

**CITY OF HUMBOLDT, IOWA**

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

**JUNE 30, 2012**

**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 2014
Steve Boomgarden	Council Member	Jan 2016
John Sleiter	Council Member	Jan 2016
Joel Goodell	Council Member	Jan 2016
Joe Hadar	Council Member	Jan 2014
Darrell Rusher	Council Member	Jan 2014
Aaron Burnett	Administrator	
Gloria Christensen	City Clerk	
Sierra Vorland	Deputy City Clerk	
Steve Boomgarden	Zoning Administrator Officer	Jan 2014
Gloria Christensen	Mid-Iowa Regional Housing Authority Representative	Jan 2014
Eric Eide	Attorney	Jan 2013
Chris Clarken	Park Commission	Jan 2014
Lance DeWinter	Park Commission	Jan 2016
Tom Tecklenberg	Park Commission	Jan 2016
Mike Worthington	Park Commission	Jan 2016
Kim Jensen	Park Commission	Jan 2014
Susan Hett	Library Trustee	July 2015
William Schaffer	Library Trustee	July 2015
Tricia Gargano	Library Trustee	July 2015
Tom Tecklenberg	Library Trustee	July 2013
Donna Day	Library Trustee	July 2013
Bryon Wadsley	Airport Commission	Jan 2017
Dave Dodgen	Airport Commission	Jan 2013
John Cero	Airport Commission	Jan 2014
Robert Dodd	Airport Commission	Jan 2015
Ed Allen	Airport Commission	Jan 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Candy Robinson	Planning and Zoning Commission	Jan 2013
Cory Matson	Planning and Zoning Commission	Jan 2016
Scott Lerdal	Planning and Zoning Commission	Jan 2015
Scott Curran	Planning and Zoning Commission	Jan 2016
Jay Bancroft	Planning and Zoning Commission	Jan 2014
Vouth Varangkounh	Planning and Zoning Commission	Jan 2015
Alan Blanchard	Planning and Zoning Commission	Jan 2014
Karla McKibban	Planning and Zoning Commission	Jan 2015
Mike Pedersen	Planning and Zoning Commission	Jan 2014
Scott Lerdal	Zoning Adjustment Board	Jan 2016
Conrad Burgers	Zoning Adjustment Board	Jan 2013
Ron Reedy	Zoning Adjustment Board	Jan 2014
Leah Burnett	Zoning Adjustment Board	Jan 2017
Vivien Hansen	Preservation Board	Jan 2014
Susan Tomlinson	Preservation Board	Jan 2014
Marilyn Hundertmark	Preservation Board	Jan 2014
Mary Carlson	Preservation Board	Jan 2014
Roger Gochenour	Preservation Board	Jan 2014



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

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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 Humboldt, Iowa, as of and for the year ended June 30, 2012, 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 are 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, each major fund and the aggregate remaining fund information of the City of Humboldt as of June 30, 2012, 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 February 13, 2013, 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.

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 eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with another comprehensive basis of accounting. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis and budgetary comparison information on pages 5 through 12 and 25 through 26 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

February 13, 2013

## 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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 4%, or approximately \$3.9 million from fiscal 2011 to fiscal 2012. The decrease was mainly the result of reduced debt proceeds received during the year.
- Disbursements decreased 10%, or approximately \$856,000 in fiscal 2012 from fiscal 2011. The decrease in disbursements is due to fewer capital project expenditures in fiscal 2012.
- The City's total cash basis net assets decreased 18%, or approximately \$1.4 million from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities decreased approximately \$1.7 million and the assets of the business type activities increased by approximately \$285,000.

### **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 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 financial 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.

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

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

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts

receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States. 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 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 two 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 water, solid waste and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic 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 includes a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, solid waste, and sewer funds.

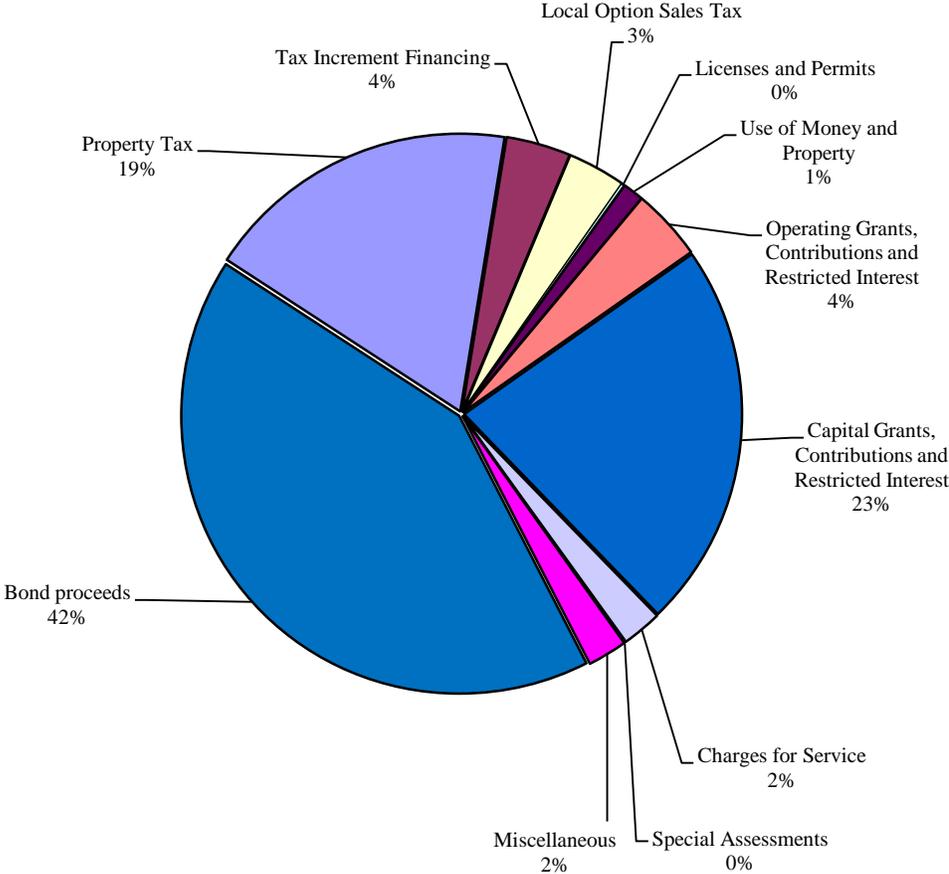
The required cash basis financial statement for proprietary funds includes a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

