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Certified Public Accountants

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## NEWS RELEASE

FOR RELEASE: August 12, 2008

Lines Murphy & Company, P.L.C., of Osage today released an audit report on the City of Rake, Iowa.

The City's receipts totaled \$538,467 for the year ended June 30, 2007. The receipts included \$85,216 in property tax, \$58,243 from charges for service, \$23,221 in operating grants, \$175,295 in capital grants contributions, \$17,379 from local option sales tax, \$966 from unrestricted interest on investments, \$136,464 from note proceeds, and \$41,683 in miscellaneous receipts.

Disbursements for the year totaled \$504,027, and included \$179,808 for debt service, \$146,738 for community and economic development, and \$54,444 for general government. Also, disbursements for business type activities totaled \$59,872.

A copy of the report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at:

<http://auditor.iowa.gov/reports/reports.htm>.

**CITY OF RAKE**

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

**JUNE 30, 2007**



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City of Rake

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
William Hansen	Mayor	Jan 2010
Duane Elwood	Council Member	Jan 2012
Louise Hagedorn	Council Member	Jan 2010
Jackie Joynt	Council Member	Jan 2010
Jerry Winter	Council Member	Jan 2012
Mark Winter	Council Member	Jan 2010
Julienne Van Gerpen	City Clerk	Jan 2010
Lavonne Boettcher	City Treasurer	Jan 2010
Steve Bakke	City Attorney	Jan 2010

**City of Rake**

Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We were engaged to audit the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Rake, Iowa, as of and for the year ended June 30, 2007, 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 Rake's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City of Rake have not been audited for all prior years. Accordingly we are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006. In addition, the City's records do not include sufficient documentation to permit the application of other auditing procedures to receipts and disbursements of the governmental activities, the business type activities, the general fund, the road use tax fund and the major enterprise funds.

Since the City did not maintain sufficient records and we were not able to apply other auditing procedures to satisfy ourselves as to receipts and disbursements of the governmental activities, the business type activities, the general fund, the road use tax fund and the major enterprise funds, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the governmental activities, the business activities, the general fund, the road use tax fund and the major enterprise funds.

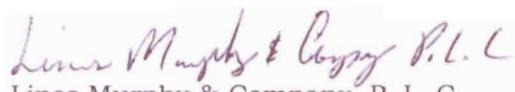
In addition, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the local option sales tax fund, the CDBG fund, the Rake Fire & Rescue Association fund and the debt service fund of the City of Rake as of June 30, 2007, and the respective changes in the 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 July 1, 2008 on our consideration of the City of Rake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has elected not to present management's discussion and analysis to introduce the basic financial statements. It would present certain financial information and management's analytical insights on that information and is supplementary information required by the Governmental Accounting Standards Board, but is not a required part of the basic financial statements.

Budgetary comparison information on pages 14 through 16 was prepared on the basis of cash receipts and disbursements as described in Note 1 and is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. As described in paragraph 3, we are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006 and the receipts and disbursements of the governmental activities, the business type activities, the general fund, the road use tax fund and the major enterprise funds. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rake's basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

  
Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
July 1, 2008

## Basic Financial Statements

City of Rake

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	<u>Disbursements</u>
<b>Functions / Programs:</b>	
Governmental activities:	
Public safety	\$ 22,230
Public works	18,394
Health and social services	-
Culture and recreation	22,541
Community and economic development	146,738
General government	54,444
Debt service	179,808
Capital projects	-
Total governmental activities	<u>\$ 444,155</u>
Business type activities:	
Water	\$ 11,656
Sewer	29,196
Garbage	8,737
Drainage Ditch	10,283
Total business type activities	<u>\$ 59,872</u>
Total	<u>\$ 504,027</u>
<b>General Receipts:</b>	
Property tax levied for:	
General purposes	
Tax increment financing	
Debt service	
Local option sales tax	
Unrestricted interest on investments	
Note 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>	
Restricted:	
Streets	
Urban renewal	
Debt service	
Other purposes	
Unrestricted	
<b>Total cash basis net assets</b>	

See notes to financial statements.

