



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE \_\_\_\_\_ February 4, 2011

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Sabula, Iowa.

The City's receipts totaled \$1,524,335 for the year ended June 30, 2010. The receipts included \$166,052 in property and other city tax, \$1,188,388 from charges for service, \$111,134 from operating grants, contributions and restricted interest, \$45,185 from local option sales tax, \$3,231 from unrestricted interest on investments and \$10,345 from other general receipts.

Disbursements for the year totaled \$1,411,276, and included \$168,445 for public safety, \$83,550 for culture and recreation and \$77,543 for public works. Disbursements for business type activities totaled \$995,941.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1022-0458-B00F.pdf>.

###



**CITY OF SABULA**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2010**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	8-9
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	10-11
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	12-13
Fiduciary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balance	D	14
Notes to Financial Statements		15-21
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		24-25
Notes to Required Supplementary Information – Budgetary Reporting		26
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	28-29
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2	30
Schedule of Indebtedness	3	32-33
Note Maturities	4	34
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 <u>Government Auditing Standards</u>		35-36
Schedule of Findings		37-45
Staff		46

**City of Sabula**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Pam Heidenreich	Mayor	Jan 2012
Richard Dickinson	Mayor Pro tem	Jan 2012
Darrell Rittmer	Council Member	Jan 2010
Tom Leonard	Council Member	Jan 2010
Judy Rittmer	Council Member	Jan 2012
Darwin Paddock	Council Member	Jan 2012
Ronda James	Clerk/Treasurer	Indefinite
Marian Alimi	Deputy Clerk	Indefinite
Mark Lawson	Attorney	Indefinite
<b>(After January 2010)</b>		
Pam Heidenreich	Mayor	(Resigned Mar 2010)
Richard Dickinson (Appointed April 2010)	Mayor	Jul 2010
Darrell Rittmer (Elected July 2010)	Mayor	Jan 2012
Erica Shoemaker (Appointed April 2010; Elected July 2010)	Mayor Pro tem	Jan 2014
Judy Rittmer	Council Member	Jan 2012
Darwin Paddock	Council Member	Jan 2012
Dawn Heffelfinger	Council Member	Jan 2014
Erica Shoemaker	Council Member	(Resigned April 2010)
Bonnie Calentine (Elected July 2010)	Council Member	Jan 2012
Ronda James	Clerk/Treasurer	Indefinite
Marian Alimi	Deputy Clerk	(Retired April 2010)
Steven Kahler	Attorney	Indefinite

**City of Sabula**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA  
Auditor of State

## Independent Auditor's 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 Sabula, Iowa, as of and for the year ended June 30, 2010, 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 Sabula's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sabula as of June 30, 2010, 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.

The City of Sabula has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2010 on our consideration of the City of Sabula'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 24 through 26 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sabula's basic financial statements. Other supplementary information included in Schedules 1 thru 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 7, 2010

## **Basic Financial Statements**

City of Sabula

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 168,445	24,880	8,797	-
Public works	77,543	2,418	71,086	-
Health and social services	400	-	-	-
Culture and recreation	83,550	3,370	16,157	-
Community and economic development	-	8,090	278	-
General government	33,702	8,071	-	-
Debt service	51,695	-	-	-
Total governmental activities	415,335	46,829	96,318	-
Business type activities:				
Water	105,456	121,669	-	-
Sewer	99,615	101,940	-	-
Electric	439,524	465,788	-	-
Gas	286,494	378,951	14,816	-
Solid waste	56,627	70,381	-	-
Utility deposits	8,225	2,830	-	-
Total business type activities	995,941	1,141,559	14,816	-
Total	\$ 1,411,276	1,188,388	111,134	-
<b>General Receipts and Transfers:</b>				
Property tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in net assets				
Net assets beginning of year				
Net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Economic development				
Debt service				
Cemetery perpetual care				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(134,768)	-	(134,768)
(4,039)	-	(4,039)
(400)	-	(400)
(64,023)	-	(64,023)
8,368	-	8,368
(25,631)	-	(25,631)
(51,695)	-	(51,695)
(272,188)	-	(272,188)
-	16,213	16,213
-	2,325	2,325
-	26,264	26,264
-	107,273	107,273
-	13,754	13,754
-	(5,395)	(5,395)
-	160,434	160,434
(272,188)	160,434	(111,754)
144,127	-	144,127
21,925	-	21,925
45,185	-	45,185
3,231	-	3,231
10,345	-	10,345
23,750	(23,750)	-
248,563	(23,750)	224,813
(23,625)	136,684	113,059
193,826	319,423	513,249
\$ 170,201	456,107	626,308
\$ 39,375	-	39,375
37,695	-	37,695
3,181	-	3,181
6,032	-	6,032
72,354	12,936	85,290
11,564	443,171	454,735
\$ 170,201	456,107	626,308

