

CITY OF MILO

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2012



Shull
and Co. P.C.
certified public accountants

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CITY OF MILO

OFFICIALS

<u>NAME</u>	<u>TITLE</u> (Before January 2012)	<u>TERM EXPIRES</u>
William Hitsman	Mayor	December 2011
Scott Graham	Mayor Protem	December 2013
Terry Morgan	Council Member	December 2013
Stan Hughes	Council Member	December 2013
Shawna Beck	Council Member	December 2011
Theresa Sanford	Council Member	December 2011
Martha Becker	City Clerk	Indefinite
Robert L. Stuyvesant	Attorney	Indefinite

<u>NAME</u>	<u>TITLE</u> (After January 2012)	<u>TERM EXPIRES</u>
William Hitsman	Mayor	December 2015
Scott Graham	Mayor Protem	December 2013
Terry Morgan	Council Member	December 2013
Stan Hughes	Council Member	December 2013
Shawna Beck	Council Member	December 2015
To January 2012		
Diane Hall	Council Member	December 2015
From February 2012		
Ann Miller	Council Member	December 2015
Martha Becker	City Clerk	Indefinite
Robert L. Stuyvesant	Attorney	Indefinite



Shull

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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, 2012, 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 opinions 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 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, 2011.

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, 2011, 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, 2012, 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 October 19, 2012 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.

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 supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the generally accepted auditing standards of the United States of America. 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, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 23 through 25 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Shull & Co., P.C.

October 19, 2012

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

The City's total cash basis net assets increased 25%, or approximately \$146,000, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$75,000 and the assets of the business type activities increased by approximately \$71,000.

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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

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 increased from a year ago, increasing from \$267,672 to \$342,309. 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, 2012
Receipts and transfers	
Program receipts	
Charges for service	\$ 26,342
Operating grants, contributions and restricted interest	130,208
General receipts	
Property tax	127,660
Utility tax replacement excise tax	5,303
Grants and contributions not restricted to specific purposes	330
Unrestricted interest on investments	1,729
Other general receipts	21,161
Total receipts and transfers	<u>312,733</u>
Disbursements	
Public safety	57,819
Public works	47,624
Health and social services	905
Culture and recreation	69,407
General government	50,791
Debt service	11,550
Total disbursements	<u>238,096</u>
Increase in cash basis net assets	74,637
Cash basis net assets beginning of year	<u>267,672</u>
Cash basis net assets end of year	<u>\$ 342,309</u>

CITY OF MILO

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The business type activities cash balance increased from a year ago from \$315,828 to \$387,277.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2012
Receipts and transfers	
Program receipts	
Charges for service	
Water	\$ 131,019
Sewer	77,542
Sanitation	55,477
General receipts	
Unrestricted interest on investment	3,202
Other general receipts	200
Total receipts	<u>267,440</u>
Disbursements	
Water	109,397
Sewer	26,124
Sanitation	60,470
Total disbursements and transfers	<u>195,991</u>
Increase (decrease) in cash balance	71,449
Cash basis net assets beginning of year	<u>315,828</u>
Cash basis net assets end of year	<u>\$ 387,277</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Milo completed the year, its governmental funds reported a combined fund balance of \$342,309, an increase of almost \$75,000 below last year's total of \$267,672. 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 increased \$40,869 from the prior year to \$232,915.

The Road Use Tax Fund cash balance increased by \$33,768 to \$109,394 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 \$23,955 to \$194,050.

The Sewer Fund cash balance increased by \$52,487 to \$193,836.

The Sanitation Fund cash balance decreased by \$4,993 to \$(609).

BUDGETARY HIGHLIGHTS,

Over the course of the year, the City amended its budget one time. The amendment was approved on May 21, 2012 and resulted in an increase of \$49,025 in disbursements. The increase was to provide for city park improvements, newsletter costs, increased mowing costs and increased garbage contract.

Even with the budget amendments, the City exceeded the amounts budgeted in the culture and recreation and debt service functions for the year ended June 30, 2012.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$84,000 in capital loan notes, compared to \$91,000 last year, as show below.

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
Capital loan notes	\$ 84,000	91,000

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 \$84,000 is significantly below its constitutional debt limit of \$1.6 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 Martha Becker, 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, 2012

	<u>Disbursements</u>	<u>Program</u> Charges for Service
Functions / Programs		
Governmental activities		
Public safety	\$ 57,819	22,745
Public works	47,624	2,047
Health and social services	905	-
Culture and recreation	69,407	-
General government	50,791	1,550
Debt service	11,550	-
Total governmental activities	<u>238,096</u>	<u>26,342</u>
Business type activities		
Water	109,397	131,019
Sewer	26,124	77,542
Sanitation	60,470	55,477
Total business type activities	<u>195,991</u>	<u>264,038</u>
Total	<u>\$ 434,087</u>	<u>290,380</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
Sale of assets
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
38,047	-	2,973	-	2,973
73,807	-	28,230	-	28,230
-	-	(905)	-	(905)
18,354	-	(51,053)	-	(51,053)
-	-	(49,241)	-	(49,241)
-	-	(11,550)	-	(11,550)
<u>130,208</u>	<u>-</u>	<u>(81,546)</u>	<u>-</u>	<u>(81,546)</u>
-	-	-	21,622	21,622
-	-	-	51,418	51,418
-	-	-	(4,993)	(4,993)
-	-	-	<u>68,047</u>	<u>68,047</u>
<u>130,208</u>	<u>-</u>	<u>(81,546)</u>	<u>68,047</u>	<u>(13,499)</u>
		127,660	-	127,660
		5,303	-	5,303
		330	-	330
		1,729	3,202	4,931
		6,966	-	6,966
		14,195	200	14,395
		<u>156,183</u>	<u>3,402</u>	<u>159,585</u>