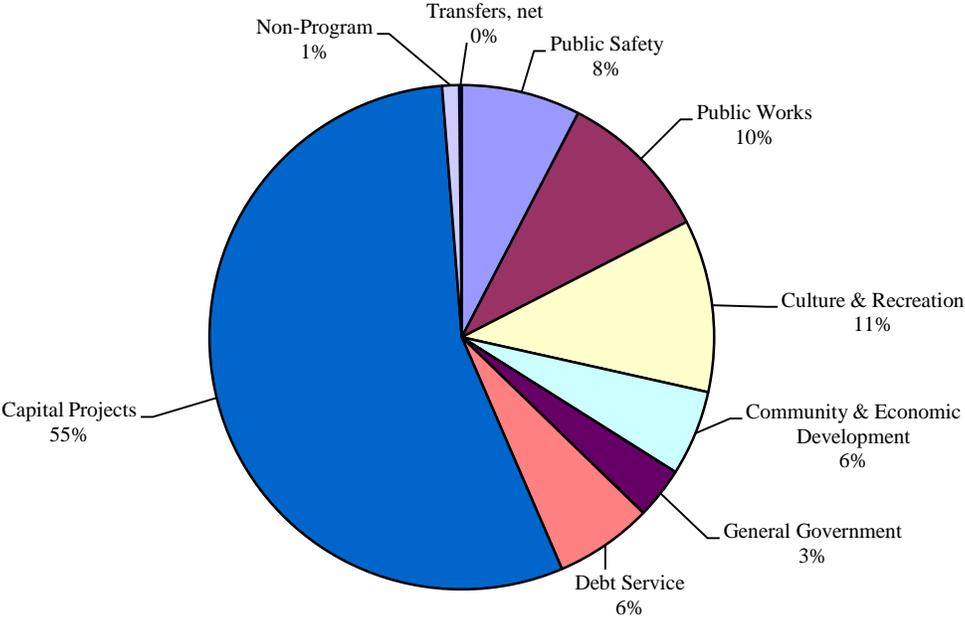
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$6.97 million to \$5.24 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2012	2011
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 295	274
Operating grants, contributions and restricted interest	453	492
Capital grants, contributions and restricted interest	1,967	2,649
General receipts:		
Property tax	2,302	2,153
Tax increment financing	282	443
Local option sales tax	388	398
Unrestricted investment earnings	27	62
Bond proceeds – net of payments to refunding escrow agent	-	3,104
Other general receipts	382	398
Total receipts and transfers	6,096	9,973
Disbursements:		
Public safety	682	675
Public works	1,224	877
Culture and recreation	908	974
Community and economic development	1,217	478
General government	280	291
Debt service	621	582
Capital projects	2,900	4,825
Transfers, net	-	(14)
Total disbursements	7,832	8,688
Increase (decrease) in cash basis net assets	(1,736)	1,285
Cash basis net assets beginning of year	6,974	5,689
Cash basis net assets end of year	\$ 5,238	6,974

### Receipts by Source



### Disbursements by Function



The City's total receipts for governmental activities decreased by approximately \$3.9 million or 39%. The total cost of all programs and services decreased by approximately \$856,000 or 10%, with no new programs added this year. The decrease in the cost of programs and services was primarily due to an decrease in capital projects.

The cost of all governmental activities this year was \$7.8 million compared to \$8.7 million last year. However, as shown in the Statement of Activities and Net Assets on page 12, the amount taxpayers ultimately financed for these activities was only \$5.1 million because some of the cost was paid by those directly benefited from the programs (\$295,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$2,420,000). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, decreased in 2012 from approximately \$3.4 million in the prior fiscal year to approximately \$2.7 million. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,973,000 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,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,081	753
Solid waste	369	368
Sewer rental	964	951
General receipts:		
Miscellaneous	14	10
Unrestricted interest on investments	6	10
Bond proceeds (net of refunded bonds)	427	250
Transfers, net	-	-14
Total receipts	2,861	2,328
Disbursements and transfers:		
Water	1,244	925
Solid waste	468	366
Sewer rental	864	932
Total disbursements and transfers	2,576	2,223
Increase in cash balance	285	105
Cash basis net assets beginning of year	803	698
Cash basis net assets end of year	\$ 1,088	803

Total business type activities receipts for the fiscal year were \$2.9 million compared to \$2.3 million last year. The cash balance for the business type activities increased by approximately \$285,000 from the prior year.

Disbursements for the City's business-type activities increased 16% from the fiscal year 2011 disbursements. The increase resulted from increased capital project planning activities.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As The City of Humboldt completed the year, its governmental funds reported a combined fund balance of \$5,238,676, which is a decrease of \$1,735,918 below last year's total of \$6,974,594. The following are brief descriptions of the reasons for the changes in fund balances of the City's major funds.

- The General Fund cash balance increased \$79,000 from the prior year to (\$35,000) as planned with the budgeting process.
- The Urban Renewal Tax Increment Financing Fund decreased \$44,000. Grant proceeds of \$766,000 were received with TIF property tax and were spent on infrastructure improvements in the Northside Urban renewal area and also funded additional loans from the revolving loan fund.
- The Local Option Sales Tax Fund balance increased \$188,242 as the collections made during 2012 outpaced the requirements of the fund. The results were planned during the budgeting process.
- The Library Trust Fund ended the year with a fund balance of \$575,172, a slight reduction from 2011 as a result of the normal planned operations of the fund.
- The Debt Service Fund balance increased \$1,598, in accordance with the planned results for the fund in 2012.
- The Capital Project Fund – Northside Urban Renewal Area fund balance decreased \$592,000 as expenses were incurred for the planned improvements in the area including the 15<sup>th</sup> Street project, the Humboldt Business Park, and the construction of a new water tower.
- The Capital Project Fund – Streets fund balance decreased \$738,000 as progress was made on the Streets project during fiscal year 2012.
- The Capital Project Fund – Fire Station fund balance decreased \$411,000 as the project was completed in 2012.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund, showed an increase in its cash balance of \$266,671 to an ending balance of \$317,983 due to rate increases during the year.
- The Sewer Fund also showed an increase in its cash balance, increasing by \$115,676 to \$499,713 at June 30, 2012. The sewer fund refunded its outstanding revenue bonds during the year to obtain lower interest rates and delayed a slip lining project which contributed to the increased cash balance.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 21, 2012 and resulted in an increase in Intergovernmental Revenues of \$1,489,000 and a decrease in miscellaneous revenues of \$874,000. Budgeted disbursements declined overall by \$2.4 million dollars resulting largely from a reduced budget for capital projects. The City overspent the budgeted disbursements for community and economic development during the year ended June 30, 2012.

**DEBT ADMINISTRATION**

At June 30, 2012, the City had approximately \$11.8 million in bonds and other long-term debt, compared to approximately \$12.6 million last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30,	
	2012	2011
General obligation bonds	\$ 8,265	9,120
Special assessment bonds and notes	42	22
Urban renewal tax increment financing bonds	845	930
Revenue notes	2,622	2,510
<b>Total</b>	<b>\$ 11,774</b>	<b>12,582</b>

Debt decreased due to the refunding of sewer revenue bonds and paying the GO debt as required by the City’s bond agreement.

