

CITY OF MILO

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2008

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-9
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 11-14
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 15
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 16
Notes to Financial Statements	17-23
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	25-26
Notes to Required Supplementary Information – Budgetary Reporting	27
Other Supplementary Information:	<u>Schedule</u>
Schedule of Indebtedness	1 29-30
Bond and Note Maturities	2 31
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	32-33
Schedule of Findings and Questioned Costs	34-37

CITY OF MILO

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
	(Before January 2008)	
Chester Crouse	Mayor	January 2008
Tom Bales	Council Member	January 2008
Jeff Knight	Mayor Protem	January 2010
Wendy Smith	Council Member	January 2010
Tyler Derrickson	Council Member	January 2008
Renee Minton	Council Member	January 2010
Sharon Turner	City Clerk	Indefinite
Robert L. Stuyvesant	Attorney	Indefinite

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
	(After January 2008)	
Chester Crouse	Mayor	January 2012
Tom Bales	Council Member	January 2012
Jeff Knight	Mayor Protem	January 2010
Wendy Smith	Council Member	January 2010
Shawna Beck	Council Member	January 2012
Stan Hughes	Council Member	January 2010
Sharon Turner	City Clerk	Indefinite
Robert L. Stuyvesant	Attorney	Indefinite



Shull

and Co. P.C.
certified public accountants

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 Milo, 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 City of Milo's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards of the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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 that our audit provides a reasonable basis for our opinions.

The City has not included the financial data for certain separately maintained funds of the Milo Library Board and Milo Fire and Rescue in the accompanying financial statements as required by U.S. generally accepted accounting principles. In addition, the City has not presented a debt service fund in the accompanying financial statements because its general obligation debt has been paid out of enterprise funds and general fund resources other than property tax levies. The amounts by which these departures would affect the cash receipts, cash disbursements and cash balances of the City has not been determined.

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 Milo have not been audited for all of the prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total balance as of July 1, 2007.

In our opinion, except for the effects of not including certain financial data of the Milo Library Board and Milo Fire and Rescue and not presenting a debt service fund and 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 total fund balance as of July 1, 2007, as discussed in the preceding paragraphs, 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 Milo as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 17, 2009 on our consideration of the City of Milo'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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 23 through 25 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milo's basic financial statements. The supplemental 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, 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 as of July 1, 2007, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

June 17, 2009

CITY OF MILO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Milo 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.

2008 FINANCIAL HIGHLIGHTS

The City's total cash basis net assets decreased 2%, or approximately \$8,000, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased approximately \$27,000 and the assets of the business type activities increased by approximately \$18,000.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide 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 city's indebtedness and related debt maturities.

CITY OF MILO

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

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 have 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 generally accepted accounting principles of the United States of America. 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, the sanitary sewer system and sanitation. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

CITY OF MILO

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$242,056 to \$215,479. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2008
Receipts and transfers	
Program receipts	
Charges for service	\$ 48,743
Operating grants, contributions and restricted interest	90,216
Capital grants, contributions and restricted interest	9,352
General receipts	
Property tax	109,187
Utility tax replacement excise tax	5,393
Grants and contributions not restricted to specific purposes	105
Unrestricted interest on investments	8,546
Other general receipts	3,792
Total receipts and transfers	<u>275,334</u>
Disbursements	
Public safety	87,470
Public works	63,703
Health and social services	905
Culture and recreation	65,256
Community and economic development	13,820
General government	55,911
Debt service	14,846
Total disbursements	<u>301,911</u>
Increase in cash basis net assets	(26,577)
Cash basis net assets beginning of year	242,056
Cash basis net assets end of year	<u>\$ 215,479</u>