Exhibit A

Charges for Service	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
\$ -	\$ 2,900	\$ -	\$ (19,330)	\$ -	\$ (19,330)
-	-	-	(18,394)	-	(18,394)
-	-	-	-	-	-
-	-	5,053	(17,488)	-	(17,488)
-	-	170,242	23,504	-	23,504
-	20,321	-	(34,123)	-	(34,123)
-	-	-	(179,808)	-	(179,808)
-	-	-	-	-	-
\$ -	\$ 23,221	\$ 175,295	\$ (245,639)	\$ -	\$ (245,639)
\$ 15,070	\$ -	\$ -	\$ -	\$ 3,414	\$ 3,414
24,846	-	-	-	(4,350)	(4,350)
9,120	-	-	-	383	383
9,207	-	-	-	(1,076)	(1,076)
\$ 58,243	\$ -	\$ -	\$ -	\$ (1,629)	\$ (1,629)
\$ 58,243	\$ 23,221	\$ 175,295	\$ (245,639)	\$ (1,629)	\$ (247,268)
			\$ 53,711	\$ -	\$ 53,711
			31,505	-	31,505
			17,379	-	17,379
			671	295	966
			136,464	-	136,464
			36,183	5,500	41,683
			-	-	-
			\$ 275,913	\$ 5,795	\$ 281,708
			\$ 30,274	\$ 4,166	\$ 34,440
			48,471	30,753	79,224
			\$ 78,745	\$ 34,919	\$ 113,664
			\$ -	\$ -	\$ -
			12,365	27,520	39,885
			-	-	-
			66,380	7,399	73,779
			\$ 78,745	\$ 34,919	\$ 113,664

City of Rake

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

As of and for the year ended June 30, 2007

	General	Special Road Use Tax
<b>Receipts:</b>		
Property tax	\$ 53,711	\$ -
Tax increment financing collections	-	-
Other city tax	-	-
Licenses and permits	514	-
Use of money and property	545	-
Intergovernmental	22,767	11,679
Charges for service	-	-
Special assessments	-	-
Miscellaneous	21,503	-
Total receipts	\$ 99,040	\$ 11,679
<b>Disbursements:</b>		
Operating:		
Public safety	\$ 12,475	\$ -
Public works	6,715	11,679
Health and social services	-	-
Culture and recreation	22,541	-
Community and economic development	700	-
General government	54,444	-
Debt service	-	-
Capital projects	-	-
Total disbursements	\$ 96,875	\$ 11,679
Excess (deficiency) of receipts over (under) disbursements	\$ 2,165	\$ -
Other financing sources (uses):		
Note proceeds	\$ -	\$ -
Operating transfers in	17,379	-
Operating transfers out	-	-
Total other financing sources (uses)	\$ 17,379	\$ -
Net change in cash balances	\$ 19,544	\$ -
Cash balances beginning of year	36,739	-
Cash balances end of year	\$ 56,283	\$ -
<b>Cash Basis Fund Balances</b>		
Reserved for debt service	\$ -	\$ -
Unreserved:		
General fund	56,283	-
Special revenue funds	-	-
Capital projects fund	-	-
Permanent fund	-	-
Total cash basis fund balances	\$ 56,283	\$ -

See notes to financial statements.

Exhibit B

Revenue				
Local Option Sales Tax	CDBG	Rake Fire & Rescue Association	Debt Service	Total
\$ -	\$ -	\$ -	\$ 31,505	\$ 85,216
17,379	-	-	-	17,379
-	-	-	-	514
-	-	126	-	671
-	170,242	2,900	-	207,588
-	-	-	-	-
-	-	5,094	-	26,597
<u>\$ 17,379</u>	<u>\$ 170,242</u>	<u>\$ 8,120</u>	<u>\$ 31,505</u>	<u>\$ 337,965</u>
\$ -	\$ -	\$ 9,755	\$ -	\$ 22,230
-	-	-	-	18,394
-	-	-	-	22,541
-	146,038	-	-	146,738
-	-	-	-	54,444
-	160,668	-	19,140	179,808
-	-	-	-	-
<u>\$ -</u>	<u>\$ 306,706</u>	<u>\$ 9,755</u>	<u>\$ 19,140</u>	<u>\$ 444,155</u>
<u>\$ 17,379</u>	<u>\$ (136,464)</u>	<u>\$ (1,635)</u>	<u>\$ 12,365</u>	<u>\$ (106,190)</u>
\$ -	\$ 136,464	\$ -	\$ -	\$ 136,464
-	-	-	-	17,379
(17,379)	-	-	-	(17,379)
<u>\$ (17,379)</u>	<u>\$ 136,464</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,464</u>
\$ -	\$ -	\$ (1,635)	\$ 12,365	\$ 30,274
-	-	11,732	-	48,471
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,097</u>	<u>\$ 12,365</u>	<u>\$ 78,745</u>
\$ -	\$ -	\$ -	\$ 12,365	\$ 12,365
-	-	-	-	56,283
-	-	10,097	-	10,097
-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,097</u>	<u>\$ 12,365</u>	<u>\$ 78,745</u>

