

CITY OF NEOLA

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

JUNE 30, 2008

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City of Neola

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lon Ring	Mayor	January 2010
Herb Brich	Council Member	January 2013
Aaron Wellman	Council Member	January 2013
Theresa Smith	Council Member	January 2010
Mark Pogge	Council Member	January 2010
Joe Munch	Council Member	January 2013
Deb Schierbrock	City Clerk	Indefinite
Ruth Brich	Deputy Clerk	Indefinite
Scott Rogers	Attorney	Indefinite

City of Neola



Marilyn Schroer, CPA
Diane McGrain, CPA
Barbara Mass, CPA

November 7, 2008

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Neola, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Neola's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007, 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 Neola as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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Independent Auditors' Report
City of Neola

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 7, 2008 on our consideration of the City of Neola's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Schwee and Associates

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Neola provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparison will be more meaningful and will go further in explaining the City's financial position and results of operations.

2008 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities decreased 17%, or approximately \$128,100, from fiscal 2007 to fiscal 2008. Property tax increased approximately \$42,400 but tax increment financing decreased \$127,600.

Total disbursements increased by 38%, or approximately \$374,000, from fiscal year 2007 to fiscal year 2008.

The City's total cash basis net assets decreased 5%, or approximately \$46,200 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$40,700 and the assets of the business type activities decreased by approximately \$86,900.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operation in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the fund in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the city as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, sanitary sewer system and garbage services. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basis services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provided a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the water, sewer, sewer construction and garbage funds, all considered major funds of the City.

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

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statement.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$606 thousand to \$651 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ending 6/30/2008	Year Ending 6/30/2007
Receipts		
Property tax	\$ 141,562	\$ 98,086
Tax increment financing collections	\$ 101,215	\$ 228,864
Other city tax	85,929	1,197
Licenses and permits	5,473	2,420
Use of money and property	15,486	16,705
Intergovernmental	136,159	304,784
Charges for service	47,843	55,196
Special assessments	550	-
Miscellaneous	98,209	53,283
Total receipts	<u>632,426</u>	<u>760,535</u>
Disbursements		
Operating:		
Public safety	99,489	71,410
Public works	122,923	147,971
Health and social services	8,749	6,565
Culture and recreation	164,868	63,817
Community and economic development	16,673	8,322
General government	127,757	109,299
Debt service	51,287	17,326
Total disbursements	<u>591,746</u>	<u>424,710</u>
Excess (deficiency) of receipts over (under) disbursements	40,680	335,825
Other financing sources (uses):		
Operating transfers in	-	74,302
Operating transfers out	(81,830)	(177,208)
Total other financing sources (uses)	<u>(81,830)</u>	<u>(102,906)</u>
Net change in cash balances	(41,150)	232,919
Cash balances beginning of year	<u>271,085</u>	<u>38,166</u>
Cash balances end of year	<u>\$ 229,935</u>	<u>\$ 271,085</u>

The cost of all governmental activities this year increased by approximately \$167,000 from fiscal year 2007 to 2008 primarily due to an increase in public safety of approximately \$93,500 and culture and recreation of approximately \$101,000 for the construction of a monument. Total receipts decreased by approximately 128,000 primarily due to a decrease in tax increment financing.

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ending 6/30/2008	Year Ending 6/30/2007
Operating receipts:		
Charges for service	\$ 474,995	\$ 474,104
Miscellaneous	82,496	6,360
Total operating receipts	<u>557,491</u>	<u>480,464</u>
Operating disbursements:		
Business type activities	<u>475,874</u>	<u>508,981</u>
Total operating disbursements	<u>475,874</u>	<u>508,981</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	81,617	(28,517)
Non-operating receipts (disbursements):		
Loan proceeds	128,550	-
Debt service	(154,550)	(59,605)
Capital projects	(145,144)	-
Sale of equipment	<u>2,588</u>	<u>-</u>
Total non operating receipts (disbursements)	<u>(168,556)</u>	<u>(59,605)</u>
Excess (deficiency) of receipts over (under) disbursements	(86,939)	(88,122)
Operating transfers in (out)	<u>81,830</u>	<u>102,906</u>
Net change in cash balances	(5,109)	14,784
Cash balances beginning of year	<u>572,059</u>	<u>557,275</u>
Cash balances end of year	<u>\$ 566,950</u>	<u>\$ 572,059</u>

Total business type activities receipts for the fiscal year were \$688,629 compared to \$480,464 last year. The increase was due to a loan the City received to construct new lights for the ballpark and a grant received to pay off that loan.