CITY OF MILO

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The business type activities cash balance increased from a year ago from \$279,947 to \$298,235.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2008
Receipts and transfers	
Program receipts	
Charges for service	
Water	\$ 147,524
Sewer	54,053
Sanitation	51,958
General receipts	
Unrestricted interest on investment	18,970
Other general receipts	150
Total receipts	<u>272,655</u>
Disbursements	
Water	157,356
Sewer	46,110
Sanitation	50,901
Total disbursements and transfers	<u>254,367</u>
Increase (decrease) in cash balance	18,288
Cash basis net assets beginning of year	<u>279,947</u>
Cash basis net assets end of year	<u>\$ 298,235</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Milo completed the year, its governmental funds reported a combined fund balance of \$215,479, a decrease of almost \$26,000 below last year's total of \$242,056. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$41,309 from the prior year to \$148,646. Approximately \$24,000 was used to purchase an ambulance equipment. Remodeling cost for the library (\$9,000) and debt service on an ambulance building (\$14,800) were also paid out of the General Fund.

The Road Use Tax Fund cash balance increased by \$14,732 to \$66,833 during the fiscal year.

CITY OF MILO

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$3,007 to \$194,954.

The Sewer Fund cash balance increased by \$14,224 to \$101,776.

The Sanitation Fund cash balance increased by \$1,057 to \$1,498.

BUDGETARY HIGHLIGHTS,

Over the course of the year, the City amended its budget one time. The amendment was approved on June 23, 2008 and resulted in an increase of \$66,483 in disbursements. The increase was to provide for a water main extension, city park improvements, increased costs of insurance and utilities and the purchase of ambulance equipment.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$108,500 in capital loan notes, compared to \$144,500 last year, as show below.

	Outstanding Debt at Year-End	
	June 30,	
	2008	2007
Capital loan notes	\$ 108,500	144,500

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$108,500 is significantly below its constitutional debt limit of \$ 1.4 million.

More detailed information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Milo's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's total assessed valuations have increased slightly. However, funding from the State has decreased due to budget constraints.

CITY OF MILO

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Turner, City Clerk, 100 Main Street, Milo, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF MILO

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

	<u>Disbursements</u>	<u>Program</u> <u>Charges for Service</u>
Functions / Programs		
Governmental activities		
Public safety	\$ 87,470	44,153
Public works	63,703	3,735
Health and social services	905	-
Culture and recreation	65,256	-
Community and economic development	13,820	-
General government	55,911	855
Debt service	14,846	-
Total governmental activities	<u>301,911</u>	<u>48,743</u>
Business type activities		
Water	157,356	147,524
Sewer	46,110	54,053
Sanitation	50,901	51,958
Total business type activities	<u>254,367</u>	<u>253,535</u>
Total	<u>\$ 556,278</u>	<u>302,278</u>
General Receipts		
Property tax levied for		
General purposes		
Utility tax replacement excise tax		
Grants and contributions not restricted to specific purpose		
Unrestricted interest on investments		
Miscellaneous		
Total general receipts and transfers		

Exhibit A

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
10,223	-	(33,094)	-	(33,094)
71,879	-	11,911	-	11,911
-	-	(905)	-	(905)
8,114	-	(57,142)	-	(57,142)
-	-	(13,820)	-	(13,820)
-	9,352	(45,704)	-	(45,704)
-	-	(14,846)	-	(14,846)
<u>90,216</u>	<u>9,352</u>	<u>(153,600)</u>	<u>-</u>	<u>(153,600)</u>
-	-	-	(9,832)	(9,832)
-	-	-	7,943	7,943
-	-	-	<u>1,057</u>	<u>1,057</u>
-	-	-	<u>(832)</u>	<u>(832)</u>
<u>90,216</u>	<u>9,352</u>	<u>(153,600)</u>	<u>(832)</u>	<u>(154,432)</u>
		109,187	-	109,187
		5,393	-	5,393
		105	-	105
		8,546	18,970	27,516
		<u>3,792</u>	<u>150</u>	<u>3,942</u>
		<u>127,023</u>	<u>19,120</u>	<u>146,143</u>

CITY OF MILO

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

Change in cash basis net assets
Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

Cash Basis Net Assets

 Restricted

 Streets

 Unrestricted

 Total cash basis net assets

See notes to financial statements.