## City of Rake

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

As of and for the year ended June 30, 2007

	Enterprise Funds				
	Water	Sewer	Garbage	Drainage Ditch	Total
Operating receipts:					
Charges for service	\$ 15,070	\$ 24,846	\$ 9,120	\$ 9,207	\$ 58,243
Miscellaneous	-	4,350	-	1,150	5,500
Total operating receipts	<u>\$ 15,070</u>	<u>\$ 29,196</u>	<u>\$ 9,120</u>	<u>\$ 10,357</u>	<u>\$ 63,743</u>
Operating disbursements:					
Business type activities	\$ 11,656	\$ 15,476	\$ 8,737	\$ -	\$ 35,869
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 3,414</u>	<u>\$ 13,720</u>	<u>\$ 383</u>	<u>\$ 10,357</u>	<u>\$ 27,874</u>
Non-operating receipts (disbursements):					
Interest on investments	\$ -	\$ 295	\$ -	\$ -	\$ 295
Debt Service	-	(13,720)	-	(10,283)	(24,003)
Total non-operating receipts (disbursements)	<u>\$ -</u>	<u>\$ (13,425)</u>	<u>\$ -</u>	<u>\$ (10,283)</u>	<u>\$ (23,708)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 3,414</u>	<u>\$ 295</u>	<u>\$ 383</u>	<u>\$ 74</u>	<u>\$ 4,166</u>
Other financing sources (uses):					
Operating transfers in	\$ -	\$ -	\$ -	\$ -	\$ -
Operating transfers out	-	-	-	-	-
Total other financings sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in cash balances	\$ 3,414	\$ 295	\$ 383	\$ 74	\$ 4,166
Cash balances beginning of year	-	29,400	-	1,353	30,753
Cash balances end of year	<u>\$ 3,414</u>	<u>\$ 29,695</u>	<u>\$ 383</u>	<u>\$ 1,427</u>	<u>\$ 34,919</u>
<b>Cash Basis Fund Balances</b>					
Reserved for debt service	\$ -	\$ 27,520	\$ -	\$ -	\$ 27,520
Unreserved	3,414	2,175	383	1,427	7,399
Total cash basis fund balances	<u>\$ 3,414</u>	<u>\$ 29,695</u>	<u>\$ 383</u>	<u>\$ 1,427</u>	<u>\$ 34,919</u>

See notes to financial statements.

City of Rake

Notes to Financial Statements

June 30, 2007

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

The City of Rake is a political subdivision of the State of Iowa located in Winnebago County. It was first incorporated in 1908 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, garbage and drainage ditch utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Rake has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Rake (the primary government) and the Rake Fire & Rescue Association (component unit). The component unit, discussed below, is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. This nonprofit organization was formed under Chapter 504A of the Code of Iowa.

Blended Component Unit

The Rake Fire & Rescue Association is legally separate from the City but is so intertwined with the City that it is, in substance, part of the City. The Rake Fire & Rescue Association was organized under Chapter 504A of the Code of Iowa as a nonprofit corporation. The Association collects donations, which are used to purchase items not included in the City's budget. The financial transactions have been reported as Special Revenue Funds of the City.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

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

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

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

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

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

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 Local Option Sales Tax Fund is used to account for funds received by the City to be used for property tax relief.

The CDBG Fund is used to account for the City Housing Rehabilitation Program.

The Rake Fire & Rescue Association Fund is used to account for the financial transactions of the blended component unit.

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

The City reports the following major proprietary funds:

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

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

The Garbage Fund is used to account for garbage collection services to the citizens of Rake.

The Drainage Ditch Utility Fund is used to account for drainage ditch services to the citizens of Rake.

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 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.

**(3) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Notes		Revenue Bond Municipal Sewer System		Revenue Note Storm Water Drainage		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2008	\$ 15,000	\$ 4,356	\$ 7,946	\$ 5,774	\$ 8,000	\$ 1,848	\$ 30,946
2009	15,000	3,446	8,352	5,368	8,000	1,403	31,352	10,217
2010	15,000	2,541	8,780	4,940	8,000	963	31,780	8,444
2011	15,000	1,636	9,229	4,491	8,000	522	32,229	6,649
2012	4,500	990	9,701	4,019	1,500	82	15,701	5,091
2013-2017	13,500	1,485	56,479	12,121	-	-	69,979	13,606
2018	-	-	12,371	633	-	-	12,371	633
<b>Total</b>	<b>\$ 78,000</b>	<b>\$ 14,454</b>	<b>\$ 112,858</b>	<b>\$ 37,346</b>	<b>\$ 33,500</b>	<b>\$ 4,818</b>	<b>\$ 224,358</b>	<b>\$ 56,618</b>

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

- (a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- (b) Monthly transfers of 1/12 of the next succeeding installment payment shall be made to a separate sewer revenue bond sinking account within the Enterprise Fund for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of \$115 shall be made to a sewer revenue reserve account within the Enterprise Fund until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system. At June 30, 2007 this requirement had been met.