CITY OF MILO

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2012

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
Expendable
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
74,637	71,449	146,086
267,672	315,828	583,500
342,309	387,277	729,586
109,394	-	109,394
232,915	387,277	620,192
342,309	387,277	729,586

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, 2012

	General	Special Revenue Road Use Tax	Total
Receipts			
Property tax	\$ 127,660	-	127,660
Other city tax	5,303	-	5,303
Licenses and permits	1,170	-	1,170
Use of money and property	3,234	-	3,234
Intergovernmental	56,401	73,807	130,208
Charges for service	23,553	-	23,553
Miscellaneous	14,639	-	14,639
Total receipts	<u>231,960</u>	<u>73,807</u>	<u>305,767</u>
Disbursements			
Operating			
Public safety	57,819	-	57,819
Public works	7,585	40,039	47,624
Health and social services	905	-	905
Culture and recreation	69,407	-	69,407
General government	50,791	-	50,791
Debt service	11,550	-	11,550
Total disbursements	<u>198,057</u>	<u>40,039</u>	<u>238,096</u>
Excess of receipts over disbursements	33,903	33,768	67,671
Other financing sources (uses)			
Sale of capital assets	6,966	-	6,966
Net change in cash balances	40,869	33,768	74,637
Cash balances beginning of year	192,046	75,626	267,672
Cash balances end of year	<u>\$ 232,915</u>	<u>109,394</u>	<u>342,309</u>
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	109,394	109,394
Unassigned	232,915	-	232,915
Total cash basis fund balances	<u>\$ 232,915</u>	<u>109,394</u>	<u>342,309</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, 2012

	Enterprise Funds			
	Water	Sewer	Sanitation	Total
Operating receipts				
Use of money and property	\$ 2,133	1,069	-	3,202
Charges for service	131,019	77,542	55,477	264,038
Miscellaneous	200	-	-	200
Total operating receipts	<u>133,352</u>	<u>78,611</u>	<u>55,477</u>	<u>267,440</u>
Operating disbursements				
Business type activities				
Water	109,397	-	-	109,397
Sewer	-	26,124	-	26,124
Sanitation	-	-	60,470	60,470
Total operating disbursements	<u>109,397</u>	<u>26,124</u>	<u>60,470</u>	<u>195,991</u>
Excess (deficiency) of receipts over (under) disbursements	23,955	52,487	(4,993)	71,449
Cash balances beginning of year	<u>170,095</u>	<u>141,349</u>	<u>4,384</u>	<u>315,828</u>
Cash balances end of year	<u>\$ 194,050</u>	<u>193,836</u>	<u>(609)</u>	<u>387,277</u>
Cash Basis Fund Balances				
Unrestricted	<u>\$ 194,050</u>	<u>193,836</u>	<u>(609)</u>	<u>387,277</u>

See notes to financial statements.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

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

B. Basis of Presentation (Continued)

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise 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.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

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

B. Basis of Presentation (Continued)

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

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.

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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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, 2012, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

2. **CASH AND INVESTMENTS**

The City's deposits at June 30, 2012 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities, certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – the City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

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
2013	\$ 7,000	4,200
2014	7,000	3,850
2015	7,000	3,500
2016	7,000	3,150
2017	7,000	2,800
2018	7,000	2,450
2019	7,000	2,100
2020	7,000	1,750
2021	7,000	1,400
2022	7,000	1,050
2023	7,000	700
2024	7,000	350
Total	<u>\$ 84,000</u>	<u>27,300</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, \$7,000 of note principal and \$4,550 of note interest was paid from the General Fund.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

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 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$7,321 equal to the required contributions for the year.

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, 2012, was \$3,397. This liability has been computed based on rates of pay as of June 30, 2012.

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, 2012, 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 \$175 during the year ended June 30, 2012.

8. **DEFICIT BALANCE**

The Sanitation Fund had a deficit balance of \$609 at June 30, 2012.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

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 663 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 150 percent of the total current members' basic rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2012 were \$13,460.

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. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

9. **RISK MANAGEMENT (CONTINUED)**

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, 2012, 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 casualty 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.

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, 2012 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2012, the city paid workers' compensation insurance premiums of \$4,992 to the Association.

