

**CITY OF SABULA**

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

**JUNE 30, 2005**

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## City of Sabula

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Donald L. Thayer	Mayor	January 1, 2006
Rita Cavanagh	Council Member	January 1, 2006
Robert Canty	Council Member	January 1, 2006
Sandra J. Figie	Council Member	January 1, 2006
Mike Cotton	Council Member	January 1, 2008
Troy A. Hansen	Council Member	January 1, 2008
Ronald Flemming	City Clerk/Treasurer	Appointed
Paul L. Macek	Attorney	Appointed



## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
Sabula, Iowa

I 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 Sabula, Iowa as of and for the year ended June 30, 2005, 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 Sabula's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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. Those standards require that I 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. I believe my audit provides a reasonable basis for my 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 accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2004.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sabula as of June 30, 2005, and the respective changes in cash basis financial position for the year ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated June 4, 2007 on my consideration of the City of Sabula's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Budgetary comparison information on page 16 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

The City of Sabula, Iowa has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sabula's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,

*Ann M Menke*

Ann M. Menke  
Certified Public Accountant  
Professional Corporation  
June 4, 2007

**City of Sabula**  
**Statement of Activities and Net Assets - Cash Basis**  
**For the Year Ended June 30, 2005**

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 144,744	\$ 3,051	\$ 17,628	\$ -
Health and social services	1,055	-	-	-
Public works	60,233	2,115	55,708	-
Culture and recreation	83,985	1,621	9,719	-
Community and economic development	20,160	-	-	-
General government	17,900	-	-	-
Total governmental activities	328,077	6,787	83,055	-
Business type activities				
Water	419,132	88,824	-	-
Sewer	82,051	76,286	-	-
Gas	350,831	370,973	-	-
Electricity	298,892	335,272	-	-
Garbage	48,208	46,319	-	-
Utility deposits	5,908	5,281	-	-
Total business type activities	1,205,022	922,955	-	-
Total	\$ 1,533,099	\$ 929,742	\$ 83,055	\$ -
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Grants and contributions not restricted to specific purpose				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Unrestricted				
<b>Total cash basis net assets</b>				

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (124,065)	\$ -	\$ (124,065)
(1,055)	-	(1,055)
(2,410)	-	(2,410)
(72,645)	-	(72,645)
(20,160)	-	(20,160)
(17,900)	-	(17,900)
<u>(238,235)</u>	<u>-</u>	<u>(238,235)</u>
-	(330,308)	(330,308)
-	(5,765)	(5,765)
-	20,142	20,142
-	36,380	36,380
-	(1,889)	(1,889)
-	(627)	(627)
<u>-</u>	<u>(282,067)</u>	<u>(282,067)</u>
<u>(238,235)</u>	<u>(282,067)</u>	<u>(520,302)</u>
82,260	-	82,260
6,429	-	6,429
34,219	-	34,219
15,829	-	15,829
-	258,186	258,186
8,102	-	8,102
50,000	(50,000)	-
<u>196,839</u>	<u>208,186</u>	<u>405,025</u>
(41,396)	(73,881)	(115,277)
<u>125,725</u>	<u>116,256</u>	<u>241,981</u>
<u>\$ 84,329</u>	<u>\$ 42,375</u>	<u>\$ 126,704</u>
84,329	42,375	126,704
<u>\$ 84,329</u>	<u>\$ 42,375</u>	<u>\$ 126,704</u>

See notes to financial statements.

**City of Sabula**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Governmental Funds**  
**As of and for the Year Ended June 30, 2005**