**(4) Line of Credit**

The City established a line of credit in the prior fiscal year with a local bank for exclusive use by the CDBG Fund to pay for invoices due prior to the receipt of grant monies for the City of Rake Housing Rehabilitation Project. The line of credit was renewed in November 2006 and had an outstanding principal balance of \$3,988 at June 30, 2007. The City advanced a total of \$192,405 over the life of the lines described, paid interest of \$261 in the fiscal year ending June 30, 2007 and subsequently paid the remaining interest of \$594 with the closing principal payment on August 22, 2007.

**(5) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary

information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2007 were \$1,060, which met the required contributions for the year.

**(6) Compensated Absences**

The City does not have a liability for compensated absences. City employees do not earn or accumulate vacation or sick leave hours for payment upon termination, retirement or death.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 17,379
Total		\$ 17,379

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$20,994 during the year ended June 30, 2007.

**(9) Risk Management**

The City of Rake is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage in the fiscal year ending June 30, 2007.

**City of Rake**

**Required Supplementary Information**

City of Rake  
 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, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 85,216	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	17,379	-	-
Licenses and permits	514	-	-
Use of money and property	671	295	126
Intergovernmental	207,588	-	2,900
Charges for service	-	58,243	-
Special assessments	-	-	-
Miscellaneous	26,597	5,500	5,094
Total receipts	<u>\$ 337,965</u>	<u>\$ 64,038</u>	<u>\$ 8,120</u>
<b>Disbursements:</b>			
Public safety	\$ 22,230	\$ -	\$ 9,755
Public works	18,394	-	-
Health and social services	-	-	-
Culture and recreation	22,541	-	-
Community and economic development	146,738	-	-
General government	54,444	-	-
Debt service	179,808	24,003	-
Capital projects	-	-	-
Business type activities	-	35,869	-
Total disbursements	<u>\$ 444,155</u>	<u>\$ 59,872</u>	<u>\$ 9,755</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (106,190)	\$ 4,166	\$ (1,635)
Other financing sources (uses), net	136,464	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 30,274	\$ 4,166	\$ (1,635)
Balances beginning of year	48,471	30,753	11,732
Balances end of year	<u>\$ 78,745</u>	<u>\$ 34,919</u>	<u>\$ 10,097</u>

See accompanying independent auditors' report.

Net	Budgeted Amounts	Final to Net Variance
\$ 85,216	\$ 82,900	\$ 2,316
-	-	-
17,379	18,839	(1,460)
514	1,000	(486)
840	1,500	(660)
204,688	41,000	163,688
58,243	59,000	(757)
-	-	-
27,003	500	26,503
<u>\$ 393,883</u>	<u>\$ 204,739</u>	<u>\$ 189,144</u>
\$ 12,475	\$ 17,500	\$ 5,025
18,394	24,000	5,606
-	1,000	1,000
22,541	6,500	(16,041)
146,738	14,200	(132,538)
54,444	53,600	(844)
203,811	13,529	(190,282)
-	31,528	31,528
35,869	40,000	4,131
<u>\$ 494,272</u>	<u>\$ 201,857</u>	<u>\$ (292,415)</u>
\$ (100,389)	\$ 2,882	\$ (103,271)
<u>136,464</u>	<u>-</u>	<u>136,464</u>
\$ 36,075	\$ 2,882	\$ 33,193
<u>67,492</u>	<u>73,303</u>	<u>(5,811)</u>
<u>\$ 103,567</u>	<u>\$ 76,185</u>	<u>\$ 27,382</u>

City of Rake

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards 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 blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. There were no budget amendments during the year.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and debt service functions

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**Other Supplementary Information**

City of Rake  
Schedule of Indebtedness  
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire Hall	11/27/00	6.50%	\$ 80,000
Street Construction and Repair	06/27/05	5.50%	45,000
Repair of City Hall Roof	06/27/05	5.50%	25,000
Total			
Revenue bond:			
Municipal Sewer System	06/01/79	5.00%	\$ 231,400
Revenue note:			
Storm Water Drainage	04/14/03	5.50%	\$ 80,000
General obligation lines of credit:			
Rake Housing Rehabilitation	06/06/06	5.25%	\$ 150
Rake Housing Rehabilitation	07/17/06	5.25%	3,490
Rake Housing Rehabilitation	11/30/06	6.00%	11,438
Total			

See accompanying independent auditors' report.

