



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ February 15, 2008

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

The City's receipts totaled \$1,439,632 for the year ended June 30, 2006. The receipts included \$91,091 in property and other city tax, \$1,139,571 from charges for service, \$113,009 from operating grants, contributions and restricted interest, \$41,098 from local option sales tax, \$3,961 from unrestricted interest on investments, \$13,978 from other general receipts and \$36,924 in loan proceeds.

Disbursements for the year totaled \$1,440,668, and included \$166,224 for public safety, \$88,002 for culture and recreation and \$74,181 for public works. Also, disbursements for business type activities totaled \$1,054,834.

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/reports.htm>.

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CITY OF SABULA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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City of Sabula

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Donald L. Thayer	Mayor	Jan 2006
Troy A. Hansen	Mayor Pro tem	Jan 2008
Rita Cavanagh	Council Member	Jan 2006
Robert Canty	Council Member	Jan 2006
Sandra J. Figie	Council Member	Jan 2006
Mike Cotton	Council Member	Jan 2008
Ronald Flemming	City Clerk/Treasurer	Indefinite
Paul L. Macek	Attorney	Indefinite
(After January 2006)		
Danny Peiffer	Mayor	Resigned
David Cavanagh (Appointed)	Mayor	Jan 2008
Troy Hansen	Mayor Pro tem	Jan 2008
Mike Cotton	Council Member	Resigned Aug 2006
Judy Rittmer	Council Member	Jan 2008
Sandra J. Figie	Council Member	Jan 2010
Robert Canty	Council Member	Jan 2010
Ronald Flemming	City Clerk/Treasurer	Indefinite
Marian Alimi	Office Manager/Deputy Clerk	Indefinite
Paul L. Macek	Attorney	Indefinite

City of Sabula



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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, 2006, 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.

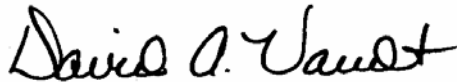
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sabula as of June 30, 2006, 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 1, 2007 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are 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. The financial statements for the year ended June 30, 2005 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 1, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sabula 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased \$30,568, due primarily to increased costs in public works, culture and recreation and community and economic development functions.
- The cash basis net assets of the City's business type activities increased \$29,532 due to utility rate increases.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers 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 that 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, health and social services, culture and recreation, community and economic development and general government. Property tax, local option sales tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, electric, gas, solid waste, utility deposits and sewer systems. These activities are financed primarily by user fees and related 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 Tax, Volunteer Fire Department and Sabula Ambulance Service, and 3) the Permanent Fund, Cemetery Perpetual Care. 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.

The required financial statement for governmental funds is 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 six Enterprise Funds to provide separate information for the water, electric, gas, solid waste and utility deposits, considered to be major funds of the City, as well as sewer operations.

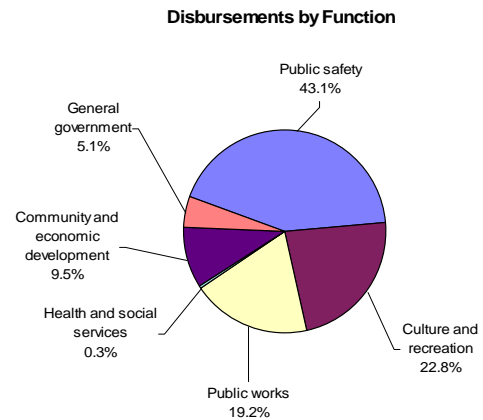
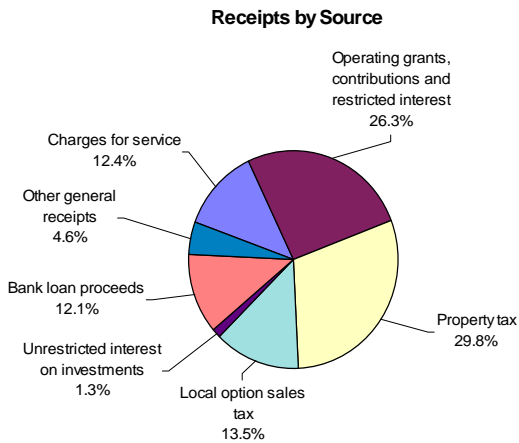
The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As described in Note 10 on Page 26, the beginning cash basis net assets of the governmental activities in the City's financial statements increased to include the Volunteer Fire Department and the Sabula Ambulance Service. To enhance comparability, all amounts presented for fiscal 2005 in this discussion and analysis were restated, where applicable, to reflect these changes as if the changes had been made in the prior year.