	General	Special Revenue Road Use Tax	Other Nonmajor Governmental Funds	Total
<b>Receipts</b>				
Property tax	\$ 82,260	\$ -	\$ -	\$ 82,260
Other city tax	352	-	34,219	34,571
Licenses and permits	2,115	-	-	2,115
Use of money and property	14,796	-	1,033	15,829
Intergovernmental	27,629	55,708	-	83,337
Charges for services	6,488	-	-	6,488
Miscellaneous	12,081	-	-	12,081
Total receipts	<u>145,721</u>	<u>55,708</u>	<u>35,252</u>	<u>236,681</u>
<b>Disbursements</b>				
Operating:				
Public safety	144,744	-	-	144,744
Health and social services	1,055	-	-	1,055
Public works	-	60,233	-	60,233
Culture and recreation	83,985	-	-	83,985
Community and economic development	20,160	-	-	20,160
General government	17,900	-	-	17,900
Total disbursements	<u>267,844</u>	<u>60,233</u>	<u>-</u>	<u>328,077</u>
(Deficiency) excess of receipts				
(Under) over disbursements	(122,123)	(4,525)	35,252	(91,396)
<b>Other financing sources (uses)</b>				
Operating transfers out	-	-	(34,219)	(34,219)
Operating transfers in	84,219	-	-	84,219
Total other financing sources (uses)	<u>84,219</u>	<u>-</u>	<u>(34,219)</u>	<u>50,000</u>
Net change in cash balances	(37,904)	(4,525)	1,033	(41,396)
Cash balances beginning of year	<u>62,152</u>	<u>24,012</u>	<u>39,561</u>	<u>125,725</u>
Cash balances end of year	<u>\$ 24,248</u>	<u>\$ 19,487</u>	<u>\$ 40,594</u>	<u>\$ 84,329</u>
<b>Cash Basis Fund Balances</b>				
Unreserved				
General fund	24,248	-	-	24,248
Special revenue fund	-	19,487	-	19,487
Permanent fund	-	-	40,594	40,594
Total cash basis fund balances	<u>\$ 24,248</u>	<u>\$ 19,487</u>	<u>\$ 40,594</u>	<u>\$ 84,329</u>

See notes to financial statements.

**City of Sabula**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the Year Ended June 30, 2005**

	Enterprise Funds		
	Water	Sewer Rental	Gas
Operating receipts:			
Charges for services	\$ 88,824	\$ 76,286	\$ 370,973
Total receipts	<u>88,824</u>	<u>76,286</u>	<u>370,973</u>
Operating disbursements:			
Business type activities	419,132	82,051	350,831
Total operating disbursements	<u>419,132</u>	<u>82,051</u>	<u>350,831</u>
(Deficiency) excess of operating receipts (under) over operating disbursements	<u>(330,308)</u>	<u>(5,765)</u>	<u>20,142</u>
Non-operating receipts			
Community Development Block Grant	258,186	-	-
Total non-operating receipts	<u>258,186</u>	<u>-</u>	<u>-</u>
(Deficiency) excess of receipts (Under) over disbursements	<u>(72,122)</u>	<u>(5,765)</u>	<u>20,142</u>
Operating transfers out	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Net change in cash balances	(72,122)	(5,765)	5,142
Cash balances beginning of year	83,185	6,563	5,004
Cash balances end of year	<u>\$ 11,063</u>	<u>\$ 798</u>	<u>\$ 10,146</u>
<b>Cash Basis Fund Balances</b>			
Unreserved	11,063	798	10,146
Total cash basis fund balances	<u>\$ 11,063</u>	<u>\$ 798</u>	<u>\$ 10,146</u>

Enterprise Funds		
Electricity	Other Non-Major Proprietary Funds	Total
\$ 335,272	\$ 51,600	\$ 922,955
<u>335,272</u>	<u>51,600</u>	<u>922,955</u>
298,892	54,116	1,205,022
<u>298,892</u>	<u>54,116</u>	<u>1,205,022</u>
36,380	(2,516)	(282,067)
<u>36,380</u>	<u>(2,516)</u>	<u>(282,067)</u>
-	-	258,186
<u>-</u>	<u>-</u>	<u>258,186</u>
36,380	(2,516)	(23,881)
<u>(35,000)</u>	<u>-</u>	<u>(50,000)</u>
1,380	(2,516)	(73,881)
<u>4,639</u>	<u>16,865</u>	<u>116,256</u>
<u>\$ 6,019</u>	<u>\$ 14,349</u>	<u>\$ 42,375</u>
6,019	14,349	42,375
<u>\$ 6,019</u>	<u>\$ 14,349</u>	<u>\$ 42,375</u>

See notes to financial statements.