The Constitution of the State of Iowa limits the amount of general obligation debt cities 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 \$9,110,000 is below its constitutional debt limit of \$11,989,004.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The City of Humboldt’s total assessed valuation decreased this year, from \$240,460,139 on January 1, 2011 to \$239,780,078 on January 1, 2012, an decrease of .28%. The City’s taxable valuation decreased from \$140,581,244 in fiscal year 11-12 to \$135,681,123 in fiscal year 12-13 or 3.0%. The residential rollback increased again this year for the fourth year in a row, from 48.5299% to 50.7518%. The decrease in the taxable valuations and increase in the rollback result in the \$8.10/\$1,000 General Fund levy revenues decreasing \$39,691 from the previous year. The total Debt Service levy of \$4.85590/\$1,000 includes payments for the Aquatic Center financing, 2011 Capital Improvements bond issue, the proposed Fire Station construction bond issue as well as an extensive Infrastructure Improvement Project. With all of these factors in mind, the City proposed an increase in the total tax levy of \$0.7683/\$1,000, from \$16.13140 in fiscal year 11-12 to \$16.89973 in fiscal year 12-13.

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 2013 budget shows \$11,984,385 in anticipated revenues. This is a decrease of \$3,688,055 from fiscal year 2012 budgeted revenues of \$15,672,440. This decrease is largely due to fewer large projects pending.

Anticipated expenditures in the fiscal year 2013 budget are \$13,245,675. Budgeted expenditures in fiscal year 2012 were \$15,873,483. The decrease is \$2,627,808, and largely reflects the differences between costs of capital projects in the respective years. The water treatment plant renovation was budgeted for FY 2011, but will be completed in FY 2013 instead.

The Council approved a wage increase for all City of Humboldt employees not covered by a union contract of 2.0%, effective July 1, 2012. Employees covered by the collective bargaining agreement with the Teamsters union negotiated a 1.5% increase.

#### **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 5<sup>th</sup> 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, 2012

Functions/Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants	Capital Grants	Governmental Activities	Business type Activities	Total
			Contributions and Restricted Interest	Contributions and Restricted Interest			
<b>Primary Government</b>							
Governmental activities:							
Public safety	682,479	59,144	4,388	-	(618,947)	-	(618,947)
Public works	1,224,325	-	444,852	1,119,270	339,797	-	339,797
Culture and recreation	907,804	236,229	4,000	-	(667,575)	-	(667,575)
Community and economic development	1,216,611	-	-	-	(1,216,611)	-	(1,216,611)
General government	279,996	-	-	-	(279,996)	-	(279,996)
Debt Service	621,347	-	-	-	(621,347)	-	(621,347)
Capital projects	2,900,373	-	-	847,623	(2,052,750)	-	(2,052,750)
<b>Total governmental activities</b>	<b>7,832,935</b>	<b>295,373</b>	<b>453,240</b>	<b>1,966,893</b>	<b>(5,117,429)</b>	<b>-</b>	<b>(5,117,429)</b>
Business type activities							
Water	1,243,622	1,080,654	-	-	-	(162,968)	(162,968)
Solid waste	468,022	369,603	-	-	-	(98,419)	(98,419)
Sewer	864,433	963,647	-	-	-	99,214	99,214
<b>Total business type activities</b>	<b>2,576,077</b>	<b>2,413,904</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(162,173)</b>	<b>(162,173)</b>
<b>Total</b>	<b>10,409,012</b>	<b>2,709,277</b>	<b>453,240</b>	<b>1,966,893</b>	<b>(5,117,429)</b>	<b>(162,173)</b>	<b>(5,279,602)</b>
<b>General Receipts:</b>							
Property tax levied for:							
General purposes					1,710,053	-	1,710,053
Tax increment financing					282,262	-	282,262
Debt Service					592,094	-	592,094
Local option sales tax					388,242	-	388,242
Unrestricted interest on investments					27,167	5,916	33,083
Bond Proceeds					-	2,622,143	2,622,143
Bond principal refunded					-	(2,195,000)	(2,195,000)
Miscellaneous					381,693	14,249	395,942
Total general receipts and transfers					3,381,511	447,308	3,828,819
Change in cash basis net assets					(1,735,918)	285,135	(1,450,783)
Cash basis net assets beginning of year					6,974,594	802,643	7,777,237
Cash basis net assets end of year					5,238,676	1,087,778	6,326,454
<b>Cash Basis Net Assets:</b>							
Restricted							
Nonexpendable:							
Louhan fund					463,325	-	463,325
Cemetery perpetual care					81,274	-	81,274
Expendable:							
Urban renewal purpose					1,202,274	-	1,202,274
Debt service					-	293,435	293,435
Employee benefits					178,076	-	178,076
Streets					469,673	-	469,673
Other purposes					3,298,480	-	3,298,480
Unrestricted					(454,426)	794,343	339,917
					5,238,676	1,087,778	6,326,454

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, 2012

	Special Revenue				
	General	Urban Renewal Tax Increment	Local Option Sales Tax	Library Trust	Debt Service
<b>Receipts:</b>					
Property tax	1,320,692	-	-	-	592,094
Tax increment financing collections	-	282,262	-	-	-
Other city tax	-	-	388,242	-	-
Licenses and permits	17,087	-	-	-	-
Use of money and property	54,421	-	-	6,134	-
Intergovernmental	392,658	766,468	-	-	-
Charges for service	295,373	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	59,397	371	-	3,549	30,851
Total receipts	2,139,628	1,049,101	388,242	9,683	622,945
<b>Disbursements:</b>					
Operating:					
Public safety	552,409	-	-	-	-
Public works	486,710	-	-	-	-
Culture and recreation	771,377	-	-	14,431	-
Community and economic development	54,843	1,093,095	-	-	-
General government	180,438	-	-	-	-
Debt service	-	-	-	-	621,347
Capital projects	-	-	-	-	-
Total disbursements	2,045,777	1,093,095	-	14,431	621,347
Excess (deficiency) of receipts over disbursements	93,851	(43,994)	388,242	(4,748)	1,598
Other financing sources (uses):					
Operating transfers in	12,161	-	-	-	-
Operating transfers out	(27,000)	-	(200,000)	-	-
Total other financing sources (uses)	(14,839)	-	(200,000)	-	-
Net change in cash balances	79,012	(43,994)	188,242	(4,748)	1,598
Cash balances beginning of year	(114,300)	1,246,268	476,253	579,920	(121,262)
Cash balances end of year	(35,288)	1,202,274	664,495	575,172	(119,664)
<b>Cash Basis Fund Balances</b>					
Nonspendable					
Louthan	-	-	-	-	-
Cemetery perpetual care	-	-	-	-	-
Restricted for:					
Urban renewal purposes	-	1,202,274	-	-	-
Debt Service	-	-	-	-	-
Employee benefits	-	-	-	-	-
Streets	-	-	-	-	-
Other purposes	-	-	664,495	575,172	-
Unassigned	(35,288)	-	-	-	(119,664)
Total cash basis fund balances	(35,288)	1,202,274	664,495	575,172	(119,664)