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$107,137 to \$76,569. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service	\$ 37,920	28,539
Operating grants, contributions and restricted interest	80,294	83,055
General receipts:		
Property tax	91,091	82,260
Grants and contributions not restricted to specific purpose	-	6,526
Local option sales tax	41,098	34,219
Unrestricted interest on investments	3,961	15,829
Bank loan proceeds	36,924	-
Other general receipts	13,978	20,199
Total receipts	305,266	270,627
Disbursements:		
Public safety	166,224	181,096
Public works	74,181	60,233
Health and social services	1,055	1,055
Culture and recreation	88,002	83,985
Community and economic development	36,540	20,160
General government	19,832	17,900
Total disbursements	385,834	364,429
Change in cash basis net assets before transfers	(80,568)	(93,802)
Transfers, net	50,000	50,000
Change in cash basis net assets	(30,568)	(43,802)
Cash basis net assets beginning of year, as restated	107,137	150,939
Cash basis net assets end of year	\$ 76,569	107,137



The City's total receipts for governmental activities increased by 12.8%, or \$34,639. The total cost of all programs and services increased by \$21,405, or 5.9%, with no new programs added this year. The increase in receipts was primarily the result of bank loan proceeds and an increase in local option sales tax receipts. The increase in disbursements was primarily due to the purchase of a squad car, a bucket truck and a pickup.

The City increased property tax rates for 2006 by an average of 1.1 percent. This increase, along with an increase in taxable valuation, raised the City's property tax receipts by \$8,831 in 2006.

The cost of all governmental activities this year was \$385,834 compared to \$364,429 last year. As shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was \$267,620 because some of the cost was paid by those directly benefited from the programs (\$37,920) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$80,294).

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 97,143	88,824
Electric	388,952	335,272
Gas	464,918	370,973
Solid Waste	52,015	46,319
Utility Deposits	9,886	5,281
Sewer	79,588	76,286
Operating grants, contributions and restricted interest	41,864	-
Intergovernmental - CDBG	-	258,186
Total receipts	<u>1,134,366</u>	<u>1,181,141</u>
Disbursements:		
Water	120,465	419,132
Electric	372,689	298,892
Gas	437,279	350,831
Solid Waste	48,134	48,208
Utility Deposits	2,692	5,908
Sewer	73,575	82,051
Total disbursements	<u>1,054,834</u>	<u>1,205,022</u>
Change in cash basis net assets before transfers	79,532	(23,881)
Transfers, net	(50,000)	(50,000)
Change in cash basis net assets	29,532	(73,881)
Cash basis net assets beginning of year	<u>42,375</u>	<u>116,256</u>
Cash basis net assets end of year	<u>\$ 71,907</u>	<u>42,375</u>

