2/2006	5.85%	180,000	180,000		5,000	175,000	10,950	-
Riverview Heights	10/2/2006	3.85%	330,000	330,000		-	330,000	13,038	-
IRP Grant Match	11/6/2006	4.00%	115,000	115,000		-	115,000	4,838	-
				<u>4,183,674</u>	<u>-</u>	<u>760,281</u>	<u>3,423,393</u>	<u>170,997</u>	
Urban renewal tax increment financing (TIF) revenue bonds	4/16/2007	3.90%	1,080,000	1,080,000		-	1,080,000	48,287	-
Revenue Bonds									
2001 Wastewater Revenue Bond	8/19/1999	3.92%	4,619,000	3,376,000	-	204,000	3,172,000	132,339	-
Water Plant Planning and Design	10/24/2006	0.00%	539,675	221,416	67,938	-	289,354	-	-
				<u>3,597,416</u>	<u>67,938</u>	<u>204,000</u>	<u>3,461,354</u>	<u>132,339</u>	<u>-</u>
Special Assessment Notes									
Blackbird Addition Street Parking		6.00%		5,131	-	5131	-	-	-
Hall Street Improvement Project		6.00%		4,750	-	4750	-	-	-
14th Ave SE		5.00%		35,712	-	20834	14,878	3,543	-
Sumner Avenue Project				23,601	-	5932	17,669	2,493	-
				<u>69,194</u>	<u>-</u>	<u>36,647</u>	<u>32,547</u>	<u>6,036</u>	<u>-</u>

See Accompanying Independent Auditor's Report

CITY OF HUMBOLDT, IOWA

Schedule 3

SCHEDULE OF BOND & NOTE MATURITIES

June 30, 2008

General Obligation Bonds and Notes

Year Ending June 30,	Summer Ave. Project Issued 9-1-03		Aquatic Center Issued 4-20-05		General Obligation TIF Hy-Capacity Issued 4-1-06		General Obligation TIF Jet Co. Issued 10-2006		General Obligation TIF Riverview Heights Issued 7-1-2000		General Obligation TIF Humboldt Fabrication/RAMCO Issued 10-1-2000		General Obligation TIF Capital Projects Series 2004A Issued 9-23-2004		General Obligation TIF Rustix Issued 10-2-2006		General Obligation TIF Riverview Heights Issued 10-2-2006		General Obligation TIF IRP Grant Match Issued 11-6-2006		Total
	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	
2009	3.45	230,000	3.45	145,000	5.00	3,292	3.75	35,000	5.75	-	4.00	28,450	3.20	45,000	5.85	10,000	3.85	10,000	4.00	0	506,742
2010	-	-	3.60	145,000	5.00	3,459	3.85	35,000	5.75	-	4.00	14,559	3.40	45,000	5.90	15,000	3.85	60,000	4.00	5,000	323,018
2011	-	-	3.70	150,000	5.00	3,633	3.90	35,000	5.75	-	-	-	-	-	5.95	15,000	3.90	60,000	4.05	15,000	278,633
2012	-	-	3.80	160,000	-	-	4.00	40,000	-	-	-	-	-	-	6.00	15,000	3.95	65,000	4.10	15,000	295,000
2013	-	-	3.90	165,000	-	-	4.10	45,000	-	-	-	-	-	-	6.05	20,000	4.00	65,000	4.15	15,000	310,000
2014	-	-	4.00	170,000	-	-	4.20	45,000	-	-	-	-	-	-	6.10	25,000	4.05	70,000	4.20	15,000	325,000
2015	-	-	4.10	175,000	-	-	4.30	45,000	-	-	-	-	-	-	6.15	20,000	-	-	4.25	15,000	255,000
2016	-	-	4.15	185,000	-	-	4.40	45,000	-	-	-	-	-	-	6.20	25,000	-	-	4.30	15,000	270,000
2017	-	-	4.25	190,000	-	-	-	-	-	-	-	-	-	-	6.25	20,000	-	-	4.40	20,000	230,000
2018	-	-	4.35	200,000	-	-	-	-	-	-	-	-	-	-	6.30	10,000	-	-	-	-	210,000
2019	-	-	4.45	205,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	205,000
2020	-	-	4.50	215,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	215,000
	<u>\$ 230,000</u>		<u>\$ 2,105,000</u>		<u>\$ 10,384</u>		<u>\$ 325,000</u>		<u>\$ 0</u>		<u>\$ 43,009</u>		<u>\$ 90,000</u>		<u>\$ 175,000</u>		<u>\$ 330,000</u>		<u>\$ 115,000</u>		<u>3,423,393</u>