See Notes to Financial Statements

Exhibit B

Capital Projects			Other Nonmajor	
Streets	Fire Station	Northside Urban Renewal	Governmental Funds	Total
-	-	-	389,361	2,302,147
-	-	-	-	282,262
-	-	-	-	388,242
-	-	-	-	17,087
3,940	-	10,082	6,301	80,878
-	412,082	-	848,925	2,420,133
-	-	-	-	295,373
-	-	-	7,105	7,105
20,356	-	-	189,266	303,790
24,296	412,082	10,082	1,440,958	6,097,017
-	-	-	130,070	682,479
-	-	-	737,615	1,224,325
-	-	-	121,996	907,804
-	-	-	68,673	1,216,611
-	-	-	99,558	279,996
-	-	-	-	621,347
1,570,116	848,297	102,431	379,529	2,900,373
1,570,116	848,297	102,431	1,537,441	7,832,935
(1,545,820)	(436,215)	(92,349)	(96,483)	(1,735,918)
987,752	25,000	-	182,000	1,206,913
(180,000)	-	(500,000)	(299,913)	(1,206,913)
807,752	25,000	(500,000)	(117,913)	-
(738,068)	(411,215)	(592,349)	(214,396)	(1,735,918)
1,150,939	351,444	2,611,830	793,502	6,974,594
412,871	(59,771)	2,019,481	579,106	5,238,676
-	-	-	463,325	463,325
-	-	-	81,274	81,274
-	-	-	-	1,202,274
-	-	-	-	-
-	-	-	178,066	178,066
412,871	-	-	56,802	469,673
-	-	2,019,481	39,342	3,298,490
-	(59,771)	-	(239,703)	(454,426)
412,871	(59,771)	2,019,481	579,106	5,238,676

## 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, 2012

	Water	Sewer	Non-major Solid Waste	Total
Operating receipts:				
Charges for service	\$ 1,080,654	963,647	369,603	2,413,904
Miscellaneous	2,450	11,799	-	14,249
Total operating receipts	<u>1,083,104</u>	<u>975,446</u>	<u>369,603</u>	<u>2,428,153</u>
Operating disbursements:				
Business type activities	745,238	434,113	468,022	1,647,373
Total operating disbursements	<u>745,238</u>	<u>434,113</u>	<u>468,022</u>	<u>1,647,373</u>
Excess of operating receipts under operating disbursements	337,866	541,333	(98,419)	780,780
Non-operating receipts (disbursements):				
Water revenue bonds	427,143	-	-	427,143
Interest on investments	46	4,663	1,207	5,916
Debt service	-	(430,320)	-	(430,320)
Capital projects	(498,384)	-	-	(498,384)
Total non-operating receipts	<u>(71,195)</u>	<u>(425,657)</u>	<u>1,207</u>	<u>(495,645)</u>
Excess (deficit) of receipts and non-operating receipts over (under) disbursements	266,671	115,676	(97,212)	285,135
Other financing sources/(uses):				
Bond proceeds	-	2,195,000	-	2,195,000
Debt service- principal refunded	-	(2,195,000)	-	(2,195,000)
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	266,671	115,676	(97,212)	285,135
Cash balances beginning of year	<u>51,312</u>	<u>384,037</u>	<u>367,294</u>	<u>802,643</u>
Cash balances end of year	<u>\$ 317,983</u>	<u>499,713</u>	<u>270,082</u>	<u>1,087,778</u>
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	-	298,435	-	298,435
Unrestricted	<u>317,983</u>	<u>201,278</u>	<u>270,082</u>	<u>789,343</u>
Total cash basis fund balances	<u>\$ 317,983</u>	<u>499,713</u>	<u>270,082</u>	<u>1,087,778</u>

See Notes to 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 solid waste services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Humboldt (City) 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

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 Emergency Management Commission, Humboldt County Joint E911 Service Board, Law Enforcement Center Commission, The North Central Iowa Regional 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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

## CITY OF HUMBOLDT, IOWA

### NOTES TO FINANCIAL STATEMENTS

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

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

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

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

The City reports the following major governmental funds:

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

#### Special Revenue Funds

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for the sales tax received from the State of Iowa and the usage of those dollars.

The Library Trust Fund is used to account for proceeds collected for the municipal library.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the city's general long-term debt.

#### Capital Projects Funds:

Streets – The fund is being used by the city to account for the costs of a street reconstruction project that was completed in the fall of 2012.

## CITY OF HUMBOLDT, IOWA

### NOTES TO FINANCIAL STATEMENTS

Fire Station – The fund is being used to account for the grant proceeds received and the expenditures incurred for the construction of the City’s new fire station.

Northside Urban Renewal – This fund is being used to account for the debt proceeds received by the City to finance additional sewer and storm sewer improvements in the City.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City’s water system. The Water Fund includes in its cash balance customer deposits of \$6,503 as of June 30, 2012.

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 deficit balance of \$(76,337). It also accounts for the payment of interest and principal on the City’s Sewer Revenue Refunding Capital Loan Notes and the related reserve fund which had a balance of \$369,772 at June 30, 2012. The Sewer Revenue Refunding Capital Loan Notes require a balance of \$219,500 to be held in reserve. The Sewer Fund also includes in its cash balance customer deposits of \$6,115 at June 30, 2012.

#### 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 accounting principles generally accepted in the United States of America.

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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City’s policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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.

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. The City exceeded the budgeted disbursements in the community and economic development function for the year ended June 30, 2012.

(2) **Cash and Investments**

The City's deposits at June 30, 2012 (which include certificates of deposit totaling \$3,703,276) 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 ensure 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 investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$58,212 pursuant to Rule-2a under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated.

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.

Interest received on cash balances of the City of Humboldt amounted to \$33,083 for the year ended June 30, 2012. These receipts are included under Use of Money and Property for Governmental Funds and Interest on Investments for proprietary activities.

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

The City maintains 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 \$68,576 and \$25,667 at June 30, 2012.