Schedule 1

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 40,000	\$ -	\$ 8,000	\$ 32,000	\$ 2,341	\$ -
40,500	-	4,500	36,000	2,228	-
12,500	-	2,500	10,000	687	-
<u>\$ 93,000</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 78,000</u>	<u>\$ 5,256</u>	<u>\$ -</u>
<u>\$ 120,867</u>	<u>\$ -</u>	<u>\$ 8,009</u>	<u>\$ 112,858</u>	<u>\$ 5,711</u>	<u>\$ -</u>
<u>\$ 41,500</u>	<u>\$ -</u>	<u>\$ 8,000</u>	<u>\$ 33,500</u>	<u>\$ 2,283</u>	<u>\$ -</u>
\$ 28,192	\$ 58,086	\$ 86,278	\$ -	\$ 254	\$ -
-	3,687	3,687	-	7	-
-	74,691	70,703	3,988	-	-
<u>\$ 28,192</u>	<u>\$ 136,464</u>	<u>\$ 160,668</u>	<u>\$ 3,988</u>	<u>\$ 261</u>	<u>\$ -</u>

City of Rake  
Bond and Note Maturities  
June 30, 2007

Year Ending June 30,	General Obligation Notes						Total
	Fire Hall		Street Construction and Repair		Repair of City Hall Roof		
	Issued November 27, 2000		Issued June 27, 2005		Issued June 27, 2005		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2008	6.50%	8,000	5.50%	4,500	5.50%	2,500	15,000
2009	6.50%	8,000	5.50%	4,500	5.50%	2,500	15,000
2010	6.50%	8,000	5.50%	4,500	5.50%	2,500	15,000
2011	6.50%	8,000	5.50%	4,500	5.50%	2,500	15,000
2012		-	5.50%	4,500			4,500
2013		-	5.50%	4,500			4,500
2014		-	5.50%	4,500			4,500
2015		-	5.50%	4,500			4,500
Total		\$ 32,000		\$ 36,000		\$ 10,000	\$ 78,000

Year Ending June 30,	Revenue Bond	
	Municipal Sewer System	
	Issued June 1, 1979	
Interest Rates	Amount	
2008	5.00%	7,946
2009	5.00%	8,352
2010	5.00%	8,780
2011	5.00%	9,229
2012	5.00%	9,701
2013	5.00%	10,198
2014	5.00%	10,719
2015	5.00%	11,268
2016	5.00%	11,844
2017	5.00%	12,450
2018	5.00%	12,371
Total		\$ 112,858

Year Ending June 30,	Revenue Note	
	Storm Water Drainage	
	Issued April 14, 2003	
Interest Rates	Amount	
2008	5.50%	8,000
2009	5.50%	8,000
2010	5.50%	8,000
2011	5.50%	8,000
2012	5.50%	1,500
Total		\$ 33,500

See accompanying independent auditors' report.

# **L** INES MURPHY & COMPANY, P.L.C.

**M** Certified Public Accountants  
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Osage, IA 50461-1307

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Fax 641-732-5193

Independent Auditors' 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 were engaged to audit the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Rake, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated July 1, 2008. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed no opinions on the governmental activities, the business type activities, the general fund, the road use tax fund and the major enterprise funds, since we were unable to satisfy ourselves as to the completeness of the receipts and disbursements in the governmental activities, the business type activities, the general fund, the road use tax fund and the major enterprise funds, and qualified opinions on the local option sales tax fund, the CDBG fund, the Rake Fire & Rescue Association fund and the debt service fund, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006. Except as noted in the Independent Auditors' Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Rake'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 our opinion on the effectiveness of the City of Rake's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rake's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Rake's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Rake's financial statements that is more than inconsequential will not be prevented or detected by the

City of Rake's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Rake's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-07, II-B-07, II-E-07, II-F-07, II-G-07, II-H-07, II-J-07, II-L-07, II-N-07, II-O-07, II-Q-07 and II-R-07 are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 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 Rake's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the responses and, accordingly, we express no opinion on them.

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



Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
July 1, 2008

City of Rake

Schedule of Findings

Year ended June 30, 2007

**Part I: Summary of the Independent Auditors' Results:**

- (a) No opinions were issued on the governmental activities, the business type activities, the general fund, the road use tax fund and the major enterprise funds, and qualified opinions were issued on the local option sales tax fund, the CDBG fund, the Rake Fire & Rescue Association fund and the debt service fund, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Rake

Schedule of Findings

Year ended June 30, 2007

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

II-A-07 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 and the posting of the cash receipts to the cash receipts journal are all done by the same person. Further, the same person writes checks, posts cash disbursements and reconciles cash.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should 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.

