

**CITY OF MODALE**

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

**JUNE 30, 2008**

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**City of Modale**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Randy Williams	Mayor	12-31-09
Joe Vittitoe	Mayor Pro-Term	12-31-09
James Long	Council Member	12-31-09
Lori Newberg	Council Member	12-31-09
Martin Salter	Council Member	12-31-09
Jeff Davis	Council Member	12-31-09
Lorraine Thomas	City Clerk	Indefinite
Ann Long	Attorney	Indefinite

**City of Modale**



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

January 25, 2009

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, and each major fund of the City of Modale, 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 Modale's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund information of the City of Modale 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.

Continued...

omni business centre  
300 west broadway, suite 41  
council bluffs, iowa 51503  
712-322-8734 / fax 712-322-4699  
www.schroer-cpa.com / e-mail mschroer@schroer-cpa.com

City of Modale  
Independent Auditors' Report

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 25, 2009 on our consideration of the City of Modale's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our 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 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 27 through 29 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. 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 Modale's basic financial statements. The supplementary information included in Schedules 1 and 3 including Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

*Schroer & Associates, P.C.*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Modale 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

Receipts of the City's governmental activities decreased 5%, or approximately \$7,900, from fiscal 2007 to fiscal 2008.

Disbursements decreased 3%, or approximately \$5,300, in fiscal 2008 from fiscal 2007.

The City's total cash basis net assets increased by 21%, or \$24,920, from June 30, 2007 to June 30, 2008. The increase was due, in part, to the sewer project grant and loan proceeds.

### 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.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with 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, and general government. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the water and sewer capital projects. 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: the General fund and the Special Revenue Funds, such as Road Use Tax. The governmental fund financial statements provide a detailed, short-term view of the City's general government operation 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 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 two Enterprise Funds to provide separate information for the water and sewer capital project fund 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.

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$228,679 to \$221,983. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended June 30, 2008</u>
<b>Receipts and other financing sources:</b>	
Property tax	\$ 82,078
Other city tax	17,939
Licenses and permits	138
Use of money and property	10,269
Intergovernmental	32,508
Miscellaneous	<u>31,591</u>
Total receipts	174,523
 <b>Disbursements and other financing uses:</b>	
Public safety	29,463
Public works	53,496
Culture and recreation	24,055
Community and economic development	2,361
General government	50,581
Debt service	<u>10,890</u>
Total disbursements	170,846
 Excess of receipts over disbursements	 3,677
Operating transfers in	<u>-</u>
Net change in cash basis net assets	3,677
Cash basis net assets beginning of year	<u>221,983</u>
Cash basis net assets end of year	<u>\$ 225,661</u>

**Changes in Cash Basis Net Assets of Business Type Activities**

	Year Ended June 30, 2008
Operating receipts	
Charges for service	\$ 61,545
Miscellaneous	25,541
Total operating receipts	<u>87,086</u>
Operating disbursements	
Sewer	6,336
Water	69,331
Total operating disbursements	<u>75,667</u>
Excess of operating receipts over disbursements	(7,316)
Non-operating receipts (disbursements)	
Interest on investments	273
Anticipatory warrants issued	1,288,039
Capital projects	(1,255,788)
Debt service	(22,700)
	<u>9,824</u>
Excess of receipts over disbursements	21,243
Operating transfers out	-
Net change in cash basis balances	21,243
Cash basis net assets beginning of year	<u>(102,566)</u>
Cash basis net assets end of year	<u>\$ (81,323)</u>

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Modale completed the year, its governmental funds reported a combined fund balance of \$225,661, an increase of \$3,678.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- ❖ The Water Fund cash balance decreased by \$16,072 to \$(36,412) during the fiscal year.
- ❖ The Sewer Capital Project Fund cash balance increased by \$32,465 to \$(49,761) during the fiscal year.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City budget was exceeded in public safety, public works, culture and recreation, community and economic development, and business type activities. The budget was not amended.