City of Sabula

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

As of and for the year ended June 30, 2010

	Special Revenue		
	General	Road Use Tax	Economic Development
<b>Receipts:</b>			
Property tax	\$ 130,792	-	-
Other city tax	426	-	-
Licenses and permits	11,677	-	-
Use of money and property	12,669	-	-
Intergovernmental	17,850	62,150	-
Charges for service	3,564	-	-
Miscellaneous	7,596	-	-
Total receipts	184,574	62,150	-
<b>Disbursements:</b>			
Operating:			
Public safety	128,595	-	-
Public works	-	77,543	-
Health and social services	400	-	-
Culture and recreation	81,260	-	-
General government	33,702	-	-
Debt service	-	-	-
Total disbursements	243,957	77,543	-
Excess (deficiency) of receipts over (under) disbursements	(59,383)	(15,393)	-
<b>Other financing sources (uses):</b>			
Operating transfers in	46,441	-	26,818
Operating transfers out	-	-	-
Total other financing sources (uses)	46,441	-	26,818
Net change in cash balances	(12,942)	(15,393)	26,818
Cash balances beginning of year	26,765	13,134	10,877
Cash balances end of year	\$ 13,823	(2,259)	37,695
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	13,823	-	-
Special revenue funds	-	(2,259)	37,695
Permanent fund	-	-	-
Total cash basis fund balances	\$ 13,823	\$ (2,259)	\$ 37,695

See notes to financial statements.

Debt Service	Permanent Cemetery		Nonmajor	Total
	Perpetual Care			
21,861	-		12,866	165,519
65	-		45,227	45,718
-	-		-	11,677
-	44		164	12,877
-	-		8,936	88,936
-	-		24,536	28,100
-	200		7,337	15,133
<u>21,926</u>	<u>244</u>		<u>99,066</u>	<u>367,960</u>
-	-		39,850	168,445
-	-		-	77,543
-	-		-	400
-	-		2,290	83,550
-	-		-	33,702
<u>51,695</u>	<u>-</u>		<u>-</u>	<u>51,695</u>
<u>51,695</u>	<u>-</u>		<u>42,140</u>	<u>363,640</u>
<u>(29,769)</u>	<u>244</u>		<u>56,926</u>	<u>4,320</u>
23,750	-		-	97,009
-	-		(73,259)	(73,259)
<u>23,750</u>	<u>-</u>		<u>(73,259)</u>	<u>23,750</u>
(6,019)	244		(16,333)	28,070
<u>9,200</u>	<u>45,163</u>		<u>88,687</u>	<u>193,826</u>
<u>3,181</u>	<u>45,407</u>		<u>72,354</u>	<u>221,896</u>
3,181	-		-	3,181
-	-		-	13,823
-	-		72,354	107,790
-	45,407		-	45,407
<u>\$ 3,181</u>	<u>\$ 45,407</u>		<u>\$ 72,354</u>	<u>\$ 170,201</u>

City of Sabula

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

As of and for the year ended June 30, 2010

	Enterprise		
	Water	Sewer	Electric
Operating receipts:			
Charges for service	\$ 121,669	101,940	465,788
Miscellaneous	-	-	-
Total operating receipts	121,669	101,940	465,788
Operating disbursements:			
Business type activities	104,327	98,486	429,943
Excess of operating receipts over operating disbursements	17,342	3,454	35,845
Non-operating disbursements:			
Debt service	(1,129)	(1,129)	(9,581)
Excess of receipts over disbursements	16,213	2,325	26,264
Operating transfers out	(23,750)	-	-
Net change in cash balances	(7,537)	2,325	26,264
Cash balances beginning of year	33,045	41,617	98,219
Cash balances end of year	\$ 25,508	43,942	124,483
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 25,508	43,942	124,483

See notes to financial statements.