Total business type activities receipts for the fiscal year decreased by \$46,775, or 4.0%. The net change in receipts was due primarily to a decrease in intergovernmental receipts of \$258,185 from the prior year offset by an increase in utility rates in fiscal 2006. Total disbursements for the fiscal year decreased by 12.5%, or \$150,188. This decrease is primarily due to a community development block grant project primarily funded in the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sabula completed the year, its governmental funds reported a combined fund balance of \$76,569, a decrease of \$30,568 from last year's total of \$107,137. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$20,396 from the prior year to a year-end balance of \$3,852. This decrease is due to operating disbursements exceeding receipts for the current year. The City purchased a squad car, bucket truck and pickup during fiscal 2006.
- The Road Use Tax Fund cash balance decreased \$18,085 to \$1,402 during the fiscal year. This decrease was attributable to an increase in the cost of asphalt for street repairs and an additional employee partially paid from the Road Use Tax Fund.
- The Volunteer Fire Department Fund cash balance remained relatively constant, decreasing only \$1,314.
- The Sabula Ambulance Service Fund cash balance increased \$8,335 during the fiscal year. Service receipts increased while disbursements decreased.
- The Cemetery Perpetual Care Fund cash balance remained constant, increasing \$892.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$10,553 to a year-end balance of \$21,616. This increase was due primarily to an increase in water rates in February 2006.
- The Electric Fund cash balance decreased \$3,737 to a year-end balance of \$2,282. The decrease was due to the transfer to the General Fund. Electric rates were increased in April 2006.
- The Gas Fund cash balance increased \$5,628 to a year-end balance of \$15,774. The increase was due to keeping the price of gas sold to customers above the amount paid.
- The Solid Waste Fund cash balance increased \$3,881 to a year-end balance of \$11,334. The increase was due to an increase in rates effective in May 2006.
- The Utility Deposits Fund cash balance increased \$7,194 to a year-end balance of \$14,090. This increase is due to utility deposit collections exceeding refunds of deposits during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 30, 2006 and resulted in an increase in operating disbursements related to all functions of \$252,537 for water projects and other unanticipated disbursements in other departments.

The City's receipts were \$112,046 less than budgeted receipts. Charges for service receipts were \$40,575 less than budgeted receipts. This is due to rate increases effective later than expected. Miscellaneous receipts were \$82,192 less than budgeted. The City just over estimated these receipts.

Total disbursements were \$104,108 less than budgeted, due primarily to the City's budget for the business type activities function. The City anticipated capital outlay costs to be more than actual.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$245,827 in long-term notes and other long-term debt outstanding, compared to \$240,000 last year, as shown below:

	Outstanding Debt at Year-End	
	June 30,	
	2006	2,005
General obligation capital loan notes	\$ 215,000	240,000
Bank loan	30,827	-
Total	\$ 245,827	240,000

City debt payments in FY2006 reduced outstanding general obligation debt by \$25,000. The City entered into a bank loan during fiscal 2006 to help finance the purchase of City vehicles.

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 \$245,827 is significantly below its constitutional debt limit of approximately \$995,569.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Sabula's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. The City's FY2007 taxable value has increased \$803,840 from the FY2006 level.

The FY2007 budget contains total receipts of \$1,581,234 and disbursements of \$1,446,055. The FY2007 budget includes increased utility receipts due to increases in rates in late 2006.

The FY2007 levy is \$8.04604 per \$1,000 of taxable valuation, a .4% decrease from \$8.07837 per \$1,000 of taxable valuation in 2006.

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 Mike Cotton, City Clerk, 411 Broad Avenue, Sabula, IA 52070-0331.

Basic Financial Statements

City of Sabula

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 166,224	25,451	13,156
Public works	74,181	-	56,096
Health and social services	1,055	-	-
Culture and recreation	88,002	6,663	9,242
Community and economic development	36,540	4,143	-
General government	19,832	1,663	1,800
Total governmental activities	385,834	37,920	80,294
Business type activities:			
Water	120,465	106,292	24,726
Electric	372,689	388,952	-
Gas	437,279	464,918	7,989
Solid waste	48,134	52,015	-
Utility deposits	2,692	9,886	-
Sewer	73,575	79,588	-
Total business type activities	1,054,834	1,101,651	32,715
Total	\$ 1,440,668	1,139,571	113,009
General Receipts and Transfers:			
Property and other city tax levied for general purposes			
Local option sales tax			
Unrestricted interest on investments			
Bank loan proceeds			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year, as restated			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Streets			
Cemetery perpetual care			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(127,617)	-	(127,617)
(18,085)	-	(18,085)
(1,055)	-	(1,055)
(72,097)	-	(72,097)
(32,397)	-	(32,397)
(16,369)	-	(16,369)
(267,620)	-	(267,620)
-	10,553	10,553
-	16,263	16,263
-	35,628	35,628
-	3,881	3,881
-	7,194	7,194
-	6,013	6,013
-	79,532	79,532
(267,620)	79,532	(188,088)
91,091	-	91,091
41,098	-	41,098
3,961	-	3,961
36,924	-	36,924
13,978	-	13,978
50,000	(50,000)	-
237,052	(50,000)	187,052
(30,568)	29,532	(1,036)
107,137	42,375	149,512
\$ 76,569	71,907	148,476
\$ 1,402	-	1,402
41,486	-	41,486
29,829	-	29,829
3,852	71,907	75,759
\$ 76,569	71,907	148,476