**(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 Bonds		Revenue Notes		Other Long-Term Debt		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	840,000	230,122	90,000	35,365	717,143	30,449	11,458	2,181	1,658,601	298,117
2014	855,000	216,652	95,000	31,765	295,000	26,295	4,540	1,611	1,249,540	276,323
2015	785,000	200,117	100,000	27,918	295,000	24,230	4,540	1,386	1,184,540	253,651
2016	810,000	184,197	105,000	23,818	300,000	21,428	4,540	1,162	1,219,540	230,605
2017	715,000	165,699	110,000	19,460	300,000	17,828	4,540	937	1,129,540	203,924
2018	710,000	147,006	110,000	14,840	305,000	13,328	2,596	491	1,127,596	175,665
2019	710,000	127,466	115,000	10,165	310,000	7,990	2,394	383	1,137,394	146,004
2020	730,000	113,599	120,000	5,220	100,000	2,100	2,394	287	952,394	121,206
2021	540,000	91,635	-	-	-	-	2,394	191	542,394	91,826
2022	505,000	69,547	-	-	-	-	2,393	96	507,393	69,643
2023	525,000	47,793	-	-	-	-	-	-	525,000	47,793
2024	540,000	24,570	-	-	-	-	-	-	540,000	24,570
<b>\$</b>	<b>8,265,000</b>	<b>1,618,403</b>	<b>845,000</b>	<b>168,551</b>	<b>2,622,143</b>	<b>143,648</b>	<b>41,789</b>	<b>8,725</b>	<b>11,773,932</b>	<b>1,939,327</b>

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 \$1,013,551, payable through June 2020. For the current year, interest paid and total TIF receipts were \$38,723 and \$282,262, respectively.

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$427,143 of water revenue planning notes issued in 2012. Proceeds from the notes provided financing for the planning of water treatment plant improvements. The notes are payable solely from water customer net receipts and are payable in 2013. The total principal and interest remaining to be paid on the notes is \$427,143. For the current year, principal and interest paid and total customer net receipts were \$0- and \$337,866, respectively.

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay sewer revenue refunding notes issued in April 2012. The notes are payable solely from sewer customer net receipts and are payable through 2020. The total principal and interest remaining to be paid on the notes is \$2,765,791. For the current year, principal and interest paid and total customer net receipts were \$430,320 and \$541,333, 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 \$219,500. 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, 2012.
- (d) Sufficient rates are to be charged to generate Net Revenues adequate to pay the principal and interest on the bonds and to create/maintain the reserves required by the bonds. The Net Revenues are also to be equal to or greater than 110 percent of the principal and interest requirements of the succeeding fiscal year.

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

	General Obligation Bonds	Tax Increment Revenue Bonds	Revenue Bonds	Special Assessment Notes	Total
Balance, beginning of year	\$ 9,120,000	930,000	2,510,000	22,258	12,582,258
Additions	0	0	2,622,143	23,939	2,646,082
Deletions	855,000	85,000	2,510,000	4,408	3,454,408
Balance, end of year	<u>\$ 8,265,000</u>	<u>845,000</u>	<u>2,622,143</u>	<u>41,789</u>	<u>11,773,932</u>

Interest rates on the general obligation bonds range from 0.75-5.85%. Interest rates on the TIF revenue bonds are 3.90%. Interest rates on the revenue bonds range from 0-2.1% and interest rates on the Special Assessment debt range from 5.00-6.00%.

**(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.

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

Most plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011, and 2010 were \$90,879, \$82,451, and \$82,010, respectively, equal to the required contributions for each year.

**(5) Other Post Employment Benefits (OPEB)**

Plan Description – The City operates a single employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 27 active and no inactive members in the plan. Participants must be 55 or older at retirement.

The medical benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premiums for medical benefits as active members.

Funding Policy – the contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$455 for single coverage and \$1,138 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$194,174 and plan members contributed \$38,118 to the plan.

**(6) 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 at June 30, 2012</u>
Sick pay and personal days	\$ 255,952
Vacation pay	47,500
Total	<u>\$ 303,452</u>

The liability has been computed based on rates of pay in effect at June 30, 2012.

**(7) Interfund Transfers**

The detail of interfund transfers, for the year ended June 30, 2012 is as follows:

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

<u>Transfer In</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue Fund-Community Projects	\$ <u>12,161</u>
Special Revenue Fund-RUT	Capital Project Fund-Streets	\$ <u>180,000</u>
Special Revenue Fund Community Projects	General Fund	\$ <u>2,000</u>
Capital Project Fund Streets	Special Revenue Fund-RUT	\$ 6,000
	Special Revenue Fund-LOST	200,000
	Capital Project Fund-Northside Urban Renewal	500,000
	Capital Project Fund-Infrastructure	<u>281,752</u>
		\$ <u>987,752</u>
Capital Project Fund Fire	General Fund	\$ <u>25,000</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.

**(8) Risk Management**

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, 2012, there were no unpaid claims due.

**(9) Deficit Fund Balance**

The Debt Service Fund, Fire Station Fund, Economic Development Office Fund and Drainage District Fund had deficit fund balances of \$119,664, \$59,771 \$4,897 and \$167,928 respectively at June 30, 2012. The deficit balances were a result of project costs and debt obligations being paid prior to the collection of the related receipts.

**(10) 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, 2011 and are payable in September 2011 and March 2012. The valuation for the taxes were based on January 1, 2010 assessed property valuations, and are based on a certified budget from March of 2011.

CITY OF HUMBOLDT, IOWA

NOTES TO FINANCIAL STATEMENTS

**(11) 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 \$16,074 for the year ended June 30, 2012. 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, 2012 were \$38,774.

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, 2012, the City paid \$98,787 pursuant to this agreement.

The City has also contracted with a private contractor for the operation and maintenance of the municipal sewer plant and municipal waterworks. Payments under these contracts totaled \$180,249 and \$417,454 respectively for the year ended June 30, 2012.

**(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, 2012, the Friends of the Parks owed \$86,709 on the note. During the year ended June 30, 2012 the City paid approximately \$19,600 in principal and \$4,400 in interest respectively under this agreement.

**(13) Subsequent Events**

In September 2012 the City of Humboldt issued \$1,585,000 of general obligation bonds for the purpose of planning, undertaking and carrying out street, water, and sewer improvements in the Humboldt South Side Urban Renewal Area along with demolition of an abandoned, dilapidated and dangerous building in the Central Business District Urban Renewal Area.

In preparing the financial statements, the City has evaluated events and transactions for potential recognition or disclosure through February 13, 2013, the date the financial statements were issued.

## **Other 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

OTHER INFORMATION  
Year Ended June 30, 2012

	Governmental Funds Activity	Proprietary Funds Activity	Less Funds not Required to be Budgeted	Net
<b>Receipts:</b>				
Property tax	\$ 2,302,147	-	-	2,302,147
Tax increment financing collections	282,262	-	-	282,262
Other city tax	388,242	-	-	388,242
Licenses and permits	17,087	-	-	17,087
Use of money and property	80,878	5,916	-	86,794
Intergovernmental	2,420,133	-	-	2,420,133
Charges for service	295,373	2,413,904	-	2,709,277
Special assessments	7,105	-	-	7,105
Miscellaneous	303,790	441,392	-	745,182
Total receipts	6,097,017	2,861,212	-	8,958,229
<b>Disbursements:</b>				
Program				
Public Safety	682,479	-	-	682,479
Public Works	1,224,325	-	-	1,224,325
Culture & Recreation	907,804	-	-	907,804
Community & economic development	1,216,611	-	-	1,216,611
General government	279,996	-	-	279,996
Debt Service	621,347	-	-	621,347
Capital projects	2,900,373	498,384	-	3,398,757
Business type activities	-	2,077,693	-	2,077,693
Total disbursements	7,832,935	2,576,077	-	10,409,012
Excess (deficiency) of receipts over disbursements	(1,735,918)	285,135	-	(1,450,783)
Other financing sources (uses)	-	-	-	-
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	(1,735,918)	285,135	-	(1,450,783)
Balance - beginning of year	6,974,594	802,643	-	7,777,237
Balance - end of year	\$ 5,238,676	1,087,778	-	6,326,454