Revenue Bonds and Notes

	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds Issued 4-16-07		Special Assessments		Water Treatment Issued 8-19-99		Water Plant Planning and Design Issued 10-24-06		Total
	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	
2009	3.90	20,000	5.00-7.00	14,193	3.92	212,000	-	-	212,000
2010	3.90	45,000	5.00-7.00	8,235	3.92	221,000	-	289,354	510,354
2011	3.90	85,000	5.00-7.00	3,775	3.92	229,000	-	-	229,000
2012	3.95	85,000	5.00-7.00	3,775	3.92	238,000	-	-	238,000
2013	4.00	90,000	5.00	2,569	3.92	248,000	-	-	248,000
2014	4.05	95,000	5.00	-	3.92	256,000	-	-	256,000
2015	4.10	100,000	-	-	3.92	267,000	-	-	267,000
2016	4.15	105,000	-	-	3.92	277,000	-	-	277,000
2017	4.20	110,000	-	-	3.92	289,000	-	-	289,000
2018	4.25	110,000	-	-	3.92	300,000	-	-	300,000
2019	4.30	115,000	-	-	3.92	311,000	-	-	311,000
2020	4.35	120,000	-	-	3.92	324,000	-	-	324,000
	<u>\$ 1,080,000</u>		<u>\$ 32,547</u>		<u>\$ 3,172,000</u>		<u>\$ 289,354</u>		<u>3,461,354</u>

See Accompanying Independent Auditor's Report

CITY OF HUMBOLDT, IOWA

Schedule 4

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	2008	2007	2006	2005
Receipts:				
Property tax	\$ 1,655,745	\$ 1,544,817	\$ 1,582,782	\$ 1,328,024
Tax increment financing collections	312,532	365,022	185,636	200,480
Other city tax	393,347	389,048	304,638	327,835
Licenses and permits	20,715	17,661	14,987	17,057
Use of money and property	155,848	167,204	142,485	86,015
Intergovernmental	443,633	713,780	465,285	475,193
Charges for service	311,083	386,638	271,096	170,698
Special assessments	39,940	23,050	64,756	48,024
Miscellaneous	589,517	297,352	158,353	241,843
Total receipts	3,922,360	3,904,572	3,190,018	2,895,169
 Disbursements:				
Operating:				
Public Safety	622,585	600,159	629,836	546,850
Public Works	877,931	933,321	680,999	568,214
Culture & Recreation	908,995	850,460	651,089	908,965
Community & economic development	1,246,099	1,411,591	536,316	196,717
General government	271,955	243,422	201,098	483,523
Debt Service	230,533	229,650	230,482	-
Capital projects	297,435	365,730	3,266,851	2,587,037
Non program	74,590	53,708	105,841	80,884
Total Disbursements	\$ 4,530,123	\$ 4,688,041	\$ 6,302,512	\$ 5,372,190

See Accompanying Independent Auditor's Report



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Humboldt, Iowa as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 29, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Humboldt'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. Accordingly, we do not express an opinion on the effectiveness of the City of Humboldt'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 financing 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 and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management of 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'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 Humboldt's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs 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 Humboldt'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 deficiencies in the internal control that might be significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08 and II-B-08 are material weaknesses. Prior year reportable conditions have been resolved except for II-A-08.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Humboldt'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 Part III of the accompanying Schedule of Findings. Prior year compliance matters have been resolved.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 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 Humboldt'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 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 Humboldt and other parties to whom the City of Humboldt may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Humboldt 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.

T.P. Anderson & Company, P.C.

December 29, 2008

City of Humboldt, Iowa

Schedule of Findings

Year Ended June 30, 2008

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

- (a) Unqualified opinions were issued on 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 principals.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Humboldt, Iowa

Schedule of Findings

Year Ended June 30, 2008

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-08 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. We noted that the cash receipt function and the recording of the cash receipts is on occasion handled by the same person.

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

Response - We believe that we are close to the maximum degree of segregation of duties possible with the limited number of office employees. We will investigate additional procedures to cost effectively improve internal control.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-08 Financial Reporting – During the audit, we identified a material amount of note proceeds misposted to the General Fund rather than the Humboldt Municipal Waterworks.

Recommendation – The City should take steps to ensure that all debt issued for the City or on behalf of the Humboldt Municipal Waterworks is listed on the internal listing of debt outstanding and that the proceeds are posted to the appropriate fund when received.

Response – We will review our procedures to make the changes necessary to avoid incorrect postings and in order to report all debt outstanding.

Conclusion – Response accepted.

City of Humboldt, Iowa

Schedule of Findings

Year Ended June 30, 2008

Part III: Other Findings Related to Statutory Reporting:

III-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the general government function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted

III-B-08 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-08 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

III-D-08 Business Transactions - No business transactions between the City and its officials or employees were noted.

III-E-08 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 that the coverage is adequate for current operations.

III-F-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-08 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-H-08 Revenue Bonds and Notes – The city has complied with all revenue bond and note resolutions.

City of Humboldt, Iowa

Schedule of Findings

Year Ended June 30, 2008

III-I-08 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Capital Project Fund, Sumner Ave. Project. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from the Capital Project Fund, Sumner Ave. Project to the Debt Service Fund, General Obligation Bonds Account for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

III-J-08 Financial Position – The Economic Development Office Fund, Debt Service Fund, Drainage District, State and Federal Grants and the Aquatic Center Fund had deficit fund balances of \$4,698, \$998, \$13,177, \$1,475 and \$12 respectively at June 30, 2008.

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

Response – The deficits were due to project costs and debt obligations being paid prior to the collection of the related reimbursements. The deficits will be eliminated.

Conclusion – Response accepted.