City of Sabula

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

As of and for the year ended June 30, 2006

	General	Special Revenue	
		Road Use Tax	Volunteer Fire Department
Receipts:			
Property tax	\$ 85,966	-	-
Other city tax	5,125	-	-
Licenses and permits	4,260	-	-
Use of money and property	17,040	-	24
Intergovernmental	17,333	56,096	-
Charges for service	2,525	-	-
Miscellaneous	8,255	-	4,444
Total receipts	140,504	56,096	4,468
Disbursements:			
Operating:			
Public safety	143,493	-	5,782
Public works	-	74,181	-
Health and social service	1,055	-	-
Culture and recreation	88,002	-	-
Community and economic development	36,540	-	-
General government	19,832	-	-
Total disbursements	288,922	74,181	5,782
Excess (deficiency) of receipts over (under) disbursements	(148,418)	(18,085)	(1,314)
Other financing sources (uses):			
Bank loan proceeds	36,924	-	-
Operating transfers in	91,098	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	128,022	-	-
Net change in cash balances	(20,396)	(18,085)	(1,314)
Cash balances beginning of year, as restated	24,248	19,487	10,144
Cash balances end of year	\$ 3,852	1,402	8,830
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 3,852	-	-
Special revenue funds	-	1,402	8,830
Permanent fund	-	-	-
Total cash basis fund balances	\$ 3,852	1,402	8,830

See notes to financial statements.

Sabula Ambulance Service	Permanent Cemetery Perpetual Care	Nonmajor Local Option Sales Tax	Total
-	-	-	85,966
-	-	41,098	46,223
-	-	-	4,260
93	17	-	17,174
-	-	-	73,429
25,191	-	-	27,716
-	875	-	13,574
25,284	892	41,098	268,342
16,949	-	-	166,224
-	-	-	74,181
-	-	-	1,055
-	-	-	88,002
-	-	-	36,540
-	-	-	19,832
16,949	-	-	385,834
8,335	892	41,098	(117,492)
-	-	-	36,924
-	-	-	91,098
-	-	(41,098)	(41,098)
-	-	(41,098)	86,924
8,335	892	-	(30,568)
12,664	40,594	-	107,137
20,999	41,486	-	76,569
-	-	-	3,852
20,999	-	-	31,231
-	41,486	-	41,486
20,999	41,486	-	76,569

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

As of and for the year ended June 30, 2006

	Enterprise		
	Water	Electric	Gas
Operating receipts:			
Charges for service	\$ 97,143	388,927	464,918
Miscellaneous	9,149	25	7,989
Total operating receipts	<u>106,292</u>	<u>388,952</u>	<u>472,907</u>
Operating disbursements:			
Business type activities	98,109	372,689	437,279
Excess of operating receipts over operating disbursements	<u>8,183</u>	<u>16,263</u>	<u>35,628</u>
Non-operating receipts (disbursements):			
Intergovernmental	24,726	-	-
Debt service	(22,356)	-	-
Total non-operating receipts (disbursements)	<u>2,370</u>	<u>-</u>	<u>-</u>
Excess of receipts over disbursements	<u>10,553</u>	<u>16,263</u>	<u>35,628</u>
Other financing sources (uses):			
Operating transfers in	-	-	15,000
Operating transfers out	-	(20,000)	(45,000)
Total other financing sources (uses)	<u>-</u>	<u>(20,000)</u>	<u>(30,000)</u>
Net change in cash balances	10,553	(3,737)	5,628
Cash balances beginning of year	11,063	6,019	10,146
Cash balances end of year	<u>\$ 21,616</u>	<u>2,282</u>	<u>15,774</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 21,616</u>	<u>2,282</u>	<u>15,774</u>

See notes to financial statements.