Gas	Nonmajor	Total
378,951	73,211	1,141,559
14,816	-	14,816
393,767	73,211	1,156,375
285,365	64,852	982,973
108,402	8,359	173,402
(1,129)	-	(12,968)
107,273	8,359	160,434
-	-	(23,750)
107,273	8,359	136,684
103,921	42,621	319,423
211,194	50,980	456,107
211,194	50,980	456,107

**Exhibit D**

---

City of Sabula

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

As of and for the year ended June 30, 2010

	<u>Agency</u>
	<u>Customer</u>
	<u>Contributions</u>
Receipts:	
Contributions	\$ 60
Disbursements:	
None	<u>-</u>
Excess of receipts over disbursements	60
Cash balance beginning of year	<u>87</u>
Cash balance end of year	<u><u>\$ 147</u></u>

See notes to financial statements.

City of Sabula

Notes to Financial Statements

June 30, 2010

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

The City of Sabula is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1864 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer, electric, gas and solid waste utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor governmental and enterprise 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 not paid from other funds.

Special Revenue:

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

The Economic Development Fund is used to account for local option sales tax and other resources used to encourage economic development in the City.

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

The Permanent Fund includes the Cemetery Perpetual Care Fund which is used to account for care and maintenance of the cemetery.

The City reports the following major proprietary funds:

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

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

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

The Gas Fund accounts for the operation and maintenance of the City's gas system.

C. Measurement Focus and 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.

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.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public safety, public works and debt service functions prior to the June 7, 2010 budget amendment. At June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 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.

At June 30, 2010, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
United States Savings Bonds Series HH	\$ 5,000	5,000	March 2021

Interest rate risk – The City has not adopted an investment policy.

### (3) Notes and Loans Payable

Annual debt service requirements to maturity for general obligation notes at June 30, 2010 are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 40,000	9,400	49,400
2012	45,000	7,835	52,835
2013	45,000	6,013	51,013
2014	45,000	4,138	49,138
2015	15,000	2,203	17,203
2016 - 2017	35,000	2,440	37,440
Total	\$ 225,000	32,029	257,029

#### Bank Loans

On July 18, 2005, the City obtained a bank loan for \$36,924 to purchase a pickup and bucket truck. The loan is to be repaid in sixty monthly installments of \$697, including interest at 5% per annum, beginning August 18, 2005. During the year ended June 30, 2010, the City paid \$8,107 of principal on the loan, leaving a balance at June 30, 2010 of \$692.

On September 25, 2008, the City obtained a bank loan for \$36,000 to purchase a truck. The loan is to be repaid in 60 monthly installments of \$704, including interest at 6.50% per annum, beginning October 25, 2009. During the year ended June 30, 2010, the City paid \$6,611 of principal on the loan, leaving a balance at June 30, 2010 of \$24,698.

### (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.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2010 was \$21,528, equal to the required contribution for the year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 22 active and 2 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay a different premium for the medical/prescription drug benefit than active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$450 for single coverage and \$1,125 for family coverage. The retiree premiums are \$484 for single coverage and \$1,186 for family coverage. For the year ended June 30, 2010, the City contributed \$68,108 and plan members eligible for benefits contributed \$13,527 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation leave and compensatory time 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 and compensatory time payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 14,400
Compensatory time	2,300
Total	<u>\$ 16,700</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 19,622
	Local Option Sales Tax	26,819
		<u>46,441</u>
Special Revenue:	Special Revenue:	
Economic Development	Local Option Sales Tax	26,818
Debt Service	Enterprise:	
	Water	23,750
Total		<u>\$ 97,009</u>

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

**(8) Risk Management**

The City is a member of 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 634 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 provided capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect 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 contributions to the Pool for the year ended June 30, 2010 were \$31,188.