See Accompanying Independent Auditor's Report

<u>Budgeted Amounts</u>		
<u>Original</u>	<u>Final</u>	<u>Final to Net Variance</u>
2,241,940	2,241,940	60,207
292,568	292,568	(10,306)
478,522	478,522	(90,280)
20,050	20,050	(2,963)
68,060	68,060	18,734
993,595	2,482,595	(62,462)
2,347,800	2,522,800	186,477
10,000	10,000	(2,895)
1,220,055	346,055	399,127
<u>7,672,590</u>	<u>8,462,590</u>	<u>495,639</u>
659,160	700,960	18,481
1,925,185	1,382,185	157,860
1,049,013	1,020,013	112,209
442,986	1,149,486	(67,125)
319,406	332,406	52,410
623,972	667,472	46,125
8,718,000	3,838,000	439,243
2,130,661	4,353,961	2,276,268
<u>15,868,383</u>	<u>13,444,483</u>	<u>3,035,471</u>
(8,195,793)	(4,981,893)	3,531,110
<u>7,998,850</u>	<u>3,181,850</u>	<u>(3,181,850)</u>
(196,943)	(1,800,043)	349,260
<u>4,358,427</u>	<u>4,358,427</u>	<u>3,418,810</u>
<u><u>4,161,484</u></u>	<u><u>2,558,384</u></u>	<u><u>3,768,070</u></u>

CITY OF HUMBOLDT, IOWA

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2012

The budgetary comparison is presented 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 nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, 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 budgeted disbursements respectively by \$4,027,000 and \$2,423,900. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, the City exceeded the budgeted disbursements in the community and economic development 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, 2012

	Employee Benefits	Road Use Tax	Community Projects	13A Drainage District	Street Assessments
<b>Receipts:</b>					
Property tax	389,361	-	-	-	-
Other city tax	-	-	-	-	-
Use of money and property	-	-	909	-	-
Intergovernmental	-	444,852	-	-	-
Special assessments	-	-	-	-	7,105
Miscellaneous	90,661	-	29,449	-	-
Total receipts	480,022	444,852	30,358	-	7,105
<b>Disbursements:</b>					
Operating:					
Public safety	130,070	-	-	-	-
Public works	108,246	578,848	-	45,114	5,407
Culture and recreation	121,845	-	151	-	-
Community and economic development	-	-	-	-	-
General government	75,576	-	23,982	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	435,737	578,848	24,133	45,114	5,407
Excess of receipts over disbursements	44,285	(133,996)	6,225	(45,114)	1,698
<b>Other financing sources (uses):</b>					
Bond proceeds	-	-	-	-	-
Proceeds of refunding bonds	-	-	-	-	-
Payments to refunding escrow agent	-	-	-	-	-
Operating transfers in	-	180,000	2,000	-	-
Operating transfers out	-	(6,000)	(12,161)	-	-
Total other financing sources (uses)	-	174,000	(10,161)	-	-
Net change in cash balances	44,285	40,004	(3,936)	(45,114)	1,698
Cash balances beginning of year	133,781	16,798	118,963	(122,814)	3,891
Cash balances end of year	178,066	56,802	115,027	(167,928)	5,589
<b>Cash basis fund balances</b>					
Nonspendable - Cemetery perpetual care					
Cemetery perpetual care	-	-	81,274	-	-
Louhan	-	-	-	-	-
Restricted for:					
Streets	-	56,802	-	-	-
Employee benefits	178,066	-	-	-	-
Other purposes	-	-	33,753	-	5,589
Unassigned	-	-	-	(167,928)	-
Total cash basis fund balances	178,066	56,802	115,027	(167,928)	5,589

See Accompanying Independent Auditor's Report

Schedule 1

Economic Development Office	Capital Projects		Total
	Funds	Permanent	
	Infrastructure	Louthan	
-	-	-	389,361
-	-	-	-
-	-	5,392	6,301
-	404,073	-	848,925
-	-	-	7,105
69,156	-	-	189,266
<u>69,156</u>	<u>404,073</u>	<u>5,392</u>	<u>1,440,958</u>
-	-	-	130,070
-	-	-	737,615
-	-	-	121,996
68,673	-	-	68,673
-	-	-	99,558
-	-	-	-
-	379,529	-	379,529
<u>68,673</u>	<u>379,529</u>	<u>-</u>	<u>1,537,441</u>
483	24,544	5,392	(96,483)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	182,000
-	(281,752)	-	(299,913)
-	<u>(281,752)</u>	<u>-</u>	<u>(117,913)</u>
483	(257,208)	5,392	(214,396)
<u>(5,380)</u>	<u>166,469</u>	<u>481,794</u>	<u>793,502</u>
<u>(4,897)</u>	<u>(90,739)</u>	<u>487,186</u>	<u>579,106</u>
-	-	-	81,274
-	-	463,325	463,325
-	-	-	56,802
-	-	-	178,066
-	-	-	39,342
(4,897)	(90,739)	23,861	(239,703)
<u>(4,897)</u>	<u>(90,739)</u>	<u>487,186</u>	<u>579,106</u>