Use of Funds in Governmental Activities

With a few exceptions, governmental program revenues remain similar to the prior year. The exception was the TIF decrease. Total governmental revenues compared to the previous year are shown on page 3 and Page 4.

There was an increase in culture and recreation expenditures due to the construction of a monument.

Budgetary Highlights

The budget was amended once due to increased costs associated with public safety and electrical construction. This was done on May 28, 2008. The City had sufficient cash balances to do this.

Debt Administration

Outstanding Debt at Year- End

	June 30	
	2008	2007
General Obligation Bonds	\$ 161,573	\$ 348,805
Revenue notes	<u>294,000</u>	<u>308,000</u>
Total	<u>\$ 455,573</u>	<u>\$ 656,805</u>

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The City's outstanding general obligation debt of \$161,573 is below its constitutional debt limit of approximately \$917,700.

Next Year's Budget and Rates

For the year ending June 30, 2009 the general fund has been budgeted fairly consistently with this year.

The City tries to budget for projects that will need to be done but because of property tax credit reimbursements being funded at less than 100% it is hard to pick and chose projects that should be done but can be held for another year if not funded.

Financial Contact

The City's financial statements are designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the City Clerk at 105 Pearl Street, P.O. Box 67, Neola,, IA 51559 or telephone 712-485-2307.

Deb Schierbrock

Neola City Clerk

Basic Financial Statements

City of Neola
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 99,489	-	24,197	-
Public works	122,923	47,843	110,152	-
Health and social services	8,749	-	-	-
Culture and recreation	164,868	-	86,784	-
Community and economic Development	16,673	-	-	-
General government	127,757	5,473	-	-
Debt service	51,287	-	-	-
Total governmental activities	<u>591,746</u>	<u>53,316</u>	<u>221,133</u>	<u>-</u>
Business type activities:				
Water	106,677	125,685	-	72,506
Sewer	57,100	42,638	-	-
Electrical	611,791	309,017	-	-
Total business type activities	<u>775,568</u>	<u>477,340</u>	<u>-</u>	<u>72,506</u>
Total	\$ 1,367,314	530,656	221,133	72,506
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Grants and contributions restricted to specific purpose				
Unrestricted interest on investments				
Loan proceeds				
Miscellaneous				
Sale of assets				
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				
Cash Basis Net Assets				
Restricted:				
Streets				
Employee benefits				
Urban renewal				
Meter deposits				
Unrestricted				
Total cash basis net assets				

See notes to financial statements

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

	Governmental Activities	Business Type Activities	Total
	(75,292)	-	(75,292)
	35,072	-	35,072
	(8,749)	-	(8,749)
	(78,084)	-	(78,084)
	(16,673)	-	(16,673)
	(122,284)	-	(122,284)
	(51,287)	-	(51,287)
	<u>(317,297)</u>	<u>-</u>	<u>(317,297)</u>
	-	19,008	19,008
	-	(14,462)	(14,462)
	-	(230,268)	(230,268)
	<u>-</u>	<u>(225,722)</u>	<u>(225,722)</u>
	(317,297)	(225,722)	(543,019)
\$	141,562	-	141,562
	101,215	-	101,215
	85,929	-	85,929
	4,435	-	4,435
	9,186	4,462	13,648
	-	128,550	128,550
	15,650	3,183	18,833
	-	2,588	2,588
	<u>(81,830)</u>	<u>81,830</u>	<u>-</u>
	276,147	220,613	496,760
	<u>(41,150)</u>	<u>(5,109)</u>	<u>(46,259)</u>
	271,085	572,059	843,144
\$	<u>229,935</u>	<u>566,950</u>	<u>796,885</u>
\$	70,079	-	70,079
	21,721	-	21,721
	202,456	-	202,456
	-	4,305	4,305
	<u>(64,321)</u>	<u>562,645</u>	<u>498,324</u>
\$	<u>229,935</u>	<u>566,950</u>	<u>796,885</u>