10. **SUBSEQUENT EVENTS**

In July 2012 the City issued \$215,000 of general obligation capital loan notes and entered into a contract totaling \$223,086 for street resurfacing.

OTHER 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
Other Information
Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to to be Budgeted
Receipts			
Property tax	\$ 127,660	-	-
Other city tax	5,303	-	-
Licenses and permits	1,170	-	-
Use of money and property	3,234	3,202	-
Intergovernmental	130,208	-	-
Charges for service	23,553	264,038	-
Miscellaneous	14,639	200	-
Total receipts	<u>305,767</u>	<u>267,440</u>	<u>-</u>
Disbursements			
Public safety	57,819	-	-
Public works	47,624	-	-
Health and social services	905	-	-
Culture and recreation	69,407	-	-
Community and economic development	-	-	-
General government	50,791	-	-
Debt service	11,550	-	-
Business type activities	-	195,991	-
Total disbursements	<u>238,096</u>	<u>195,991</u>	<u>-</u>
Excess of receipts over disbursements	67,671	71,449	-
Other financing sources, net	<u>6,966</u>	<u>-</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	74,637	71,449	-
Balances beginning of year	<u>267,672</u>	<u>315,828</u>	<u>-</u>
Balances end of year	<u>\$ 342,309</u>	<u>387,277</u>	<u>-</u>

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
127,660	128,877	128,877	(1,217)
5,303	5,332	5,332	(29)
1,170	975	975	195
6,436	3,100	3,100	3,336
130,208	115,311	115,311	14,897
287,591	287,100	287,100	491
14,839	11,894	11,894	2,945
<u>573,207</u>	<u>552,589</u>	<u>552,589</u>	<u>20,618</u>
57,819	87,142	87,142	29,323
47,624	69,257	69,257	21,633
905	905	905	-
69,407	60,039	69,039	(368)
-	250	250	250
50,791	46,341	53,841	3,050
11,550	-	-	(11,550)
195,991	220,686	238,754	42,763
<u>434,087</u>	<u>484,620</u>	<u>519,188</u>	<u>85,101</u>
139,120	67,969	33,401	105,719
<u>6,966</u>	<u>-</u>	<u>6,000</u>	<u>(966)</u>
146,086	67,969	39,401	104,753
<u>583,500</u>	<u>505,448</u>	<u>583,552</u>	<u>(52)</u>
<u>729,586</u>	<u>573,417</u>	<u>622,953</u>	<u>104,701</u>

CITY OF MILO

Notes to Other Information – Budgetary Reporting June 30, 2012

The budgetary comparison is presented 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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, 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, 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 \$34,568. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

SUPPLEMENTARY INFORMATION

CITY OF MILO

Schedule of Indebtedness
Year ended June 30, 2012

<u>OBLIGATION</u>	<u>DATE OF ISSUE</u>	<u>INTEREST RATES</u>	<u>AMOUNT ORIGINALLY ISSUED</u>
General Obligation Capital Loan Notes Fire Truck	Nov 19, 2009	5.00%	\$ 105,000

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>
\$ 91,000	-	7,000	84,000	4,550	-

CITY OF MILO

Schedule 2

Bond and Note Maturities
June 30, 2012

General Obligation Capital Loan Notes

Fire Truck		
Issued Nov 19, 2009		
Year Ending June 30,	Interest Rates	Amount
2013	5.00	\$ 7,000
2014	5.00	7,000
2015	5.00	7,000
2016	5.00	7,000
2017	5.00	7,000
2018	5.00	7,000
2019	5.00	7,000
2020	5.00	7,000
2021	5.00	7,000
2022	5.00	7,000
2023	5.00	7,000
2024	5.00	7,000
		<u>\$ 84,000</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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 19, 2012. 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

The management of the City of Milo is responsible for establishing and maintaining effective 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Milo's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-12 to be a significant deficiency.

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, 2012 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.

Stull & Co., P.C.

October 19, 2012

CITY OF MILO

SCHEDULE OF FINDINGS

Year ended June 30, 2012

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) A material weakness and a significant deficiency in internal control over financial reporting were disclosed by the audit of the financial statements.
- (C) The audit did not disclose any non-compliance 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-12 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, 2012

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

REPORTABLE CONDITIONS - CONTINUED:

IV-B-12 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-12 Certified Budget - Disbursements during the year ended June 30, 2012, exceeded the amounts budgeted in the culture and recreation 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 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, 2012

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

IV-B-12 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-12 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 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>
Diane Hall, City Council Member, Owner of Promotions Plus	Supplies	\$175

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member do not appear to represent a conflict of interest since the total was less than \$1,500 during the fiscal year.

IV-E-12 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.

IV-F-12 City 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 City 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

CITY OF MILO

SCHEDULE OF FINDINGS (CONTINUED)

Year ended June 30, 2012

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

IV-G-12 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-12 Payment of General Obligation Notes – Certain general obligation capital loan notes were paid from the General Fund. 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 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.

IV-I-12 Financial Condition – The Sanitation Fund had a deficit balance of \$609 at June 30, 2012

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

Response - We will do so.

Conclusion - Response accepted.