CITY OF HUMBOLDT, IOWA

Schedule 2

SCHEDULE OF INDEBTEDNESS  
Year Ended June 30, 2012

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	3.60%	2,500,000	\$ 160,000	-	160,000	-	69,740	-
Capital Loan Note Series 2009A	12/22/2009	0.75%	2,580,000	2,085,000	-	225,000	1,860,000	54,365	-
Capital Loan Note Series 2009B	12/22/2009	4.97%	1,320,000	1,320,000	-	-	1,320,000	68,556	-
Capital Loan Note Series 2011A	6/22/2011	6.50%	3,320,000	3,320,000	-	335,000	2,985,000	65,785	-
Capital Loan Note Series 2011B	6/22/2011	9.00%	1,845,000	1,845,000	-	-	1,845,000	-	-
TIF General Obligation Bond/Notes									
Jet Co.	1/10/2006	3.60%	390,000	40,000	-	40,000	-	9,250	-
Rustix Restaurant	10/2/2006	5.85%	180,000	135,000	-	15,000	120,000	8,295	-
Riverview Heights	10/2/2006	3.85%	330,000	200,000	-	65,000	135,000	8,003	-
IRP Grant Match	11/6/2006	4.00%	115,000	15,000	-	15,000	-	4,030	-
				9,120,000	-	855,000	8,265,000	288,024	
Urban Renewal Tax Increment Financing									
(TIF) revenue bonds	4/16/2007	3.90%	1,080,000	930,000	-	85,000	845,000	38,723	-
Revenue Bonds									
2001 Wastewater Revenue Bond	8/19/1999	3.00%	4,847,000	2,510,000	-	2,510,000	-	75,300	-
Sewer Revenue Refunding Capital Loan Notes,	4/30/2012	0.60%	2,195,000	-	2,195,000	-	2,195,000	-	-
Water Treatment Plant Planning Loan		0.00%	427,143	-	427,143	-	427,143	-	-
				2,510,000	2,622,143	2,510,000	2,622,143	75,300	-
Special Assessment Notes									
Hall Street Improvement Project	12/19/2008	6.00%		12,976	-	2,044	10,932	597	-
Water Sewer Service Line Repair	2/6/2012	4.00%		-	23,939	-	23,939	-	-
Sumner Avenue Project	1/6/2005	5.00%		9,282	-	2,364	6,918	402	-
				\$ 22,258	23,939	4,408	41,789	999	-

See Accompanying Independent Auditor's Report

CITY OF HUMBOLDT, IOWA

SCHEDULE OF BOND AND NOTE MATURITIES

June 30, 2012

Year Ending June 30,	General Obligation TIF Rustix Issued 10/02/2006		General Obligation TIF Riverview Heights Issued 10/02/2006		General Obligation Capital Loan Note Series 2009A Issued 12/22/09		General Obligation Capital Loan Note Series 2009B Issued 12/22/09		General Obligation Capital Loan Note Series 2011A Issued 06/22/11		General Obligation Capital Loan Note Series 2011B Issued 06/22/11		Total
	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	
	2013	6.05	20,000	4.00	65,000	1.70	230,000	4.97	-	0.90	270,000	0.90	
2014	6.10	25,000	4.05	70,000	2.10	235,000	4.97	-	1.20	275,000	1.20	250,000	855,000
2015	6.15	20,000	-	-	2.50	235,000	4.97	-	1.50	280,000	1.50	250,000	785,000
2016	6.20	25,000	-	-	2.75	245,000	4.97	-	1.75	285,000	1.75	255,000	810,000
2017	6.25	20,000	-	-	3.00	250,000	4.97	-	2.05	230,000	2.05	215,000	715,000
2018	6.30	10,000	-	-	3.20	260,000	4.97	-	2.25	235,000	2.25	205,000	710,000
2019	-	-	-	-	3.40	265,000	4.97	-	2.55	240,000	2.55	205,000	710,000
2020	-	-	-	-	3.60	140,000	4.97	135,000	2.80	245,000	2.80	210,000	730,000
2021	-	-	-	-	-	-	5.07	285,000	3.00	255,000	-	-	540,000
2022	-	-	-	-	-	-	5.17	290,000	3.15	215,000	-	-	505,000
2023	-	-	-	-	-	-	5.27	300,000	3.30	225,000	-	-	525,000
2024	-	-	-	-	-	-	5.37	310,000	3.45	230,000	-	-	540,000
		<u>120,000</u>		<u>135,000</u>		<u>1,860,000</u>		<u>1,320,000</u>		<u>2,985,000</u>		<u>1,845,000</u>	<u>8,265,000</u>

Special Assessment Debt

Year Ending June 30,	Sewer Revenue Refunding Capital Loan Notes Issued 04/30/12		Revenue Bonds and Notes Water Treatment Issued 08/19/99		Total	TIF Revenue Bonds Issued 04/16/07		Special Assessment Hall Street Issued 12/19/08		Special Assessment Sewer Line Repair Issued 2/6/12		Special Assessment Sumner Avenue Issued 01/06/05		Total
	Rate	Amount	Rate	Amount		Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	
	2013	0.60	290,000	-		427,143	717,143	4.00	90,000	6.00	2,146	4.00	2,394	
2014	0.70	295,000	-	-	295,000	4.05	95,000	6.00	2,146	4.00	2,394	-	-	4,540
2015	0.95	295,000	-	-	295,000	4.10	100,000	6.00	2,146	4.00	2,394	-	-	4,540
2016	1.20	300,000	-	-	300,000	4.15	105,000	6.00	2,146	4.00	2,394	-	-	4,540
2017	1.50	300,000	-	-	300,000	4.20	110,000	6.00	2,146	4.00	2,394	-	-	4,540
2018	1.75	305,000	-	-	305,000	4.25	110,000	6.00	202	4.00	2,394	-	-	2,596
2019	1.90	310,000	-	-	310,000	4.30	115,000	-	-	4.00	2,394	-	-	2,394
2020	2.10	100,000	-	-	100,000	4.35	120,000	-	-	4.00	2,394	-	-	2,394
2021	-	-	-	-	-	-	-	-	-	4.00	2,394	-	-	2,394
2022	-	-	-	-	-	-	-	-	-	4.00	2,393	-	-	2,393
2023	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		<u>2,195,000</u>		<u>427,143</u>	<u>2,622,143</u>		<u>845,000</u>		<u>10,932</u>		<u>23,939</u>		<u>6,918</u>	<u>41,789</u>

CITY OF HUMBOLDT, IOWA

Schedule 4

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:									
Property tax	\$ 2,302,147	\$ 2,152,704	1,904,779	1,633,656	1,655,745	1,544,817	1,582,782	1,328,024	1,226,613
Tax increment financing collections	282,262	443,021	420,167	404,449	312,532	365,022	185,636	200,480	206,434
Other city tax	388,242	397,628	341,082	357,445	393,347	389,048	304,638	327,835	320,048
Licenses and permits	17,087	19,458	25,452	17,366	20,715	17,661	14,987	17,057	19,061
Use of money and property	80,878	142,977	73,895	80,867	155,848	167,204	142,485	86,015	84,226
Intergovernmental	2,420,133	3,141,751	802,439	934,487	443,633	713,780	465,285	475,193	776,766
Charges for service	295,373	273,612	287,532	345,879	311,083	386,638	271,096	170,698	198,875
Special assessments	7,105	9,734	11,794	16,366	39,940	23,050	64,756	48,024	58,780
Miscellaneous	303,790	287,802	293,218	492,455	589,517	297,352	158,353	241,843	152,238
Total receipts	\$ 6,097,017	\$ 6,868,687	4,160,358	4,282,970	3,922,360	3,904,572	3,190,018	2,895,169	3,043,041
Disbursements:									
Operating:									
Public safety	\$ 682,479	\$ 675,231	653,393	906,627	622,585	600,159	629,836	546,850	524,462
Public works	1,224,325	876,813	1,124,118	1,317,778	877,931	933,321	680,999	568,214	1,062,772
Culture and recreation	907,804	973,989	1,097,108	977,325	908,995	850,460	651,089	908,965	656,507
Community and economic development	1,216,611	477,814	495,133	492,990	1,246,099	1,411,591	536,316	196,717	227,172
General government	279,996	290,821	253,579	260,547	271,955	243,422	201,098	483,523	329,142
Debt service	621,347	581,822	552,586	230,913	230,533	229,650	230,482	-	-
Capital projects	2,900,373	4,824,806	159,331	238,335	297,435	365,730	3,266,851	2,587,037	281,501
Non program	-	-	49,724	54,957	74,590	53,708	105,841	80,884	35,901
Total disbursements	\$ 7,832,935	\$ 8,701,296	4,384,972	4,479,472	4,530,123	4,688,041	6,302,512	5,372,190	3,117,457