## **DEBT ADMINISTRATION**

<u>Outstanding Debt at Year End</u>	
	<u>Year Ended</u>
	<u>June 30, 2008</u>
General obligation bonds	\$ 10,000
Anticipatory Warrants	<u>763,560</u>
	\$ <u>773,560</u>

Anticipatory warrants were issued for the sewer capital project and equipment for general government use. They will be repaid through federal and state grants and loans.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Modale'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.

The budget was fairly consistent with previous years with the exception of the sewer project being completed early in the fiscal year. The Sewer Improvement Project is being funded by the USDA and a CDBG grant.

Street maintenance will be done as the funds become available using Road Use Tax funds.

### **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 any questions about this report or need additional financial information, contact Lorraine Thomas, 310 E. Palmer Street, P.O. Box 8, Modale, IA 51556.

## **Basic Financial Statements**

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

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program</u> Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 29,463	-	6,219
Public works	53,496	-	32,031
Culture and recreation	24,055	-	5,636
Community and economic development	2,361	-	-
General government	50,181	307	-
Debt service	11,290	-	-
Total governmental activities	<u>170,846</u>	<u>307</u>	<u>43,886</u>
Business type activities:			
Water	69,331	50,359	-
Sewer	1,284,824	11,186	-
Total business type activities	<u>1,433,515</u>	<u>61,545</u>	<u>-</u>
<b>Total</b>	<b>\$ <u>1,604,361</u></b>	<b><u>61,852</u></b>	<b><u>43,886</u></b>

**General Receipts:**

Property tax levied for:  
    General purposes  
    Debt service  
Local option sales tax  
Unrestricted interest on investments  
Note proceeds  
Miscellaneous  
Transfers  
    Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets, beginning of year

Cash basis net assets, end of year

**Cash Basis Net Assets**

Restricted:

    Streets

    Other purposes

Unrestricted

    Total cash basis net assets

See notes to financial statements

<u>Receipts</u> Capital Grants, Contributions and Restricted Interest	<u>Net (Disbursement) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
9,358	(13,886)	-	(13,886)
-	(21,465)	-	(21,465)
-	(18,419)	-	(18,419)
-	(2,361)	-	(2,361)
-	(49,874)	-	(49,874)
-	(11,290)	-	(11,290)
<u>9,358</u>	<u>(117,295)</u>	<u>-</u>	<u>(117,295)</u>
-	-	(18,972)	(18,972)
-	-	(1,273,638)	(1,273,638)
-	-	(1,292,610)	(1,292,610)
<u>9,358</u>	<u>(117,295)</u>	<u>(1,292,610)</u>	<u>(1,409,905)</u>
\$	72,780	-	72,780
	11,237	-	11,237
	16,000	-	16,000
	3,569	274	3,843
	-	1,288,038	1,288,038
	17,386	25,541	42,927
	-	-	-
	<u>120,972</u>	<u>1,313,853</u>	<u>1,434,825</u>
	3,677	21,243	24,920
	<u>221,983</u>	<u>(102,566)</u>	<u>119,417</u>
\$	<u>225,660</u>	<u>(81,323)</u>	<u>144,337</u>
\$	19,262	-	19,262
	83,432	-	83,432
	<u>122,966</u>	<u>(81,323)</u>	<u>41,643</u>
\$	<u>225,660</u>	<u>(81,323)</u>	<u>144,337</u>

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

	General	Special	
		Road Use Tax	Employee Benefits
<b>Receipts:</b>			
Property tax	\$ 64,644	-	6,460
Other city tax	1,521	-	155
Licenses and permits	138	-	-
Use of money and property	5,469	4,800	-
Intergovernmental	477	32,031	-
Miscellaneous	31,443	148	-
Total receipts	<u>103,692</u>	<u>36,979</u>	<u>6,615</u>
<b>Disbursements:</b>			
Operating:			
Public safety	29,463	-	-
Public works	7,604	45,892	-
Culture and recreation	24,055	-	-
Community and economic development	2,361	-	-
General government	50,181	-	-
Debt service	-	-	-
Total disbursements	<u>113,664</u>	<u>45,892</u>	<u>-</u>
Excess (deficiency) of receipts over (under) Disbursements	(9,972)	(8,913)	6,615
<b>Other financing sources:</b>			
Operating transfers in	6,615	-	-
Operating transfers out	-	-	(6,615)
Total other financing sources (uses)	<u>6,615</u>	<u>-</u>	<u>(6,615)</u>
Net change in cash balances	(3,357)	(8,913)	-
Cash balances, beginning of year	<u>126,677</u>	<u>28,175</u>	<u>-</u>
Cash balances, end of year	\$ <u>123,320</u>	<u>19,262</u>	<u>-</u>
<b>Cash Basis Fund Balances</b>			
<b>Unreserved:</b>			
General fund	\$ 123,320	-	-
Special revenue funds	-	19,262	-
Debt service	-	-	-
Total cash basis fund balances	\$ <u>126,677</u>	<u>19,262</u>	<u>-</u>