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 \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides 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 a series of casualty claims exhaust 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, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty 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 a membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty 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 also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond. 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.

**(9) Deficit Balance**

The Special Revenue, Road Use Tax Fund had a deficit balance of \$2,259 at June 30, 2010. The deficit balance was a result of project costs incurred prior to the availability of funds. The deficit will be eliminated through collection of future road use tax receipts.

**(10) Subsequent Event**

On July 2, 2010, the City entered into a bank loan for \$26,526 to purchase a police squad car. The loan is to be repaid in 60 monthly installments of \$513, including interest at 6% per annum, beginning August 2, 2010.

**City of Sabula**

**Required Supplementary Information**

City of Sabula  
 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, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 165,519	-	165,519
Other city tax	45,718	-	45,718
Licenses and permits	11,677	-	11,677
Use of money and property	12,877	-	12,877
Intergovernmental	88,936	-	88,936
Charges for service	28,100	1,141,559	1,169,659
Miscellaneous	15,133	14,816	29,949
Total receipts	<u>367,960</u>	<u>1,156,375</u>	<u>1,524,335</u>
Disbursements:			
Public safety	168,445	-	168,445
Public works	77,543	-	77,543
Health and social services	400	-	400
Culture and recreation	83,550	-	83,550
Community and economic development	-	-	-
General government	33,702	-	33,702
Debt service	51,695	-	51,695
Business type activities	-	995,941	995,941
Total disbursements	<u>415,335</u>	<u>995,941</u>	<u>1,411,276</u>
Excess (deficiency) of receipts over (under) disbursements	(47,375)	160,434	113,059
Other financing sources (uses), net	23,750	(23,750)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(23,625)	136,684	113,059
Balances beginning of year	193,826	319,423	513,249
Balances end of year	<u>\$ 170,201</u>	<u>456,107</u>	<u>626,308</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
163,564	163,564	1,955
46,537	46,537	(819)
10,500	10,500	1,177
17,000	17,000	(4,123)
68,000	68,000	20,936
1,289,780	1,289,780	(120,121)
21,000	21,000	8,949
<u>1,616,381</u>	<u>1,616,381</u>	<u>(92,046)</u>
120,507	120,507	(47,938)
65,825	74,402	(3,141)
1,200	1,200	800
99,115	99,115	15,565
2,500	2,500	2,500
42,660	42,660	8,958
42,700	45,850	(5,845)
1,147,965	1,147,965	152,024
<u>1,522,472</u>	<u>1,534,199</u>	<u>122,923</u>
93,909	82,182	30,877
-	-	-
93,909	82,182	30,877
<u>398,598</u>	<u>463,713</u>	<u>49,536</u>
<u>492,507</u>	<u>545,895</u>	<u>80,413</u>

City of Sabula

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Agency Fund. 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, the Special Revenue Funds, the Debt Service Fund, the Permanent Fund and the Enterprise 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 \$11,727. The budget amendment is reflected in the final budgeted amounts.

Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public safety, public works and debt service functions prior to the June 7, 2010 budget amendment. At June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works and debt service functions.

**Other Supplementary Information**

City of Sabula

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2010

	Special				
	FEMA Flood Pump Grant	Employee Benefits	Local Option Sales Tax	Restricted Gifts Playground	Police Forfeiture
Receipts:					
Property tax	\$ -	12,866	-	-	-
Other city tax		42	45,185	-	-
Use of money and property		-	-	-	-
Intergovernmental	8,936	-	-	-	-
Charges for service	-	-	-	-	-
Miscellaneous	-	-	-	976	-
Total receipts	8,936	12,908	45,185	976	-
Disbursements:					
Public safety	9,682	-	-	-	1,075
Culture and recreation	-	-	-	-	-
Total disbursements	9,682	-	-	-	1,075
Excess (deficiency) of receipts over (under) disbursements	(746)	12,908	45,185	976	(1,075)
Other financing uses:					
Operating transfers out	-	(19,622)	(53,637)	-	-
Net change in cash balances	(746)	(6,714)	(8,452)	976	(1,075)
Cash balances beginning of year	2,261	12,208	21,571	20	2,997
Cash balances end of year	\$ 1,515	5,494	13,119	996	1,922
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special revenue funds	\$ 1,515	5,494	13,119	996	1,922