See Accompanying Independent Auditor's Report

CITY OF HUMBOLDT, IOWA

Schedule 5

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor Title	CFDA Number	Pass-through Grantor Number	Federal Expenditures
U.S Department of Housing and Urban Development:			
Direct Program			
Economic Development Initiative (EDI) - Special Project			
Brownfield Clean Up	14.251		\$ 735,000
Pass-through programs from:			
Iowa Department of Economic Development:			
Community Development Block Grants			
Disaster Grants	14.228	08-DRI-225	404,073
Housing Grants	14.228	06-HSG-062	24,865
Total U.S. Department of Housing and Urban Development			1,163,938
U.S. Department of Transportation:			
Direct Program			
Airport Improvement Grant			
Airport - T Hangar Improvements	20.106	3-19-0043-06	324,491
Airport - T Hangar Improvements	20.106	3-19-0043-05	37,450
Total U.S. Department of Transportation			361,941
U.S. Department of Homeland Security:			
Pass-through programs from:			
Iowa Homeland Security and Emergency Management Division:			
Flood Disaster Reimbursement	97.036	FEMA-1930-DRIA	20,356
Total U.S. Department of Homeland Security			20,356
Total			\$ 1,546,235

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

See accompanying independent auditor's report.



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, each major fund and the aggregate remaining fund information of the City of Humboldt, Iowa as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated February 13, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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

The management of the City of Humboldt is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Humboldt's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Humboldt's 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Humboldt's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency, II-A-12, described in Part II of the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

#### 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, and 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 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 and Questioned Costs. 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.*

February 13, 2013



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

Independent Auditor's Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program  
and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

### **Compliance**

We have audited the City of Humboldt, Iowa's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2012. The City of Humboldt, Iowa's major federal programs is identified in the summary of independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of City of Humboldt, Iowa's management. Our responsibility is to express an opinion on City of Humboldt, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about City of Humboldt, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Humboldt, Iowa's compliance with those requirements.

In our opinion, City of Humboldt, Iowa complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

### **Internal Control Over Compliance**

The management of City of Humboldt, Iowa is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Humboldt, Iowa's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Humboldt, Iowa's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely

basis. A *material weakness in internal control over compliance* is a deficiency or combination of deficiencies in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

February 13, 2013

City of Humboldt

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2012

The finding listed as I-A-11 in the prior year noted that there was a segregation of duties internal control deficiency which remains an issue see II-A-12 for June 30, 2012.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (e) The major programs for the Fiscal Year ended June 30, 2012 were CFDA# 14.251, Economic Development Initiative – Special Project, Brownfield Clean Up and CFDA #20.106, Airport Improvement Grant – T Hanger Improvements.
- (f) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (g) The City of Humboldt, Iowa did not qualify as a low-risk audit.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

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

II-A-12      Segregation of Duties - We noted that the cash receipt function and the recording of the cash receipts is on occasion handled by the same person.

Criteria - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Cause – there is a limited staff size that makes having an appropriate segregation of duties difficult for the City.

Effect – The City’s internal control system is not as strong as it could be with a proper segregation of duties.

Recommendation – 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.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

**Part III: Findings for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE**

CFDA Number 14.251: Economic Development Initiative – Special Project/Brownfield Clean Up  
Federal Award Year: 2012  
U.S. Department of Housing and Urban Development

None were noted.

CFDA Number 20.106: Airport Improvement Grant/T Hanger Improvements  
Federal Award Year: 2012  
U.S. Department of Transportation

None were noted.

**INTERNAL CONTROL DEFICIENCIES:**

CFDA Number 14.251: Economic Development Initiative – Special Project/Brownfield Clean Up  
Federal Award Year: 2012  
U.S. Department of Housing and Urban Development

None were noted.

CFDA Number 20.106: Airport Improvement Grant/T Hanger Improvements  
Federal Award Year: 2012  
U.S. Department of Transportation

None were noted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

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

IV-A-12 Certified Budget – The City exceeded the budgeted disbursement limit in the community and economic development function.

Criteria – Chapter 384.20 of the Code of Iowa states, in part, “Public Monies may not be expended or encumbered except under an annual or continuing appropriation.”

Cause – Fees incurred in issuing debt for the City were not contemplated when setting the budget for the debt service function.

Effect – The City did not comply with the Iowa Code, Chapter 384.20 for the year ended June 30, 2012.

Recommendation – The budget should be amended in accordance with the Code of Iowa, if needed, in the future.

Response – We will amend our budget in the future if needed.

Conclusion – Response accepted.

IV-B-12 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.

IV-C-12 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

IV-D-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Walter Jensen, Mayor/Owner of Jensen Enterprises Ltd.	Fire Station Equipment	\$ 7,418

Criteria - Chapter 362.5(10) of the Code of Iowa prohibits any city officer or employee from having a contract or job of work with the City. Exceptions are made to this regulation if the total annual purchase is less than \$1,500, or if the work was contracted under a competitive bid. The transactions with Mayor Jensen appear to be in violation of the Iowa Code, and are not covered under either of the aforementioned exceptions.

Cause – There are a limited number of merchants who are able to provide the fire station equipment.

Effect – Failure to bid the work properly may result in the City paying too much for a service, thereby failing to adequately fulfill their obligation to expend public money properly.

City of Humboldt, Iowa

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Recommendation – The City should consult with their attorney to see what action, if any, needs to be taken to remedy this situation.

Response – We will consult with our attorney

Conclusion – Response accepted.

- IV-E-12 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.
- IV-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-12 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.
- IV-H-12 Revenue Bonds and Notes – The city has complied with all revenue bond and note resolutions.
- IV-I-12 Financial Position – The Debt Service, Fire Station, Economic Development Office Fund and 13A Drainage District Fund, had deficit fund balances of \$119,664, \$59,771, \$4,897 and \$167,928 respectively at June 30, 2012.

Criteria – A cash basis fund should have a positive balance in order to be considered to be in a strong financial condition.

Cause – The timing of receipts causes the funds from time to time to have deficit balances.

Effect – The funds mentioned are not in a sound financial position.

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

Response – The deficits will be eliminated when expected receipts are received.

Conclusion – Response accepted.