See notes to financial statements

**Exhibit B**

Revenue		
Local Option Sales Tax	Debt Service	Total
-	10,974	82,078
16,000	263	17,939
-	-	138
-	-	10,269
-	-	32,508
-	-	31,591
<u>16,000</u>	<u>11,237</u>	<u>174,523</u>
-	-	29,463
-	-	53,496
-	-	24,055
-	-	2,361
-	400	50,581
-	10,890	10,890
<u>-</u>	<u>11,290</u>	<u>170,846</u>
16,000	(53)	3,677
-	-	6,615
-	-	(6,615)
<u>-</u>	<u>-</u>	<u>0</u>
16,000	(53)	3,677
<u>67,432</u>	<u>(301)</u>	<u>221,983</u>
<u>\$ 83,432</u>	<u>(354)</u>	<u>225,661</u>
\$ -	-	123,320
83,432	-	102,694
-	(354)	(354)
<u>\$ 83,432</u>	<u>(301)</u>	<u>225,660</u>

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

	<b>Enterprise Funds</b>			
	Water	Sewer	Sewer Capital Project	Total
Operating receipts:				
Charges for service	\$ 50,359	11,186	-	61,545
Miscellaneous	2,900	-	22,641	25,541
Total operating receipts	<u>53,259</u>	<u>11,186</u>	<u>22,641</u>	<u>87,086</u>
Operating disbursements:				
Business type activities	69,331	6,336	-	75,667
Total operating disbursements	<u>69,331</u>	<u>6,336</u>	<u>-</u>	<u>75,667</u>
Deficiency of operating receipts under operating disbursements	(16,072)	4,850	22,641	11,419
Non-operating receipts (disbursements):				
Interest on investments	-	-	273	273
Anticipatory warrants issued	-	-	1,288,039	1,288,039
Anticipatory warrants redeemed	-	-	-	-
Capital projects	-	-	(1,255,788)	(1,255,788)
Debt service	-	-	(22,700)	(22,700)
Total non-operating receipts (disbursements)	<u>-</u>	<u>-</u>	<u>9,824</u>	<u>9,824</u>
Deficiency of receipts under disbursements	(16,072)	4,850	32,465	21,243
Operating transfers in (out)	-	-	-	-
Net change in cash balances	(16,072)	4,850	32,465	21,243
Cash balances beginning of year	(20,340)	-	(82,226)	(102,566)
Cash balances end of year	<u>\$ (36,412)</u>	<u>4,850</u>	<u>(49,761)</u>	<u>(81,323)</u>
<b>Cash Basis Fund Balances</b>				
Unreserved	<u>\$ (36,412)</u>	<u>4,850</u>	<u>(49,761)</u>	<u>(81,323)</u>

See notes to financial statements

City of Modale  
Notes to Financial Statements  
June 30, 2008

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

The City of Modale is a political subdivision of the State of Iowa located in Harrison County. It 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 utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Modale 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.

**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.

*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.

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

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

The City reports the following major governmental funds:

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

**Special Revenue:**

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

The Employee Benefits Fund is used to account for tax receipts levied for employee benefits for governmental type employees.

The Local Option Sales Tax Fund is used to account for accumulation of local option sales tax collected by the State to be expended in accordance with statutory and local provisions.

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

City of Modale  
Notes to Financial Statements  
June 30, 2008

**NOTE (1) Summary of Significant Accounting Policies - Continued**

B. Basis of Presentation - Continued

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 - Capital Projects Account accounts for all resources used in the construction of capital facilities for the sewer fund.