Funds			
Solid Waste	Utility Deposits	Nonmajor Sewer	Total
51,973	9,886	79,588	1,092,435
42	-	-	17,205
<u>52,015</u>	<u>9,886</u>	<u>79,588</u>	<u>1,109,640</u>
48,134	2,692	73,575	1,032,478
3,881	7,194	6,013	77,162
-	-	-	24,726
-	-	-	(22,356)
-	-	-	2,370
<u>3,881</u>	<u>7,194</u>	<u>6,013</u>	<u>79,532</u>
-	-	-	15,000
-	-	-	(65,000)
-	-	-	(50,000)
3,881	7,194	6,013	29,532
7,453	6,896	798	42,375
<u>11,334</u>	<u>14,090</u>	<u>6,811</u>	<u>71,907</u>
<u>11,334</u>	<u>14,090</u>	<u>6,811</u>	<u>71,907</u>

City of Sabula

Notes to Financial Statements

June 30, 2006

(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, electric, gas, solid waste and sewer 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 the Jackson County 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 two categories:

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

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

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

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

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

The Volunteer Fire Department Fund is used to account for fire department fund raisers, donations and purchases made for the Volunteer Fire Department.

The Sabula Ambulance Service Fund is used to account for the operation and maintenance of the City's ambulance service.

The Permanent Fund includes the Cemetery Perpetual Care Fund which is used to account for Cemetery lot sales.

The City reports the following major proprietary funds:

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

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

The Utility Deposit Fund accounts for the utility deposits for the various City owned utilities.

C. Measurement Focus and Basis of Accounting

The City of Sabula 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. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Long Term Debt

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

Year Ending June 30,	General Obligation Capital Loan Notes		
	Principal	Interest	Total
2007	\$ 25,000	7,873	32,873
2008	25,000	7,172	32,172
2009	25,000	6,397	31,397
2010	25,000	5,572	30,572
2011	25,000	4,685	29,685
2012 - 2014	90,000	7,560	97,560
Total	\$ 215,000	39,259	254,259

Bank Loan

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 percent per annum, beginning August 18, 2005. During the year ended June 30, 2006, the City paid \$6,097 of principal on the loan, leaving a balance at June 30, 2006 of \$30,827.

(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 3.70% of their annual covered salary and the City is required to contribute 5.75% 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 years ended June 30, 2006 and 2005 were \$17,487 and \$17,361, respectively, equal to the required contribution for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time 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 and compensatory time payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 11,300
Compensatory time	13,700
Total	<u>\$ 25,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 41,098
	Enterprise:	
	Gas	45,000
	Electric	5,000
Enterprise:	Enterprise:	
Gas	Electric	15,000
Total		<u>\$ 106,098</u>

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

(7) 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 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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 contributions to the Pool for the year ended June 30, 2006 were \$33,438.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event 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, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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.

(8) Employee Health Insurance Plan

The City participates in a split-funded health insurance benefit plan. The plan is funded by both employee and City contributions and is administered through a service agreement with Select Benefit Administrator's, Inc. The plan provides for a maximum out-of-pocket expense per employee of \$3,000 for single plans and \$9,000 for a family plan on the first \$30,000 of expenses. The maximum exposure for the City per employee is \$1,500 for a single plan and \$3,000 for a family plan on the first \$30,000 of expenses. Claims are paid 100% by the insurer after the first \$30,000 of expenses. Monthly payments of administrative services fees and claims are paid from the City's General Fund. The City made no contribution to the plan for the year June 30, 2006.

(9) Subsequent Events

In March 2007, the City approved the purchase of a flood pump for \$49,125. In April 2007, the City approved water tower painting, repair and maintenance for \$64,449.

In May 2007, the City approved the sale of \$150,000 in general obligation capital loan notes. The proceeds will be used to pay the costs of street, water and flood control improvements.