II-B-07 Records of Accounts/Separately Maintained Records – The Library Trust maintains a bank account separate from the City Clerk’s accounting records. Further the city has a fund used for a CDBG grant which is not recorded on the city books. The transactions and resulting balances of these accounts were not reported to the City Council each month and were not recorded in the City Clerk’s accounting records. Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose.”

Additionally, the Volunteer Fire Department (a component unit) does not report financial information to the city.

Additionally, prenumbered receipts were not issued. Also, the accounting records did not include classification of receipts or disbursements by source and function, respectively. The published bills did not include the library or the CDBG funds.

Recommendation – The Library Trust and the CDBG financial transactions and balances should be included in the Clerk’s monthly financial reports. Internal

control could be strengthened and operating efficiency could be increased, by integrating the accounts with the City's accounting records. The Volunteer Fire Department should report their numbers to the city at least annually.

Prenumbered receipts should be issued for all collections. The accounting records should include the classification of receipts and disbursements by source and function, respectively. All bills paid should be published monthly.

Response – We will consider this.

Conclusion – At a minimum, information should be reported monthly for budgetary purposes.

II-C-07 Annual Financial Report – Although the City's Annual Financial Report for the year ended June 30, 2007 was submitted as required by Chapter 384.22 of the Code of Iowa, the amounts reported did not agree with the City's financial records. The beginning balance of the AFR for the fiscal year ended June 30, 2007 does not match the ending balance of the AFR for the fiscal year ended June 30, 2006. Also, the report did not include the financial activity of the Library Trust funds and Volunteer Fire Department accounts as required by Chapter 384.20 of the Code of Iowa. Further it was noted that the rehabilitation fund bank balance was not included in the ending balance of the annual report although they were in the clerk's numbers.

Recommendation – The Annual Financial Report should be amended and resubmitted. Future reports should tie to the prior year reports and include all City accounts as required by Chapter 384.20 of the Code of Iowa.

Response – We will contact the state on correcting our report

Conclusion – Response accepted.

II-D-07 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image for the City, but does not obtain an image of the back of each cancelled check as required. The Fire and Rescue Association does not retain checks or electronic images. The Library Trust funds and advances on the CDBG fund line of credit are withdrawn by cashiers checks and should not be.

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

Response – We will contact the bank and inform them of the requirement.

Conclusion – Response accepted.

II-E-07 City Financial Management Information – The City Clerk does not maintain the accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including, but not limited to road use tax and local option sales tax. The City Clerk prepares the checks on Quickbooks and prints the checks. However, the Clerk is not using the

system to maintain receipts, disbursements or fund balancing. The Treasurer records the checks in a manual ledger at month end. The ledger is then used to prepare monthly and annual reports. However, the manual ledgers do not show receipts or disbursements by account or fund, and are not maintained on site. Further it appears that an offsite back up of Quickbooks is not maintained.

Monthly financial reports, including fund balances and comparisons of actual results to budget by function, were not compiled from the accounting records and provided to the City Council for their review and approval.

Procedures do not exist to ensure the accounting records include all transactions applicable to the reporting period. Interest earned and added to certificates of deposit balances was not recorded as a receipt in the City's accounting records. Receipts are not verified to deposits and checks issued are not compared to checks clearing the bank.

Monthly bank reconciliations are not (including a list of outstanding checks) reconciled to the book balance. An unidentified variance of \$394 existed between the City's annual report and the reconciled bank balance at June 30, 2007.

Recommendation – The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting.

To improve financial accountability and control, a monthly report should be submitted to the Council showing beginning balances, receipts, disbursements, transfers and ending balances for each individual fund. To provide better control over budgeted disbursements and opportunity for timely amendments to the budget, the monthly financial reports should include comparisons to the City's budget by function.

Procedures should be established to ensure the accounting records include all transactions applicable to the reporting period. Receipts and disbursements per the City's financial records should be compared to bank account activity to ensure completeness and accuracy.

A monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month and retained.

Response – We will consider this.

Conclusion – The city should take action to require that the accounting system be corrected and balanced.

II-F-07 Receipts – Receipts were not issued for City collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all City money. Also, control over cash collections would be strengthened if receipts were reconciled to deposits.

Response – The City will purchase a cash receipts book and use it for all receipts.

Conclusion – Response accepted.

II-G-07 Disbursements – The City does not have a written disbursement approval policy allowing certain items to be paid prior to City Council approval.

Recommendation – If the City is going to pay bills prior to the Council meeting, then it should adopt a written disbursement policy for payment of those bills prior to City Council approval. All City disbursements should be approved by the City Council prior to payment with the exception of those specifically allowed by the policy.

Response – The Council will establish a new policy. We will ensure all disbursements are approved.

Conclusion – Response accepted.