See accompanying independent auditor's report.

Revenue							
Sabula Volunteer Fire Department	Krabbenhof Public Library	Sabula Business Association	Sabula Rescue	Sabula Ambulance	Beautify Sabula Committee		Total
-	-	-	-	-	-	-	12,866
-	-	-	-	-	-	-	45,227
30	29	-	2	100	3	-	164
-	-	-	-	-	-	-	8,936
-	-	-	-	24,536	-	-	24,536
1,880	277	278	754	-	3,172	-	7,337
1,910	306	278	756	24,636	3,175	-	99,066
1,907	-	-	1,200	25,986	-	-	39,850
-	1,855	-	-	-	435	-	2,290
1,907	1,855	-	1,200	25,986	435	-	42,140
3	(1,549)	278	(444)	(1,350)	2,740	-	56,926
-	-	-	-	-	-	-	(73,259)
3	(1,549)	278	(444)	(1,350)	2,740	-	(16,333)
12,858	7,337	612	2,493	26,186	144	-	88,687
12,861	5,788	890	2,049	24,836	2,884	-	72,354
12,861	5,788	890	2,049	24,836	2,884	-	72,354

**Schedule 2**

## City of Sabula

Schedule of Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2010

	Enterprise		
	Solid Waste	Utility Deposits	Total
Operating receipts:			
Charges for service	\$ 70,381	2,830	73,211
Operating disbursements:			
Business type activities	56,627	8,225	64,852
Net change in cash balances	13,754	(5,395)	8,359
Cash balances beginning of year	24,290	18,331	42,621
Cash balances end of year	\$ 38,044	12,936	50,980
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 38,044	12,936	50,980

See accompanying independent auditor's report.

**City of Sabula**

---

City of Sabula  
Schedule of Indebtedness  
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Fire and water improvements	Jan 1, 2004	1.95-4.30%	\$ 265,000
Street and water utility improvements	May 15, 2007	4.00-4.45	150,000
Total			
Bank loans:			
Vehicles	Jul 18, 2005	5.00%	\$ 36,924
Truck	Sep 25, 2008	6.50	36,000
Total			

See accompanying independent auditor's report.

---

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
140,000	-	25,000	115,000	5,573
125,000	-	15,000	110,000	5,322
<u>\$ 265,000</u>	<u>-</u>	<u>40,000</u>	<u>225,000</u>	<u>10,895</u>
8,799	-	8,107	692	256
31,309	-	6,611	24,698	1,841
<u>\$ 40,108</u>	<u>-</u>	<u>14,718</u>	<u>25,390</u>	<u>2,097</u>

**Schedule 4**

City of Sabula  
Note Maturities  
June 30, 2010

General Obligation Capital Loan Notes					
Year Ending June 30,	Fire and Water Improvements Issued Jan 1, 2004		Street and Water Utility Improvements Issued May 15, 2007		Total
	Interest Rates	Amount	Interest Rates	Amount	
2011	3.80%	\$ 25,000	4.10%	\$ 15,000	40,000
2012	4.00	30,000	4.15	15,000	45,000
2013	4.15	30,000	4.20	15,000	45,000
2014	4.30	30,000	4.30	15,000	45,000
2015		-	4.35	15,000	15,000
2016		-	4.40	15,000	15,000
2017		-	4.45	20,000	20,000
Total		<u>\$ 115,000</u>		<u>\$ 110,000</u>	<u>225,000</u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA  
Auditor of State

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 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 Sabula, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 7, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Sabula's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Sabula's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sabula'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, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Sabula's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a 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 deficiencies described in the accompanying Schedule of Findings as items (C) through (L) to be significant deficiencies.