C. Measurement Focus and Basis of Accounting

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

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

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

City of Modale  
Notes to Financial Statements  
June 30, 2008

**NOTE (1) 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 the public safety, public works, culture and recreation, community and economic development, and debt service.

**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 Harrison County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

**NOTE (2) 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.

The City's cash and investments at June 30, 2008 totaled \$144,337.

**NOTE (3) Bonds and Notes Payable**

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

Year Ending June 30,	Water Improvements	
	Interest Rates	Amount
2009	4.50 %	10,000
Total	\$	10,000

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

City of Modale  
Notes to Financial Statements  
June 30, 2008

**NOTE (3) Bonds and Notes Payable - Continued**

The City has a general obligation debt limit of approximately \$555,900, which was not exceeded during the year ended June 30, 2008.

**NOTE (4) Anticipatory Warrants**

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

The City has issued \$1,121,075 in sewer revenue improvement anticipatory warrants at 4.35% interest per annum for sewer construction and general government equipment. These warrants will be repaid with federal and state grant funds. As of June 30, 2008, \$357,515 principal had been paid on these warrants, leaving an unpaid balance of \$619,682. In addition, \$22,700 in interest was paid during fiscal year 2008.

**NOTE (5) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2008 was \$3,032, equal to the required contribution for the year.

City of Modale  
Notes to Financial Statements  
June 30, 2008

**NOTE (6)    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, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ <u>1,405</u>

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

**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: Employee Benefits	\$ <u>6,615</u>

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

**NOTE (9)    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 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

City of Modale  
Notes to Financial Statements  
June 30, 2008

**NOTE (9) 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 \$11,190.

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. 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 the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

City of Modale  
Notes to Financial Statements  
June 30, 2008

**NOTE (9) Deficit Fund Balance**

The Debt Service Fund had a deficit fund balance of \$354 at June 30, 2008. The deficit will be eliminated with property tax receipts.

The Enterprise Fund – Water account had a deficit balance of \$36,412 at June 30, 2008. The deficit will be eliminated by increasing water rates.

The Enterprise Fund – Sewer Capital Projects account had a deficit balance of \$49,761 at June 30, 2008. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of state and federal grants.

**NOTE (10) Construction Commitments**

The City had the following construction commitments at June 30, 2008:

	<u>Estimated Total Contract Price</u>	<u>Paid to June 30, 2008</u>	<u>Remaining Commitment</u>	<u>Retainages Payable</u>
Sewer Improvements	\$ 1,625,216	\$ 1,269,206	\$ 356,010	\$ 69,414
Wastewater Lagoon	328,000	236,764	<u>91,236</u>	<u>16,419</u>
			\$ <u>447,246</u>	\$ <u>85,833</u>

**Required Supplementary Information**

City of Modale  
 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	Net
<b>Receipts</b>			
Property tax	\$ 82,078	-	82,078
Other city tax	17,939	-	17,939
Licenses and permits	138	-	138
Use of money and property	10,269	3,173	13,442
Intergovernmental	32,508	-	32,508
Charges for service	-	61,545	61,545
Miscellaneous	31,591	22,641	54,232
<b>Total receipts</b>	<u>174,523</u>	<u>87,359</u>	<u>261,882</u>
<b>Disbursements</b>			
Public safety	29,463	-	29,463
Public works	53,496	-	53,496
Health and social services	-	-	-
Culture and recreation	24,055	-	24,055
Community and economic development	2,361	-	2,361
General government	50,581	-	50,581
Debt service	10,890	-	10,890
Business type activities	-	1,354,155	1,354,155
<b>Total disbursements</b>	<u>170,846</u>	<u>1,354,155</u>	<u>1,525,001</u>
<b>Excess (deficiency) of receipts under disbursements</b>	<b>3,677</b>	<b>(1,266,796)</b>	<b>(1,263,119)</b>
<b>Other financing sources, net</b>	<b>-</b>	<b>1,288,039</b>	<b>1,288,039</b>
<b>Excess (deficiency) of receipts and other financing sources under disbursements and other financing uses</b>	<b>3,677</b>	<b>21,243</b>	<b>(24,920)</b>
<b>Balances beginning of year</b>	<b>221,983</b>	<b>(102,566)</b>	<b>119,417</b>
<b>Balances end of year</b>	<b>\$ 225,660</b>	<b>(81,323)</b>	<b>144,337</b>