II-H-07 Accounts Receivable – The City has a policy to shut off utilities, however it does not have a procedure in place to age accounts receivable, follow up on past due accounts or attach liens on property for non-payment.

Recommendation – The City should establish procedures to age accounts receivables. Quickbooks has that ability but it is not being used to its fullest potential at this time.

A person other than the person preparing the accounts receivable, for example the mayor or a council person should be designated to review the past due list and review the shut off procedures on each person and initial and date the list to document that collections are being handled correctly.

Response – The City will establish a system.

Conclusion – Response accepted.

II-I-07 Credit Cards – The City has credit cards for use by various library employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges.

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

Response – We presently have unwritten guidelines. However, we have not established a formal written policy detailing specifics on the use of City credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

II-J-07 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.

Further the city does not have a system to assure that all households are being billed for utilities.

Recommendation – The city should establish a procedure to monthly reconcile accounts receivable. Beginning accounts receivable plus new billings less collections should equal ending accounts receivable. Further, a system needs to be established to tie the collections to accounts receivable credits.

When the accounts receivable is reconciled a person should be designated to review the reconciliation and initial and date the reconciliation to document their review. The reviewed reconciliation without the accounts receivable list, should be given to the council monthly.

The city needs to establish a system to assure that all residents are billed for utilities. This system needs to be reviewed on a regular basis by a designee of the council to assure that it is working properly. The utility bills are flat rates, therefore, the system should include each location and the amount each location is billed. This information could be compared to the actual bill and differences, for example the bills for residents who go south for the winter, could be resolved.

Response – These procedures have been implemented as recommended.

Conclusion – Response accepted.

II-K-07 Financial Reporting – During the audit, we identified a material amount of taxes misposted to the General Fund rather than the Road Use Tax, Local Option Sales Tax and Debt Service Funds. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Also, levies for emergency and employee benefits are not being recorded in separate Special Revenue Funds. The City is recording them in the General Fund and is not ensuring that they are being expended for the proper purposes.

Recommendation – The City should implement procedures to ensure property tax receipts are properly recorded in the City’s financial statements and change their fund structure, establishing the proper Special Revenue Funds.

Response – We will do so.

Conclusion – Response accepted

II-L-07 Community Development Block Grant – During the audit, we identified that the City received federal funding for housing rehabilitation that was left off of the Annual Financial Report and not included in the City’s financial statements. Adjustments were subsequently made by the City to properly report the Fund in the City’s financial statements.

Recommendation – The City should amend the Annual Financial Report to include the CDBG Fund and insure that it is included in the future.

Response – We will do so.

Conclusion – Response accepted.

II-M-07 Time Cards – The City doesn't require time cards for all employees. Hours worked are not approved by a supervisor for all employees. Further it was noted that employees/contractors are trading hours for utility bills.

Recommendation – The City should establish procedures to require time cards are prepared by all employees, be signed by the employee, be reviewed by and initialed by a supervisor or the mayor or mayor designee. Further any hours worked need to be budgeted and paid for through the payroll process. And all utility bills need to be billed and paid.

The City should amend W-2s/1099s to include this compensation as taxable wages.

Response – We will amend W-2s/1099s and establish a system for time cards.

Conclusion – Response accepted.

II-N-07 Employee vs. Independent Contractor – The IRS has established rules which outline when someone is considered a contractor and when they are considered an employee. The city should contact legal counsel and determine if the people treated as contractors really are. If they are, then issue 1099s as required by the IRS, and obtain proof of liability and workers compensation insurance. If they are considered an employee then they must be treated like one.

Recommendation – The City should consult legal counsel to determine the disposition of this matter. Including preparing and filing IRS form SS8 to determine proper status.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

II-O-07 Invoices – We could not locate all invoices. It appears that there is no procedure to maintain invoices after approval and the checks are not written in a manner which allows for easy retrieval of invoices. However, for selected related party transactions, duplicate invoices were obtained and reviewed.

Recommendation – The City should properly maintain documentation of all checks written.

Response – The City will do so.

Conclusion – Response accepted.

II-P-07 Checks – Checks were routinely issued out of order. The check numbers per the check journal do not agree with the actual check number. It appears that this is caused by improperly loading the checks. We worked with the clerk to determine the proper loading of the check stock.

Recommendation – The City should load the checks properly and issue checks in order from now on. The city should account for all checks.

Response – The City will do so.

Conclusion – Response accepted.