Exhibit A
(Continued)

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(26,577)	18,288	(8,289)
242,056	279,947	522,003
215,479	298,235	513,714
66,833	-	66,833
148,646	298,235	446,881
215,479	298,235	513,714

CITY OF MILO

Exhibit B

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

	General	Special Revenue Road Use Tax	Total
Receipts			
Property tax	\$ 109,187	-	109,187
Tax increment financing collections	-	-	-
Other city tax	5,393	-	5,393
Licenses and permits	855	-	855
Use of money and property	8,971	-	8,971
Intergovernmental	27,689	71,880	99,569
Charges for service	47,887	-	47,887
Miscellaneous	3,472	-	3,472
Total receipts	<u>203,454</u>	<u>71,880</u>	<u>275,334</u>
Disbursements			
Operating			
Public safety	87,470	-	87,470
Public works	6,555	57,148	63,703
Health and social services	905	-	905
Culture and recreation	65,256	-	65,256
Community and economic development	13,820	-	13,820
General government	55,911	-	55,911
Debt service	14,846	-	14,846
Total disbursements	<u>244,763</u>	<u>57,148</u>	<u>301,911</u>
Excess of receipts over disbursements	<u>(41,309)</u>	<u>14,732</u>	<u>(26,577)</u>
Net change in cash balances	(41,309)	14,732	(26,577)
Cash balances beginning of year	<u>189,955</u>	<u>52,101</u>	<u>242,056</u>
Cash balances end of year	<u>\$ 148,646</u>	<u>66,833</u>	<u>215,479</u>
Cash Basis Fund Balances			
Unreserved			
General fund	\$ 148,646	-	148,646
Special revenue funds	-	66,833	66,833
Total cash basis fund balances	<u>\$ 148,646</u>	<u>66,833</u>	<u>215,479</u>

See notes to financial statements.

CITY OF MILO

Schedule C

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

	Enterprise Funds			Total
	Water	Sewer	Sanitation	
Operating receipts				
Use of money and property	\$ 12,839	6,131	-	18,970
Charges for service	147,524	54,053	51,958	253,535
Miscellaneous	-	150	-	150
Total operating receipts	<u>160,363</u>	<u>60,334</u>	<u>51,958</u>	<u>272,655</u>
Operating disbursements				
Business type activities				
Water	157,356	-	-	157,356
Sewer	-	46,110	-	46,110
Sanitation	-	-	50,901	50,901
Total operating disbursements	<u>157,356</u>	<u>46,110</u>	<u>50,901</u>	<u>254,367</u>
Excess (deficiency) of receipts over (under) disbursements	<u>3,007</u>	<u>14,224</u>	<u>1,057</u>	<u>18,288</u>
Other financing sources (uses)				
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	3,007	14,224	1,057	18,288
Cash balances beginning of year	<u>191,954</u>	<u>87,552</u>	<u>441</u>	<u>279,947</u>
Cash balances end of year	<u>\$ 194,961</u>	<u>101,776</u>	<u>1,498</u>	<u>298,235</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved	<u>194,961</u>	<u>101,776</u>	<u>1,498</u>	<u>298,235</u>
Total cash basis fund balances	<u>\$ 194,961</u>	<u>101,776</u>	<u>1,498</u>	<u>298,235</u>

See notes to financial statements.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Milo is a political subdivision of the State of Iowa located in Warren County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

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.

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.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. Basis of Presentation (Continued)

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

The Statement of Activities and Net Assets 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 fund are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

The City reports the following major proprietary funds:

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

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

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. Basis of Presentation (Continued)

The Sanitation Fund accounts for the operation and maintenance of the City's solid waste collection system.

C. Measurement Focus and Basis of Accounting

The City of Milo 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 generally accepted accounting principles of the United States of America.

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

D. Budgets and Budgetary Accounting

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

2. **CASH AND INVESTMENTS**

The City's deposits 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.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2008

2. **CASH AND INVESTMENTS (CONTINUED)**

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.