**City of Sabula**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sabula is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1864 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, sewer, gas and electricity utilities for its citizens. The population of Sabula was 670 according to the 2000 census.

A. Reporting Entity

For financial reporting purposes, the City of Sabula has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Sabula has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in a jointly governed organization that provides goods or services to the citizens of the City but does 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 board or commission: Eastern Iowa Regional Housing Authority.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets – Cash Basis reports information on all of the nonfiduciary activities of the City. 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 or charges for services.

The 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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**City of Sabula**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation (Continued)**

*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 – Cash Basis 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:

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

The City reports the following major proprietary funds:

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

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

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Electricity Fund accounts for the operation and maintenance of the City's electricity system.

**City of Sabula**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Measurement Focus and Basis of Accounting

The City of Sabula, Iowa 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

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, 2005, disbursements exceeded the amounts budgeted in the community and economic development function.

**NOTE 2 – CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The city did not have any funds invested in a security considered to be an investment by the Code of Iowa as of June 30, 2005.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds 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 Sabula  
Notes to Financial Statements  
For the Year Ended June 30, 2005**

**NOTE 3– BONDS AND NOTES PAYABLE**

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

Year Ending June 30,	General Obligation Bond		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 25,000	\$ 8,473	\$ 1,000	\$ 225	\$ 26,000	\$ 8,698
2007	25,000	7,873	-	-	25,000	7,873
2008	25,000	7,173	-	-	25,000	7,173
2009	25,000	6,398	-	-	25,000	6,398
2010	25,000	5,573	-	-	25,000	5,573
2011 - 2014	<u>115,000</u>	<u>12,243</u>	<u>-</u>	<u>-</u>	<u>115,000</u>	<u>12,243</u>
Total	<u>\$ 240,000</u>	<u>\$ 47,733</u>	<u>\$ 1,000</u>	<u>\$ 225</u>	<u>\$ 241,000</u>	<u>\$ 47,958</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, the City paid the bond principal and interest payments from the Water Fund and the General Fund.

**NOTE 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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005 was \$17,361, equal to the required contributions for the year.

**NOTE 5 – COMPENSATED ABSENCES**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Unused vacation hours are paid upon termination, retirement, or death. Employees accumulate sick leave up to a maximum of 60 days. If not used this sick leave is lost upon termination, retirement, or death. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2005, is \$10,565 and \$36,195 respectively. This liability has been computed based on rates of pay as of June 30, 2005.

**City of Sabula**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2005**

**NOTE 6 – RISK MANAGEMENT**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2005 were \$19,121.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

**City of Sabula**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2005**

**NOTE 6 – RISK MANAGEMENT (CONTINUED)**

The Pools' intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation and flood insurance. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Sabula**  
**Budgetary Comparison Schedule**  
**of Receipts, Disbursements and Changes in Balances -**  
**Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds**  
**Required Supplementary Information**  
**Year Ended June 30, 2005**

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property tax	\$ 82,260	\$ -	\$ 82,260
Other city taxes	34,571	-	34,571
Licenses and permits	2,115	-	2,115
Use of money and property	15,829	-	15,829
Intergovernmental	83,337	258,186	341,523
Charges for services	6,488	922,955	929,443
Miscellaneous	12,081		12,081
Total receipts	<u>236,681</u>	<u>1,181,141</u>	<u>1,417,822</u>
Disbursements			
Public safety	144,744	-	144,744
Public works	60,233	-	60,233
Health and social services	1,055		1,055
Culture and recreation	83,985	-	83,985
Community and economic development	20,160	-	20,160
General government	17,900	-	17,900
Business type activities	-	1,205,022	1,205,022
Total disbursements	<u>328,077</u>	<u>1,205,022</u>	<u>1,533,099</u>
Excess of receipts over disbursements	(91,396)	(23,881)	(115,277)
Other financing sources, net	<u>50,000</u>	<u>(50,000)</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(41,396)	(73,881)	(115,277)
Balance, beginning of year	<u>125,725</u>	<u>116,256</u>	<u>241,981</u>
Balance, end of year	<u>\$ 84,329</u>	<u>\$ 42,375</u>	<u>\$ 126,704</u>