## Compliance and Other Matters

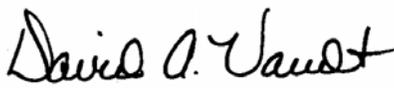
As part of obtaining reasonable assurance about whether the City of Sabula's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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 or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 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 Sabula's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Sabula'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 Sabula and other parties to whom the City of Sabula may report and 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 Sabula 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.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 7, 2010

City of Sabula  
Schedule of Findings  
Year ended June 30, 2010

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the City, one individual has control over each of the following areas:
- (1) Information system (computer usage) - performing all general accounting functions, including journal entries, having custody of assets and controlling all data and output.
  - (2) Cash – handling, reconciling and recording.
  - (3) Investments—recordkeeping, investing, recording and custody.
  - (4) Debt – recordkeeping and payment processing.
  - (5) Receipts – collecting, depositing, journalizing and posting.
  - (6) Utilities – billing, collecting, depositing and posting.
  - (7) Disbursements – invoice processing, check writing, mailing, posting, reconciling and recording.
  - (8) Payroll – Recordkeeping, preparation and distribution.
  - (9) Financial reporting – preparing and reconciling.

For the Sabula Volunteer Fire Department, Krabbenhof Public Library, Sabula Business Association, Sabula Rescue, Sabula Ambulance and Beautify Sabula Committee accounts, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City, Volunteer Fire Department, Library, Business Association, Sabula Ambulance, Sabula Rescue and Beautify Sabula Committee should review their control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review its operating procedures and obtain the maximum internal control possible.

Conclusion – Response accepted.

City of Sabula

Schedule of Findings

Year ended June 30, 2010

- (B) Financial Reporting – During the audit, we identified the following material errors in the City’s financial records. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.
- A FEMA reimbursement for \$2,227 was posted as a negative disbursement.
  - Interest receipts and disbursements for the Sabula Krabbenhoft Public Library were posted directly to fund balance rather through receipts and disbursements.
  - An IJobs receipt for \$2,926 was correctly posted to a revenue account, but disbursement of the funds was posted as a negative receipt.
  - The City budgeted for a transfer from the Enterprise, Water Fund to the Debt Service Fund to pay a portion of the general obligation note principal and interest. The funds were not transferred during the year, causing a deficit balance in the Debt Service Fund before adjustment.

Recommendation – The City should implement procedures to ensure receipts and disbursements are properly recorded in the City’s financial statements.

Response – The City will implement a procedure to ensure receipts and disbursements are properly recorded in the City’s financial statements.

Conclusion – Response accepted.

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

The City does not have written policies for:

- Requiring staff to log off unattended computers.
- Requiring the maintenance of password privacy and confidentiality.
- Requiring passwords be changed at least every 60-90 days.
- Requiring password length of a minimum of 8 characters, including special characters.
- Requiring a lockout function for incorrectly entered passwords.
- Requiring backups be stored at an offsite location.

City of Sabula

Schedule of Findings

Year ended June 30, 2010

- Proper disposal of sensitive media.
- Installing software from a vendor and ensuring only software licensed to the City is installed on computers.
- Running an anti-virus program on computers.
- Usage of the internet.
- Personal use of computer equipment and software.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based systems. A written disaster recovery plan should be developed. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site. Additionally, copies of user documentation and the disaster plan itself should be maintained at an off-site location.

Response – The City will develop written policies addressing the City’s control over computer based systems. The City will develop a written disaster recovery plan.

Conclusion – Response accepted.

- (D) Accounting Policies and Procedures Manual - The City does not have an accounting policies and procedures manual.

Recommendation - An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Response – The City will develop an accounting and procedures manual.

Conclusion – Response accepted.