3. **BONDS AND NOTES PAYABLE**

Annual debt service requirements to maturity for general obligation capital loans notes are as follows:

YEAR ENDING JUNE 30,	GENERAL OBLIGATION CAPITAL LOAN NOTES	
	PRINCIPAL	INTEREST
2009	\$ 36,000	4,070
2010	36,000	2,810
2011	36,500	1,460
Total	<u>\$ 108,500</u>	<u>8,340</u>

The code of Iowa requires the principal and interest on general obligation capital loan notes be paid from the Debt Service Fund. However, during the year, \$13,680 of note principal and \$1,991 of note interest was paid from the Water Enterprise Fund, \$9,360 of note principal and \$1,362 of note interest was paid from the Sewer Enterprise Fund and \$12,960 of note principal and \$1,886 of note interest was paid from the General Fund.

4. **PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered payroll. Contribution requirements are established by state statute. The City’s contribution to IPERS for the year ended June 30, 2008 was \$4,711 equal to the required contributions for the year.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

5. **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 payable to employees at June 30, 2008, was \$2,533. This liability has been computed based on rates of pay as of June 30, 2008.

6. **BUDGET OVER EXPENDITURE**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2008, disbursements in the community and economic development, general government and debt service functions exceeded the amounts budgeted.

7. **RELATED PARTY TRANSACTIONS**

The City had business transactions between the City and City officials, totaling \$8,634 during the year ended June 30, 2008.

8. **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 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basic rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

8. **RISK MANAGEMENT (CONTINUED)**

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2008 were \$12,928.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, policy professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

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 company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become 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 casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

8. **RISK MANAGEMENT (CONTINUED)**

The City is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Worker's Compensation Coverage Agreement with the Association which extends through June 30, 2008 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2008, the city paid workers' compensation insurance premiums of \$4,619 to the Association.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILO

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

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to to be Budgeted
Receipts			
Property tax	\$ 109,187	-	-
Other city tax	5,393	-	-
Licenses and permits	855	-	-
Use of money and property	8,971	18,970	-
Intergovernmental	99,569	-	-
Charges for service	47,887	253,535	-
Miscellaneous	<u>3,472</u>	<u>150</u>	<u>-</u>
Total receipts	<u>275,334</u>	<u>272,655</u>	<u>-</u>
Disbursements			
Public safety	87,470	-	-
Public works	63,703	-	-
Health and social services	905	-	-
Culture and recreation	65,256	-	-
Community and economic development	13,820	-	-
General government	55,911	-	-
Debt service	14,846	-	-
Business type activities	<u>-</u>	<u>254,367</u>	<u>-</u>
Total disbursements	<u>301,911</u>	<u>254,367</u>	<u>-</u>
Excess of receipts over disbursements	(26,577)	18,288	-
Other financing sources, net	<u>-</u>	<u>-</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(26,577)	18,288	-
Balances beginning of year	<u>242,056</u>	<u>279,947</u>	<u>-</u>
Balances end of year	<u>\$ 215,479</u>	<u>298,235</u>	<u>-</u>

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
109,187	109,970	109,970	(783)
5,393	5,164	5,164	229
855	725	725	130
27,941	15,000	15,000	12,941
99,569	118,609	134,109	(34,540)
301,422	297,770	297,770	3,652
3,622	3,830	3,830	(208)
<u>547,989</u>	<u>551,068</u>	<u>566,568</u>	<u>(18,579)</u>
87,470	83,758	95,736	8,266
63,703	71,711	68,735	5,032
905	905	905	-
65,256	51,737	65,940	684
13,820	-	13,100	(720)
55,911	39,183	53,973	(1,938)
14,846	-	-	(14,846)
<u>254,367</u>	<u>245,584</u>	<u>260,972</u>	<u>6,605</u>
<u>556,278</u>	<u>492,878</u>	<u>559,361</u>	<u>3,083</u>
(8,289)	58,190	7,207	(15,496)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(8,289)	58,190	7,207	(15,496)
<u>522,003</u>	<u>433,826</u>	<u>433,826</u>	<u>88,177</u>
<u>513,714</u>	<u>492,016</u>	<u>441,033</u>	<u>72,681</u>

CITY OF MILO

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

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$66,483. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the community and economic development, general government and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MILO

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 Capital Loan Note 2005 Water and Sewer Refunding & Ambulance Building	June 15, 2005	2.75-4.00%	\$ 210,000