City of Neola
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2008

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Urban Renewal Tax Increment
Receipts				
Property tax	\$ 121,220	-	19,254	-
Tax increment financing collections	-	-	-	101,215
Other city tax	1,088	-	-	-
Licenses and permits	5,473	-	-	-
Use of money and property	15,486	-	-	-
Intergovernmental	54,153	82,006	-	-
Charges for service	47,843	-	-	-
Special assessments	550	-	-	-
Miscellaneous	98,209	-	-	-
Total receipts	<u>344,022</u>	<u>82,006</u>	<u>19,254</u>	<u>101,215</u>
Disbursements				
Operating:				
Public safety	96,790	-	2,699	-
Public works	57,495	65,428	-	-
Health and social services	8,749	-	-	-
Culture and recreation	164,530	-	338	-
Community and economic	16,673	-	-	-
General government	112,330	-	15,427	-
Debt service	17,327	-	-	-
Total disbursements	<u>473,894</u>	<u>65,428</u>	<u>18,464</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(129,872)	16,578	790	101,215
Other financing sources (uses):				
Operating transfers in	56,407	-	-	-
Operating transfers out	(40,223)	-	-	(46,045)
Total other financing sources (uses)	<u>16,184</u>	<u>-</u>	<u>-</u>	<u>(46,045)</u>
Net change in cash balances	(113,688)	16,578	790	55,170
Cash balances beginning of year	49,367	53,501	20,931	147,286
Cash balances end of year	<u>\$ (64,321)</u>	<u>70,079</u>	<u>21,721</u>	<u>202,456</u>
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ (64,321)	-	-	-
Special revenue funds	-	70,079	21,721	202,456
Total cash basis fund balances	<u>\$ (64,321)</u>	<u>70,079</u>	<u>21,721</u>	<u>202,456</u>

See notes to financial statements

Local Option Sales Tax	Debt Service	Total
-	-	140,474
-	-	101,215
85,929	-	87,017
-	-	5,473
-	-	15,486
-	-	136,159
-	-	47,843
-	-	550
-	-	98,209
<u>85,929</u>	<u>-</u>	<u>632,426</u>
-	-	99,489
-	-	122,923
-	-	8,749
-	-	164,868
-	-	16,673
-	-	127,757
-	33,960	51,287
<u>-</u>	<u>33,960</u>	<u>591,746</u>
85,929	(33,960)	40,680
-	33,960	90,367
(85,929)	-	(172,197)
<u>(85,929)</u>	<u>33,960</u>	<u>(81,830)</u>
-	-	(41,150)
-	-	271,085
-	-	229,935
-	-	(64,321)
-	-	294,256
<u>-</u>	<u>-</u>	<u>229,935</u>