II-Q-07 Information Systems – During our review of internal control, the existing control activities in the City’s computer based financial systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations, The following weaknesses in the City’s computer based financial systems were noted:

The City does not have written policies for:

- Requiring time out/log off or screen saver password to protect computer terminal when not in use.
- Requiring use of passwords and requiring password(s) to be changed at least every 60 to 90 days.
- Maintaining password privacy and confidentiality.
- Requiring the use of anti-virus programs on the computer.
- Limiting physical access to the computer to authorized personnel.
- Ensuring software not licensed to the City is not installed.
- Usage of the internet.
- Requiring backups be performed (daily, weekly, monthly and yearly and the backup tapes/files be stored off site daily.

Also, the City does not have a written disaster recovery plan and does not have a written accounting procedures manual.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based financial systems. Also, a written disaster recovery plan should be developed and should be tested periodically and the City should develop a written accounting procedures manual.

Response – The City will develop written policies and plans.

Conclusion – Response accepted.

II-R-07 Payroll Reports – Copies of final payroll reports filed were not kept, therefore, amounts paid could not be reconciled by the city. Also, payroll summaries were not printed after each payroll.

Recommendation – Copies of all payroll reports filed should be kept and payroll summaries should be printed after each payroll, or at least each quarter to support the payroll reports.

Response – We will do so.

Conclusion – Response accepted.

II-S-07 Petition For Audit – Except as noted, all items in the petition for the audit have been resolved.

City of Rake

Schedule of Findings

Year ended June 30, 2007

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

III-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and debt service functions. 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.”

Also, we noted that the budget detail does not add correctly in places. Further, the budget detail does not tie to the budget summary.

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

Response – The budget will be amended in the future, if applicable. The City will double check for errors prior to publishing the budget.

Conclusion – Response accepted.

III-B-07 Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Flower Shop HyVee	Flower arrangements for funeral	\$ 32

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

III-C-07 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-07 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jerry Winter, Council Member	General City Work	\$ 5,995
Julienne Van Gerpen, City Clerk	Cleaning and Lawn Care	2,438
Arnold Van Gerpen, Husband of City Clerk, Owner of Arnie's Pump Service Inc.	Water System Repair	3,034
William Hansen, Mayor	Office Expense and Labor	235
William Hansen, Mayor, Owner of Hansen Gas	Gas Expense	7,953
William Hansen, Mayor, Owner of Hansen Hardware	Tools and Parts	154
Bob Hansen, Son of Mayor	Labor	262
Bob Hansen, Son of Mayor, Owner of Hansen Heating & A/C	Labor and Parts	534
Steven Hansen, Grandson of Mayor	Labor	389

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Member, Husband of City Clerk and Mayor appear to represent a conflict of interest. The total amounts paid to each are over \$2,500 and bids were not taken. The rest of the transactions do not appear to represent a conflict of interest since the amounts were less than \$2,500.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

III-E-07 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The bond coverage of \$10,000 should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-07 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not except as noted in previous comments.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Minutes were published but did not include the total disbursements by fund, a summary of receipts and the list of claims allowed did not include the reason for making the claim as required by Chapter 372.13(6) of the Code of Iowa.

Council meeting minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

The minutes record did not show information sufficient to indicate the vote of each member present as required by chapter 21.3 of the Code of Iowa.

Additionally, the minutes kept for the Library Trust and the Volunteer Fire Department do not show approval for expenditures.

The minutes were not always complete. The February minutes referred to a motion made in January, however the January minutes did not include any motion.

The date on the minutes does not always include the actual date rather only the month and year.

Annual salaries for 2007 were not published until April 10, 2008

Further, the agenda is not always posted timely.

Recommendation – The City should publish minutes as required by the Code of Iowa. Also, the Library Trust and Rake Fire and Rescue Association should keep minutes to document specific actions and should be signed to authenticate the records. Annual salaries should be published timely. Further, the City should post the agenda on a timely basis and maintain documentation of the posting.

Response – We will post the required information. The vote of Council members will be noted in the minutes. The Library Trust and Fire and Rescue Association minutes will be included in the City's posted minutes.

Conclusion – Response accepted.

III-G-07 Deposits and Investments – The City has not adopted a written investment policy in compliance with the provisions of Chapter 12B.10B of the Code of Iowa. Although it is noted that the City does not hold any investments other than certificates of deposit, a written investment policy is still required.

Recommendation – The City should adopt a written investment policy.

Response – The City will do so.

Conclusion – Response accepted.

III-H-07 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

III-I-07 Financial Condition – There were no funds which had deficit balances at June 30, 2007.

III-J-07 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Capital Projects 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.” Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Recommendation – The City doesn’t currently have any Capital Projects and should implement procedures to ensure disbursements are properly recorded in the financial statements.

Response – We will do so.

Conclusion – Response accepted.

III-K-07 City Code of Ordinances – The City code of ordinances has not been recodified within the last five years.

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

Response – We will consider this.

Conclusion – The City should comply with Chapter 380.8(2).