- (E) Credit Cards and Charge Accounts – The City has a credit card and charge accounts for use by employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card or charge accounts and to establish procedures for the proper accounting of credit card and charge account usage

City of Sabula

Schedule of Findings

Year ended June 30, 2010

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

Response – The City will adopt a formal written credit card policy which regulates the use of the City credit card and charge accounts.

Conclusion – Response accepted.

- (F) Initial Receipts Listing – Although the City prepares an initial listing of receipts, an independent person does not compare the listing to deposits to determine all receipts have been properly deposited.

Recommendation – An independent person should periodically compare the initial listing to deposits to determine all receipts have been properly deposited.

Response – An independent person will spot check and compare the initial listing to deposits on an occasional basis to determine all receipts are properly deposited.

Conclusion – Response accepted.

- (G) Vacation Time – In accordance with the City’s personnel policy “no employee may accumulate more than 20 days of vacation at any time.” At June 30, 2010, one employee carried a balance in excess of the allowable maximum.

Recommendation – The City should establish procedures to ensure employees do not accumulate vacation time in excess of the maximum allowed.

Response – The City’s Personnel Policy needs to be amended to allow an employee to accumulate no more than 25 days of vacation at any time. We currently have an employee that accrues 25 days of vacation on January 1. The City Clerk checks the vacation and compensatory time in the payroll reports to ensure employees have not exceeded the maximum amount.

Conclusion – Response accepted.

- (H) Disbursements – Certain disbursements were not supported by proper documentation.

Recommendation – All disbursements should be supported by original vendor invoices or other supporting documentation.

Response – All future disbursements will be supported by original receipts.

Conclusion – Response accepted.

City of Sabula

Schedule of Findings

Year ended June 30, 2010

- (I) Payroll – Time cards were not approved and initialed by the employee’s supervisor or other responsible official.

Recommendation – Time cards should be approved and initialed by the employee’s supervisor or by an independent official who is not involved with payroll.

Response – The time cards will be approved and initialed by the employee’s supervisor or by an independent official who is not involved with payroll.

Conclusion – Response accepted.

- (J) Overtime Pay – The City’s personnel policy, section 5, discusses overtime and states, in part, “employees will be compensated at the rate of 1.5 times his or her hourly rate for each hour worked (emphasis added) in excess of forty hours per week.” Based on a review of the City’s payroll register, it appears overtime hours are calculated based on a combination of hours worked plus vacation and personal days taken during the pay period.

Recommendation – The City should establish procedures to ensure overtime is properly calculated in accordance with City policy.

Response – Until the City establishes a different policy, the employees will only be paid for actual hours worked and overtime will only be given after forty hours per week have actually been worked.

Conclusion – Response accepted.

- (K) Sabula Ambulance – Although monthly reconciliations of book and bank balances are prepared, there is no evidence of independent review. Also, prenumbered receipts were not issued for collections and deposits were not timely.

Additionally, the Sabula Ambulance does not prepare a reconciliation of billings, collections and delinquencies each month.

Recommendation – To improve financial accountability and control, there should be an independent review of the monthly reconciliation of the book and bank balances. Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. Deposits should be timely and intact.

Also, the Sabula Ambulance should prepare a reconciliation of billings, collections and delinquencies each month.

Response – The monthly reconciliation of the book and bank balances will be reviewed by the Emergency Medical Service Coordinator, Assistant Coordinator or the Secretary, with the reviewer’s signature provided. Beginning January 1, 2011, pre-numbered receipts shall be issued for services performed, equipment used or purchased and items used or purchased. Deposits to the bank will be made weekly if receipts are collected.

City of Sabula

Schedule of Findings

Year ended June 30, 2010

Conclusion – Response acknowledged. In addition, to ensure the proper collection and recording of all ambulance billings, a monthly reconciliation of billings, collections and delinquencies should be prepared and reviewed by an independent person.

- (L) Sabula Volunteer Fire Department – Although monthly reconciliations of book and bank balances are prepared, there is no evidence of independent review. Also, prenumbered receipts were not issued for collections.

Certain disbursements tested were not properly supported and not all invoices were cancelled to prevent possible duplicate payment.