Budgeted Amounts		Final to Net Variance
Original	Final	
\$ 83,000	83,000	(740)
41,464	37,567	(2,996)
425	425	1,690
15,340	16,440	(611)
216,367	369,727	(28,204)
984,586	1,226,625	(297,182)
78,982	75,168	(63,087)
<u>1,420,164</u>	<u>1,808,952</u>	<u>(391,130)</u>
118,896	146,000	1,256
55,945	67,342	7,109
1,055	1,055	-
71,835	89,864	5,879
20,530	20,092	(68)
15,667	18,483	583
<u>1,268,483</u>	<u>1,593,332</u>	<u>388,310</u>
<u>1,552,411</u>	<u>1,936,168</u>	<u>403,069</u>
(132,247)	(127,216)	11,939
-	-	-
(132,247)	(127,216)	11,939
<u>241,981</u>	<u>241,981</u>	<u>-</u>
<u><u>\$ 109,734</u></u>	<u><u>\$ 114,765</u></u>	<u><u>\$ 11,939</u></u>

See accompanying independent auditor's report.

**City of Sabula**  
**Notes to Required Supplementary Information – Budgetary Reporting**  
**June 30, 2005**

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except 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 increased budgeted disbursements by \$383,757. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development function.

**OTHER SUPPLEMENTARY INFORMATION**

**City of Sabula**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**As of and for the Year Ended June 30, 2005**

	<u>Special Revenue</u>	<u>Permanent</u>	
	Local	Cemetery	
	Option	Perpetual	
	Sales Tax	Care	Total
Receipts			
Other city tax	\$ 34,219	\$ -	\$ 34,219
Use of money and property	-	1,033	1,033
Total receipts	<u>34,219</u>	<u>1,033</u>	<u>1,033</u>
Excess of receipts over disbursements	34,219	1,033	35,252
Other financing uses			
Operating transfers out	<u>(34,219)</u>	-	<u>(34,219)</u>
Total other financing uses	<u>(34,219)</u>	<u>-</u>	<u>(34,219)</u>
Net change in cash balances	-	1,033	1,033
Cash balances beginning of year	<u>-</u>	<u>39,561</u>	<u>39,561</u>
Cash balances end of year	<u><u>-</u></u>	<u><u>\$ 40,594</u></u>	<u><u>\$ 40,594</u></u>
<b>Cash Basis Fund Balances</b>			
Special fund	-	-	-
Permanent fund	<u>-</u>	<u>40,594</u>	<u>40,594</u>
Total cash basis fund balances	<u><u>\$ -</u></u>	<u><u>\$ 40,594</u></u>	<u><u>\$ 40,594</u></u>

See accompanying independent auditor's report.

**City of Sabula**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Nonmajor Proprietary Funds**  
**As of and for the Year Ended June 30, 2005**

	Garbage	Utility Deposits	Total
Receipts			
Charges for services	\$ 46,319	\$ 5,281	\$ 51,600
Total receipts	<u>46,319</u>	<u>5,281</u>	<u>51,600</u>
Disbursements			
Operating:			
Business type activities	48,208	5,908	54,116
Total disbursements	<u>48,208</u>	<u>5,908</u>	<u>54,116</u>
Net change in cash balances	(1,889)	(627)	(2,516)
Cash balances beginning of year	<u>9,342</u>	<u>7,523</u>	<u>16,865</u>
Cash balances end of year	<u>\$ 7,453</u>	<u>\$ 6,896</u>	<u>\$ 14,349</u>
<b>Cash Basis Fund Balances</b>			
Unreserved	<u>7,453</u>	<u>6,896</u>	<u>14,349</u>
Total cash basis fund balances	<u>\$ 7,453</u>	<u>\$ 6,896</u>	<u>\$ 14,349</u>

See accompanying independent auditor's report.