See accompanying independent auditors' report

Budgeted Amount	Final to
<u>Final</u>	<u>Net Variance</u>
84,226	(2,148)
2,060	15,879
1,515	(1,377)
6,790	6,652
1,986,991	(1,954,483)
61,800	(255)
-	54,232
<u>2,143,382</u>	<u>(1,881,500)</u>
10,130	(19,333)
40,015	(13,481)
1,200	1,200
11,300	(12,755)
1,000	(1,361)
86,340	(35,759)
10,890	-
<u>1,036,000</u>	<u>(318,155)</u>
1,196,875	(328,126)
946,507	(2,209,626)
-	<u>1,288,039</u>
946,507	(921,587)
<u>85,462</u>	<u>33,955</u>
<u>1,031,969</u>	<u>(887,632)</u>

City of Modale  
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 upon ten major classes of disbursements known as functions, not by fund or fund type. These eight functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds 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. The budget was not amended during the year.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, general government, and business type activities.

## **Other Supplementary Information**

City of Modale  
 Schedule of Indebtedness  
 As of and for the year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Water improvements	Nov 1, 1998	4.35 - 4.50 %	\$ 90,000
Anticipatory Warrants:			
Sewer construction	Varies	4.12 %	\$ 79,360
Sewer construction	Varies	4.35 %	684,200
Total			

See accompanying independent Auditors' report

**Schedule 1**

<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>	<u>Interest Due and Unpaid</u>
<u>20,000</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>	<u>890</u>	<u>-</u>
<u>-</u>	<u>79,360</u>	<u>-</u>	<u>79,360</u>	<u>-</u>	<u>-</u>
<u>619,683</u>	<u>64,517</u>	<u>-</u>	<u>684,200</u>	<u>22,700</u>	<u>-</u>
<u>31,917</u>	<u>945,281</u>	<u>357,516</u>	<u>619,683</u>	<u>5,375</u>	<u>-</u>

City of Modale  
Bond and Note Maturities  
Year ended June 30, 2008

<u>Year Ending June 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2009	<u>10,000</u>	<u>450</u>
Total	\$ <u>10,000</u>	\$ <u>450</u>

See accompanying independent Auditors' report

City of Modale  
 Schedule of Expenditures of Federal Awards  
 June 30, 2008

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Agriculture	10.760	16-043-042600 6118	\$ <u>1,153,338</u>
Indirect:			
Iowa Department of Economic Development	14.228	04-WS-063	\$ <u>125,150</u>

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

See accompanying independent Auditors' report



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA  
January 25, 2009

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

To the Honorable Mayor and  
Members of the City Council:

We 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 Modale, Iowa, as of and for the year ended June 30, 2008, which collectively comprise of the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 25, 2009. 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 Modale's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Modale's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Modale's internal control over financial reporting.

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 Modale'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 Modale's financial statements that is more than inconsequential will not be prevented or detected by the City of Modale's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Modale'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 internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08, II-B-08, II-D-08, and II-E-08 are material weaknesses.

omni business centre  
300 west broadway, suite 41  
council bluffs, iowa 51503  
712-322-8734 / fax 712-322-4699  
www.schroer-cpa.com / e-mail mschroer@schroer-cpa.com

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Modale'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 Modale's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have express our conclusions on the City's responses, we did not audit City of Modale'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 Modale and other parties to whom the City of Modale 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 Modale 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.

*Schroeder & Associates, P. C.*

**Independent Auditors' Report on Compliance with Requirements Applicable  
to Its Major Program and Internal Control over Compliance in  
Accordance with OMB Circular A-133**



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

January 25, 2009

Independent Auditors' Report on Compliance with Requirements Applicable to Its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Modale, Iowa, with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The City of Modale's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each major federal program is the responsibility of the City of Modale's management. Our responsibility is to express an opinion on City of Modale's compliance based on our audit.