City of Neola
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2008

	Water	Water Sinking	Sewer	Electric	Electric Capital Project	Total
Operating receipts:						
Charges for service	\$ 125,075	-	42,427	307,493	-	474,995
Total operating receipts	<u>125,075</u>	<u>-</u>	<u>42,427</u>	<u>307,493</u>	<u>-</u>	<u>474,995</u>
Operating disbursements:						
Business type activities	82,667	-	57,100	336,107	-	475,874
Total operating disbursements	<u>82,667</u>	<u>-</u>	<u>57,100</u>	<u>336,107</u>	<u>-</u>	<u>475,874</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	42,408	-	(14,673)	(28,614)	-	(879)
Non-operating receipts (disbursements):						
Intergovernmental	610	-	211	1,524	72,506	74,851
Interest on investments	705	-	1,564	2,193	-	4,462
Miscellaneous	-	-	-	3,183	-	3,183
Sale of equipment	-	-	-	2,588	-	2,588
Loan proceeds	-	-	-	-	128,550	128,550
Capital projects	-	-	-	-	(145,144)	(145,144)
Debt service	-	(24,010)	-	-	(130,540)	(154,550)
Total non operating receipts (disbursements)	<u>1,315</u>	<u>(24,010)</u>	<u>1,775</u>	<u>9,488</u>	<u>(74,628)</u>	<u>(86,060)</u>
Excess of receipts over (under) disbursements	43,723	(24,010)	(12,898)	(19,126)	(74,628)	(86,939)
Other financing sources (uses)						
Operating transfers in	49,789	24,010	17,185	8,593	74,628	174,205
Operating transfers out	(57,970)	-	-	(34,405)	-	(92,375)
Total other financing sources (uses)	<u>(8,181)</u>	<u>24,010</u>	<u>17,185</u>	<u>(25,812)</u>	<u>74,628</u>	<u>81,830</u>
Net change in cash balances	35,542	-	4,287	(44,938)	-	(5,109)
Cash balances beginning of year	<u>317,543</u>	<u>-</u>	<u>136,777</u>	<u>117,739</u>	<u>-</u>	<u>572,059</u>
Cash balances end of year	\$ <u>353,085</u>	<u>-</u>	<u>141,064</u>	<u>72,801</u>	<u>-</u>	<u>566,950</u>
Cash Basis Fund Balances						
Reserved:						
Meter deposits	\$ 0	-	0	4,305	-	4,305
Unreserved	<u>353,085</u>	<u>-</u>	<u>141,064</u>	<u>68,496</u>	<u>-</u>	<u>562,645</u>
Total cash basis fund balances	\$ <u>353,085</u>	<u>-</u>	<u>141,064</u>	<u>72,801</u>	<u>-</u>	<u>566,950</u>

See notes to financial statements

City of Neola
Notes to Financial Statements
June 30, 2008

NOTE (1) Summary of Significant Accounting Policies

The City of Neola is a political subdivision of the State of Iowa located in Pottawattamie County, 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, and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Pottawattamie County Landfill Association, Pottawattamie County Assessor's Conference Board, Pottawattamie County Emergency Management Commission, and Pottawattamie County E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - 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.

City of Neola
Notes to Financial Statements
June 30, 2008

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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

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

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

The City reports the following major governmental funds:

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

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 local option sales tax received by the City.

City of Neola
Notes to Financial Statements
June 30, 2008

NOTE (1) Summary of Significant Accounting Policies – Continued

B. Basis of Presentation – Continued

The Employee Benefit Fund is used to account for employee benefits paid by the city.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is used 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 Water Sinking Fund accounts for the payment of interest and principal on the City's enterprise long-term debt.

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

The Electric Fund accounts for the operation and maintenance of the City's electrical system.

The Electric Fund – Capital Projects Account accounts for all resources used in the construction of capital facilities for the enterprise fund.

C. Measurement Focus and Basis of Accounting

The City of Neola 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.

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

City of Neola
Notes to Financial Statements
June 30, 2008

NOTE (2) Summary of Significant Accounting Policies – Continued

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in public safety, community and economic development, general government, debt service, and business type activities functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2006, to compute the amounts which became liens on property on July 1, 2007. These taxes were due and payable in two installments on September 30, 2007 and March 31, 2008, at the Pottawattamie County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (3) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 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.

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) to 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.

Cash, which consists of cash on hand, cash in bank and certificates of deposit, totaled \$796,885 at June 30, 2008.

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

City of Neola
Notes to Financial Statements
June 30, 2008

NOTE (4) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 41,572	\$ 8,148	\$ 15,000	\$ 8,880	\$ 56,572	\$ 17,028
2010	30,000	6,135	15,000	8,430	45,000	14,565
2011	30,000	4,635	16,000	7,980	46,000	12,615
2012	30,000	3,105	16,000	7,500	46,000	10,605
2013	30,000	1,560	16,000	7,020	46,000	8,580
2014-2018	-	-	90,000	27,480	90,000	27,480
2019-2024	-	-	105,000	13,080	105,000	13,080
2019-2024	-	-	21,000	345	21,000	345
	<u>\$ 161,572</u>	<u>\$ 23,583</u>	<u>\$ 294,000</u>	<u>\$ 80,715</u>	<u>\$ 455,572</u>	<u>\$ 104,298</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$917,700, which was not exceeded during the year ended June 30, 2008.