Schedule 1

<u>BALANCE BEGINNING OF YEAR</u>	<u>ISSUED DURING YEAR</u>	<u>REDEEMED DURING YEAR</u>	<u>BALANCE END YEAR</u>	<u>INTEREST PAID</u>	<u>COUPONS DUE AND UNPAID</u>
\$ 144,500	-	36,000	108,500	5,240	-

CITY OF MILO

Schedule 2

Bond and Note Maturities
June 30, 2008

General Obligation Capital Loan Notes

<u>Water and Sewer Refunding & Ambulance Building</u>		
<u>Issued June 15, 2005</u>		
<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2009	3.50	\$ 36,000
2010	3.75	36,000
2011	4.00	<u>36,500</u>
		<u>\$ 108,500</u>

See accompanying independent auditor's report.



Shull and Co. P.C.

certified public accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Milo, 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 June 17, 2009. Our report expressed unqualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Milo'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 Milo's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Milo'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 a significant deficiencies, including a deficiency we consider to be a material weakness.

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 Milo'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 Milo's financial statements that is more than inconsequential will not be prevented or detected by the City of Milo's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be a 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 Milo'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 considered that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a material weakness.

Compliance and Other Matters

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

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

The City of Milo's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Milo'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 Milo and other parties to whom the City of Milo may report. 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 Milo 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.

June 17, 2009

CITY OF MILO

SCHEDULE OF FINDINGS
Year ended June 30, 2008

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

- (A) A qualified opinion was issued on the financial statements, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles of the United States of America.
- (B) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (F) The City of Milo did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

IV-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the bank deposits and the posting of the cash receipts to the general ledger and to the utility billing system are all done by the same person.

Recommendation - We realize that with a limited staff, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In addition, the Mayor and Council should periodically review cash receipts information to detect errors or irregularities.

Response - We will consider this.

Conclusion - Response acknowledged.

CITY OF MILO

SCHEDULE OF FINDINGS (CONTINUED)
Year ended June 30, 2008

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

REPORTABLE CONDITIONS - CONTINUED:

IV-B-08 Records of Accounts - The Library Board and Milo Fire and Rescue maintain the accounting records pertaining to the operations of the library and the fire and ambulance departments. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response - We will consider including these activities in the City Clerk's records in the future.

Conclusion - Response acknowledged.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget - Disbursements during the year ended June 30, 2008, exceeded the amounts budgeted in the Public Safety, Public Works and Culture and Recreation 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 - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

CITY OF MILO

SCHEDULE OF FINDINGS (CONTINUED)
Year ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

IV-B-08 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-08 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-08 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows.

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Sharon Turner, City Clerk, Owner Turner Lawn Care	Mowing & Snow Removal	\$5,634
Tom Bales, Council Member, Owner Tomin Towing & Recovery	Repairs & Supplies	\$2,999

In accordance with Chapter 362.5 of the Code of Iowa, the transaction with the City Clerk does not appear to represent a conflict of interest since it was entered into through competitive bidding. The transactions with the council member appear to represent a conflict of interest since total transactions \$1,500 during the fiscal year and were not entered into through competitive bidding.

IV-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

CITY OF MILO

SCHEDULE OF FINDINGS (CONTINUED)

Year ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

- IV-F-08 Council Minutes - No transactions other than the disbursements of the Library Board and Milo Fire and Rescue were found that we believe should have been approved in the Council minutes but were not.

The minutes of Council proceedings were not published in accordance with Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation - The City should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes and annual individual salaries as required.

Response - We will publish minutes and salaries as required.

Conclusion - Response accepted.

- IV-G-08 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- IV-H-08 Payment of General Obligation Notes – Certain general obligation capital loan notes were paid from the General Fund and Enterprise Funds, Water and Sewer Rental. Chapter 384.4 of the Code of Iowa states in part that “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 General Fund and Enterprise Funds, Water and Sewer Rental to the Debt Service Fund, General Obligation Capital Loans Notes Account for future funding contributions. Payments of the notes should then be disbursed from the Debt Service Fund.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.