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

In our opinion, the City of Modale complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

omni business centre  
300 west broadway, suite 41  
council bluffs, iowa 51503  
712•322•8734 / fax 712•322•4699  
www.schroer-cpa.com / e-mail mschroer@schroer-cpa.com

### Internal Control Over Compliance

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

A control deficiency in the City's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as described above. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 Modale and other parties to whom the City of Modale 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.

*Schroer & Associate, P.C.*

City of Modale  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2008

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No significant deficiencies or material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.760 - Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Modale did not qualify as a low-risk auditee.

City of Modale  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2008

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

**SIGNIFICANT DEFICIENCIES:**

II-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.

II-B-08 Record of Accounts - The Library Board, Fire Department and the Sports Complex, maintain the accounting records pertaining to their operations. 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 attempt to comply with the recommendations and bring them to the attention of these organizations.

Conclusion - Response acknowledged.

II-C-08 Personnel Manual - The City has not established an employee manual to clarify job descriptions, benefits, etc. for its employees.

Recommendation - The City should document its personnel policies and distribute a copy to all employees. An office copy should be accessible for reference.

Response - We will do this.

Conclusion - Response accepted.

City of Modale  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2008

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

II-D-08 Approval of Time Cards – In reviewing payroll transactions, it was noted that no review or approval was made on time sheets for employees.

Recommendation – For better control, the time sheets presented for payment should be reviewed and approved for payment.

Response – We will do this.

Conclusion – Response accepted.

II-E-08 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. In addition, delinquent accounts appear to represent approximately 9% of all utility customers.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. 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. The City should also monitor the delinquent accounts and attempt to collect on a timely basis.

Response – These procedures will be implemented as recommended.

Conclusion – Response accepted.

II-F-08 Support Documentation – We noted one instance where documentation was not available to support a disbursement.

Recommendation – The City should review its procedures to insure documentation is available to support all claims, and the documentation is properly canceled and filed upon payment.

Response – We will review our procedures.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Modale  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2008

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

No comments or recommendations.

City of Modale  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2008

**Part IV: Other Findings Related to 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, culture and recreation, community and economic development, and debt service 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 sufficiently 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 sufficiently amended in the future, if applicable.

Conclusion – Response accepted.

IV-B-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.

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

IV-D-08 Business Transactions – There were no business transactions between the City and City officials or employees during the year.

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 insure that the coverage is adequate for current operations.

City of Modale  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2008

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

- IV-F-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

We noted board minutes were not properly signed.

Although minutes of Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa, and did not include a summary of receipts by fund, or total disbursements by fund.

The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should monitor procedures to insure all claims are properly approved, board minutes are properly signed, and all publications are made in accordance with Chapter 372.13(6) of the Code of Iowa.

Response – We will do this.

Conclusion – Response accepted.

- IV-G-08 Revenue Bonds and Notes – The City has no revenue debt.

- IV-H-08 Deposits and Investments – The City has not adopted a written investment policy.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – We will do this.

Conclusion – Response accepted.

- IV-I-08 Excess Balances – The balance in the Special Revenue Fund – Local Option Sales Tax account at June 30, 2008 was in excess of the account's disbursements for the year.

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

Response – We are planning to utilize the funds from the account to pay for possible future improvements and construction.

Conclusion – Response accepted.

City of Modale  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2008

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

IV-J-08 Financial Condition – The Debt Service Fund, and the Enterprise Funds – Water and Sewer Capital Projects accounts had deficit balances at June 30, 2008.

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

Response – The deficits will be eliminated through grant and loan proceeds, property tax revenues and rate increases.

Conclusion – Response accepted.

IV-K-08 City Code – In accordance with Chapter 380.8(2) of the Code of Iowa, at least once every five years, a City shall compile a City Code containing all of the city ordinances in effect except trade, bond, zoning ordinances, and ordinances vacating streets and alleys. The City has not re-codified its City Ordinances in more than five years.

Recommendation – The City should re-codify the City Ordinances,

Response – We will do this.

Conclusion – Response accepted.