**City of Sabula  
Schedule of Indebtedness  
For the Year Ended June 30, 2005**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds			
Economic Development	January 1, 2004	1.95% - 4.30%	\$ 265,000
Revenue notes			
Sewer	January 1, 1967	4.50%	190,000
Bank Loan			
Squad Car	June 19, 2000	8.00%	20,000
Total			

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 265,000	\$ -	\$ 25,000	\$ 240,000	\$ 8,960	\$ -
1,000	-	-	1,000	-	225
4,656	-	4,656	-	202	-
<u>\$ 270,656</u>	<u>\$ -</u>	<u>\$ 29,656</u>	<u>\$ 241,000</u>	<u>\$ 9,162</u>	<u>\$ 225</u>

See accompanying independent auditor's report.

**City of Sabula**  
**Bond and Note Maturities**  
**For the Year Ended June 30, 2005**

General Obligation Capital Loan Notes, Series 2004			Revenue Notes	
Water Tank and Fire Truck New Issue Fire Station Refinance			Sewer	
Issued Jan 1, 2004			Issued Jan 1, 1967	
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount
2006	2.40%	25,000	4.50%	1,000
2007	2.80%	25,000		
2008	3.10%	25,000		
2009	3.30%	25,000		
2010	3.55%	25,000		
2011	3.80%	25,000		
2012	4.00%	30,000		
2013	4.15%	30,000		
2014	4.30%	30,000		
Total		\$ 240,000		\$ 1,000

See accompanying independent auditor's report.



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  
Sabula, Iowa

I 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 Sabula as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated June 4, 2007. My report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2004. I conducted my 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

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not

necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe items II-A-05 and II-B-05 are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sabula's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Sabula during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Sincerely,

*Ann M Menke*

Ann M. Menke  
Certified Public Accountant  
Professional Corporation  
June 4, 2007

**City of Sabula  
Schedule of Findings  
For the Year Ended June 30, 2005**

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

- A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- The audit did not disclose any non-compliance which is material to the financial statements.

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-05

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. The cash receipts listing, bank deposits, posting of the cash receipts journal, payroll processing and disbursement, and cash disbursements and recording are all done by the same person.

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

Response – We will consider this.

Conclusion – Response acknowledged. 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.

**City of Sabula  
Schedule of Findings  
For the Year Ended June 30, 2005**

**Part II: Findings Related to the Financial Statements: (Continued)**

II-B-05

Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – These procedures have been implemented as recommended.

Conclusion – Response accepted.

**Part III: Other Findings Related to Statutory Reporting:**

III-A-05

Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

III-B-05

Certified Budget – Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the community and economic development. 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 384.20 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-C-05

Questionable Disbursements – No expenditures for parties, banquets, or other entertainment for employees were noted that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-D-05

Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**City of Sabula  
Schedule of Findings  
For the Year Ended June 30, 2005**

**Part III: Other Findings Related to Statutory Reporting: (Continued)**

III-E-05

Business Transactions – No business transactions between the City and City officials or employees were noted.

III-F-05

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-G-05

Council Meetings – No transactions were found that I believe should have been approved in the Council minutes but were not. Although the minutes were published, they did not include a listing of total disbursements by fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish a listing of the total disbursements by fund as required.

Response – We will comply with Chapter 372.13(6) and list the total disbursements by fund as required.

Conclusion – Response accepted

III-H-05

Deposits and Investments – 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 were noted.

III-I-05

Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Enterprise Fund, Water Account and the general fund. 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 Enterprise Fund, Water Account and General Fund 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.

**City of Sabula  
Schedule of Findings  
For the Year Ended June 30, 2005**

**Part III: Other Findings Related to Statutory Reporting: (Continued)**

III-J-05

Annual Financial Report – The City filed and published the annual financial report by the December 1, 2005 deadline. However, the amounts reported do not reconcile to the general ledger, primarily due to the General Obligation Grant proceeds and expenses being counted again when they were transferred from one checking account to another.

Recommendation – The City should only count proceeds and expenses once.

Response – We will make this change if it happens again.

Conclusion – Response accepted.

**City of Sabula**

**Audit Staff**

The audit was performed by:

Ann M. Menke, CPA

Carol Ross, CPA

Betty Thomas, CPA