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$350,000 in water revenue notes issued in March 2004. Proceeds from the notes provided financing for the construction of a water tower. The notes are payable solely from water customer net receipts and are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 60 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$294,000. For the current year, principal and interest paid and total customer net receipts were \$24,010 and \$42,408, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

The City is in compliance with the above provisions.

NOTE (5) Related Party Transactions

The City had business transactions between the City and City officials totaling approximately \$65,000 during the year ended June 30, 2008.

City of Neola
Notes to Financial Statements
June 30, 2008

NOTE (6) 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 3.90% of their annual covered salary and the City is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was approximately \$8,300, equal to the required contribution for the year.

NOTE (7) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 34,372
	Urban Renewal Tax Increment	22,035
		<u>56,407</u>
Debt Service	Enterprise:	
	Water	33,960
		<u>33,960</u>
Enterprise:	Special Revenue:	
Water	Local Option Sales Tax	25,779
Water	Urban Renewal Tax Increment	24,010
		<u>49,789</u>
Sewer	Local Option Sales Tax	17,185
Electric	Local Option Sales Tax	8,593
Water sinking	Water	24,010
Electric capital project	General	40,223
Electric capital project	Electric	34,405
		<u>74,628</u>
		\$ <u>264,572</u>

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

NOTE (8) Deficit Balance

The General Fund had a deficit balance of \$64,321 at June 30, 2008. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated by the transfer of funds from special revenue funds to reimburse the general fund for expenditures paid.

City of Neola
Notes to Financial Statements
June 30, 2008

NOTE (9) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2008, relating to the General Fund and Enterprise Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 4,446

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

NOTE (10) Risk Management

The City is a member in 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 490 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, automotive 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 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, 2008 were approximately \$28,400.

City of Neola
Notes to Financial Statements
June 30, 2008

NOTE (10) Risk Management - Continued

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. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's 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, 2008, settled claims have not exceeded the risk pool or reinsurance 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.

NOTE (11) Construction Project Commitments

The City has entered into a construction contracts for the construction of ball park lights. As of June 30, 2008, the following amounts have been paid in connection with this project:

	Contract Amount	Amount Paid in Current year	Balance to be Paid
Construction Contract #1	\$ 128,550	\$ 127,550	\$ 1,000
Electrical supplies and improvements		17,594	-
		\$ 145,144	\$ 1,000

This project is being paid for by a grant from a private foundation and general funds.

Required Supplementary Information

City of Neola
 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, 2008

	Government Funds Actual	Proprietary Funds Actual	Total
Receipts			
Property tax	\$ 140,474	-	140,474
Tax increment financing collections	101,215	-	101,215
Other city tax	87,017	-	87,017
Licenses and permits	5,473	-	5,473
Use of money and property	15,486	4,462	19,948
Intergovernmental	136,159	72,506	208,665
Charges for services	47,843	474,995	522,838
Special assessments	550	2,345	2,895
Miscellaneous	98,209	5,771	103,980
Total receipts	<u>632,426</u>	<u>560,079</u>	<u>1,192,505</u>
Disbursements			
Public safety	99,489	-	99,489
Public works	122,923	-	122,923
Health and social services	8,749	-	8,749
Culture and recreation	164,868	-	164,868
Community and economic development	16,673	-	16,673
General government	127,757	-	127,757
Debt service	51,287	-	51,287
Business type activities	-	775,568	775,568
Total disbursements	<u>591,746</u>	<u>775,568</u>	<u>1,367,314</u>
Excess (deficiency) of receipts over (under) disbursements	40,680	(215,489)	(174,809)
Other financing sources (uses), net	<u>(81,830)</u>	<u>210,380</u>	<u>128,550</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(41,150)	(5,109)	(46,259)
Balances beginning of year	<u>271,085</u>	<u>572,059</u>	<u>843,144</u>
Balances end of year	<u>\$ 229,935</u>	<u>566,950</u>	<u>796,885</u>