Recommendation – To improve financial accountability and control, there should be an independent review of the monthly reconciliation of the book and bank balances. Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. All disbursements should be supported by an original receipt from the vendor and invoices and supporting documents should be cancelled to prevent possible duplicate payment.

Response – Improvement of financial accountability will be obtained by the book and bank balances being reviewed periodically by an independent person. A pre-numbered receipt book has been purchased and receipts will be issued at the time of collection. The original receipts from vendors will be obtained and filed for all disbursements.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Sabula  
 Schedule of Findings  
 Year ended June 30, 2010

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public safety, public works and debt service functions prior to the June 7, 2010 budget amendment. At June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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 City will amend the budget before the budgeted amount is exceeded.

Conclusion – Response accepted.

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

Paid To	Purpose	Amount
Pamida	Pop for station house	\$ 33
US Cellular	Cell phone late fees	30

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

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

Response – The pop for the Fire Station House for volunteers during training will be presented to Council for direction. The U.S. Cellular invoices will now be paid with an early claim to prevent any future cell phone late fees.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials were noted.

City of Sabula

Schedule of Findings

Year ended June 30, 2010

- (5) 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 the coverage is adequate for current operations.
- (6) Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

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

Transfers between funds were not approved in the Council minutes.

The City did not publish annual gross salaries as required by Chapter 372.13 of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

The Council went into closed session on June 7, 2010. The minutes record did not document the reason for the closed session by reference to a specific Code of Iowa exemption as required by Chapter 21.5 of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa. The City should ensure the minutes, summary of receipts and annual individual gross salaries are published as required. Also, all transfers between funds should be approved by the Council.

Response – The City will comply with Chapter 21 of the Code of Iowa. The City Clerk will ensure the minutes are published as required, summary of receipts are included as required, and annual individual gross salaries will be published as required.

Conclusion – Response accepted.

- (7) Deposits and Investments - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

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

Response – The City will adopt a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Conclusion – Response accepted.

- (8) Separately Maintained Records – The Volunteer Fire Department, Sabula Ambulance Service, the Sabula Rescue, the Sabula Business Association and the Beautify Sabula Committee all maintain accounting records separate from the City's accounting records. The transactions and resulting balances of these accounts were not recorded in the City Clerk's accounting records and were not reported to the City Council each month.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City

City of Sabula

Schedule of Findings

Year ended June 30, 2010

accounts should be included in the City's accounting records, including budget reports, and should be reported to the Council on a monthly basis.

Response – The City Clerk will present to the Council with a recommendation regarding the Volunteer Fire Department, Sabula Ambulance Service, the Sabula Rescue, the Sabula Business Association and the Beautify Sabula Committee and request direction.

Conclusion – Response accepted.

- (9) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, outstanding for more than two years to the State Treasurer's Office annually. The City did not remit these obligations as required.

Recommendation – The outstanding checks should be reviewed annually and items over two years old should be remitted to the State Treasurer's Office as required.

Response – The outstanding checks will be reviewed annually and items over two years old will be remitted to the State Treasurer's Office as required.

Conclusion – Response accepted.

- (10) Financial Condition - The Special Revenue, Road Use Tax Fund had a deficit balance at June 30, 2010 of \$2,259.

Recommendation – The City should investigate alternatives to eliminate this deficit and return the fund to a sound financial position.

Response – The City will investigate alternatives to eliminate the Special Revenue, Road Use Tax Fund deficit balance and return the fund to a sound financial position.

Conclusion – Response accepted.

- (11) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

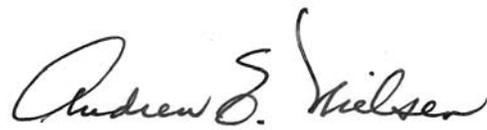
---

City of Sabula

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager  
Daniel L. Grady, Senior Auditor  
Brian P. Schenkelberg, CPA, Staff Auditor  
Kristin M. Ockenfels, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, prominent initial "A".

Andrew E. Nielsen, CPA  
Deputy Auditor of State