See accompanying independent auditors' report

	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$	141,775	141,775	(1,301)
	93,910	93,910	7,305
	101,122	101,122	(14,105)
	1,475	1,475	3,998
	14,513	14,513	5,435
	101,318	101,318	107,347
	465,000	672,143	(149,305)
	-	-	2,895
	2,000	87,387	16,593
	<u>921,113</u>	<u>1,213,643</u>	<u>(21,138)</u>
	85,670	88,670	(10,819)
	165,860	165,860	42,937
	3,900	10,231	1,482
	53,950	239,371	74,503
	14,500	14,500	(2,173)
	96,100	114,644	(13,113)
	-	-	(51,287)
	433,200	737,716	(37,852)
	<u>853,180</u>	<u>1,370,992</u>	<u>3,678</u>
	67,933	(157,349)	17,460
	-	-	(128,550)
	67,933	(157,349)	111,090
	<u>765,903</u>	<u>765,903</u>	<u>77,241</u>
\$	<u>833,836</u>	<u>608,554</u>	<u>188,331</u>

City of Neola
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2008

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 major classes of disbursements known as functions, not by fund or fund type. The City of Neola's functions are: public safety, public works, health and social services, culture and recreation, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, 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 \$518,000, and revenue by \$293,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in public safety, community and economic development, general government, debt service, and business type activities functions. Total disbursements increased approximately \$779,000 from fiscal year 2007 to fiscal year 2008.

Other Supplementary Information

City of Neola
 Schedule of Indebtedness
 Year ended June 30, 2008

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Water treatment plant	Feb 1998	4.55% - 5.20%	\$ 350,000
Ball park lights	Dec 2007	5.00%	128,550
Fire pumper	July 2000	4.75%	140,000
Total			
Revenue notes:			
Water	March 2004	3.00%	\$ 348,000

See accompanying independent auditors' report

	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
\$	170,000	-	25,000	145,000	8,560
	-	128,550	128,550	-	1,990
	<u>32,362</u>	-	<u>15,790</u>	<u>16,572</u>	<u>1,537</u>
\$	<u>202,362</u>	<u>128,550</u>	<u>169,340</u>	<u>161,572</u>	<u>12,087</u>
\$	<u>308,000</u>	<u>-</u>	<u>14,000</u>	<u>294,000</u>	<u>9,240</u>



Marilyn Schroer, CPA
Diane McGrain, CPA
Barbara Mass, CPA

November 7, 2008

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit Performed
in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the governmental activities, the business type activities, each major fund of the City of Neola, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 7, 2008. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, as we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007. 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 Neola'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 City of Neola's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Neola'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 a 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 significant deficiencies, that adversely affects the City of Neola's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of

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City of Neola
Report on Compliance and Internal Control

Neola's financial statements that is more than inconsequential will not be prevented or detected by the City of Neola's internal control. We consider the deficiencies in internal control described in Part I 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 that a material misstatement of the financial statements will not be prevented or detected by the City of Neola's internal control.

Our consideration of 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 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 all of the above items are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Neola'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 City of Neola's 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 Neola and other parties to whom the City of Neola 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 Neola 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.

Scheer and Associates

City of Neola
Schedule of Findings
Year ended June 30, 2008

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-08 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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.

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.

I-B-08 Reconciliation of Utility Billings, Collections and Delinquencies

Comment – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

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 – We will consider this.

Conclusion – Response accepted.

City of Neola
 Schedule of Findings
 Year ended June 30, 2008

Part II: Findings Related to the Financial Statements:

II-A-08 Certified Budget

Comment – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in public safety, community and economic development, general government, debt service, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We will do this in the future.

Conclusion – Response accepted.

II-B-08 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, 2008.

II-C-08 Entertainment Expense – We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.

II-D-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Aaron Wellman, Council Member, Owner of Wellman Construction	Street maintenance and repair	\$ 59,200
Herb Brich, Council Member, Owner of Brich Plumbing	Plumbing supplies and Trencher work	\$ 5,431

The transactions with the Council Members appear to represent conflicts of interest since they exceeded \$1,500 during the year and were not entered into through competitive bidding.

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

Response – We will consult our attorney.

Conclusion – Response accepted.

City of Neola
Schedule of Findings
Year ended June 30, 2008

Part II: Findings Related to the Financial Statements - Continued:

II-F-08 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-08 Council Minutes

Comment – Disbursements from the Veterans Memorial account were not approved by the council. Copies of minutes were available, but not all official minutes were properly signed.

Recommendation – All minutes should be signed in accordance with Chapter 380.7 of the Code of Iowa. The City should monitor procedures to insure all claims are properly approved.

Response – We will comply with the Code requirements.

Conclusion – Response accepted.

II-H-08 Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City's investment policy.

II-I-08 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

II-J-08 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Enterprise Fund, Water Account. 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 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 Neola
Schedule of Findings
Year ended June 30, 2008

Part II: Findings Related to the Financial Statements - Continued:

II-K-08 Financial Condition

Comment – The General Fund had a deficit balances at June 30, 2008.

Recommendation – The City should monitor activity in this fund in order to eliminate the deficit.

Response – We will do this.

Conclusion – Response accepted.

II-L-08 Disbursements

Comment – The City received only the front image of electronically retained checks from the bank.

Recommendation – The City should request both the front and back images of checks in accordance with Chapter 554D.114(5) of the Code of Iowa.

Response – We have contacted the bank to request this.

Conclusion – Response accepted

II-M-08 Compensated Time Policy – The City Council has established a policy for the use of compensated time; however, the policy does not state whether the time is paid upon retirement, death or termination.

Recommendation – The City should address this issue in their Compensated Time Policy.

Response – We will do this.

Conclusion – Response accepted.

II-N-08 Public Property

Comment – The City Council has not established a policy of vehicle usage for other than City purposes. Private use of public property is prohibited by Article III Section 31 of the constitution of the State of Iowa which states in part, "...no public money or property shall be appropriated for local or private purpose."

Recommendation – The City should establish a policy prohibiting private usage of public vehicles.

Response – We will consider adopting a policy.

Conclusion – Response acknowledged.

City of Neola
Schedule of Findings
Year ended June 30, 2008

Part II: Findings Related to the Financial Statements - Continued:

II-O-08 Support Documentation

Comment – We noted certain transactions tested were missing support documentation.

Recommendation – The City should review support documentation before payment of claims and the support documentation should be properly filed.

Response – We will do this.

Conclusion – Response accepted.

II-P-08 Notice of Public Hearing for Sale of City Property

Comment – The City did not publish a notice of public hearing for the sale of a vehicle as required by Chapters 26.12 and 362.3 of the Code of Iowa.

Recommendation – The City should review support documentation before payment of claims and the support documentation should be properly filed.

Response – We will do this.

Conclusion – Response accepted.

II-Q-04 Excess Balances – The balances in the Special Revenue Funds – Employee Benefits, Tax Increment Financing Fund, Enterprise Funds – Water and Sewer accounts were in excess of the fund disbursements during the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balance in an orderly manner through revenue reductions.

Response – We will consider revenue reductions in the applicable funds.

Conclusion – Response accepted.

II-R-08 Delinquent Accounts

Comment – There were a substantial amount of delinquent accounts outstanding at June 30, 2008.

Recommendation – The City should review the delinquent water and sewer accounts and investigate balances due. Alternative collection methods should be considered and uncollectible balances should be written off.

Response – We will do this.

Conclusion – Response accepted.

City of Neola
Schedule of Findings
Year ended June 30, 2008

II-S-08 Statistical Information

Gallons of water pumped during the year ended June 30, 2008: 29,703,000

Gallons of water billed during the year ended June 30, 2008: 19,927,381

Comment - for the year ended June 30, 2008 water loss was approximately 33%.

Recommendation - As this loss represents considerable lost revenues for the City, we suggest that the City monitor the situation to determine the causes for the loss.

Response - There was excess water loss due to several leaks including a large leak under Main Street. We feel the leaks have been addressed and water loss should return to normal levels.

Conclusion - Response accepted.



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

November 7, 2008

To the Honorable Mayor and
Members of the City Council
City of Neola
Neola, IA

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Neola, Iowa, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 7, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 30, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with the cash basis of accounting. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Neola. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City of Neola's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 18, 2008.

Continued...

City of Neola
Communication with Those Charged with Governance

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Neola are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

There were no significant accounting estimates since the financial statements were prepared on the cash basis of accounting.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or to the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 7, 2008.

Continued...

City of Neola
Communication with Those Charged with Governance

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultation has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to the retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council and management of the City of Neola, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

SCHROER & ASSOCIATES, P.C.

James Menard, Shareholder