(10) Restatement

The beginning cash basis net assets of the governmental activities and governmental funds have been restated to include the Volunteer Fire Department and Sabula Ambulance Service in the City's financial activity. The detail of the restatement is as follows:

Governmental activities and governmental funds:	
Cash basis net assets and fund balances, June 30, 2005, as previously reported	\$ 84,329
Volunteer Fire Department	10,144
Sabula Ambulance Service	<u>12,664</u>
Cash basis net assets and fund balances July 1, 2005, as restated	<u>\$ 107,137</u>

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 85,966	-
Other city tax	46,223	-
Licenses and permits	4,260	-
Use of money and property	17,174	-
Intergovernmental	73,429	24,726
Charges for service	27,716	1,082,549
Miscellaneous	13,574	27,091
Total receipts	<u>268,342</u>	<u>1,134,366</u>
Disbursements:		
Public safety	166,224	-
Public works	74,181	-
Health and social services	1,055	-
Culture and recreation	88,002	-
Community and economic development	36,540	-
General government	19,832	-
Debt service	-	-
Business type activities	-	1,054,834
Total disbursements	<u>385,834</u>	<u>1,054,834</u>
Excess (deficiency) of receipts over (under) disbursements	(117,492)	79,532
Other financing sources, net	86,924	(50,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(30,568)	29,532
Balances beginning of year, as restated	107,137	42,375
Balances end of year	<u>\$ 76,569</u>	<u>71,907</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
85,966	85,121	85,121	845
46,223	41,439	40,971	5,252
4,260	425	425	3,835
17,174	17,240	18,640	(1,466)
98,155	67,340	95,900	2,255
1,110,265	998,376	1,150,840	(40,575)
40,665	86,581	122,857	(82,192)
1,402,708	1,296,522	1,514,754	(112,046)
166,224	128,402	143,027	(23,197)
74,181	57,285	73,694	(487)
1,055	1,055	1,055	-
88,002	73,755	86,627	(1,375)
36,540	20,530	36,164	(376)
19,832	15,312	19,220	(612)
-	-	-	-
1,054,834	995,900	1,184,989	130,155
1,440,668	1,292,239	1,544,776	104,108
(37,960)	4,283	(30,022)	(7,938)
36,924	-	-	36,924
(1,036)	4,283	(30,022)	28,986
149,512	187,779	126,704	22,808
148,476	192,062	96,682	51,794

City of Sabula

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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. 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 Permanent Fund and the 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 \$252,537. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development and general government functions.

Other Supplementary Information

City of Sabula
Schedule of Indebtedness
Year ended June 30, 2006

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
Bank loan: Vehicles	Jul 18, 2005	5.00%	\$ 36,924

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
240,000	-	25,000	215,000	8,472
-	36,924	6,097	30,827	1,569

Schedule 2

City of Sabula
Note Maturities
June 30, 2006

Year Ending June 30,	General Obligation Capital Loan Notes	
	Interest Rates	Amount
2007	2.80%	\$ 25,000
2008	3.10	25,000
2009	3.30	25,000
2010	3.55	25,000
2011	3.80	25,000
2012	4.00	30,000
2013	4.15	30,000
2014	4.30	30,000
Total		<u>\$ 215,000</u>

See accompanying independent auditor's report.

City of Sabula

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Two Years

	2006	2005
Receipts:		
Property tax	\$ 85,966	82,260
Other city tax	46,223	34,571
Licenses and permits	4,260	2,115
Use of money and property	17,174	15,942
Intergovernmental	73,429	83,337
Charges for service	27,716	28,240
Miscellaneous	13,574	24,162
Total	\$ 268,342	270,627
Disbursements:		
Operating:		
Public safety	\$ 166,224	181,096
Public works	74,181	60,233
Health and social services	1,055	1,055
Culture and recreation	88,002	83,985
Community and economic development	36,540	20,160
General government	19,832	17,900
Total	\$ 385,834	364,429

See accompanying independent auditor's report.

City of Sabula



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

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Auditor of State

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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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 1, 2007. 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 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Sabula's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A), (C) and (D) are material weaknesses.

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 that are described in the accompanying Schedule of Findings.

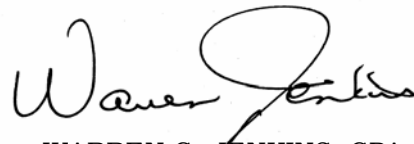
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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.

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. 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 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

October 1, 2007

City of Sabula
Schedule of Findings
Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

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

For the City, one individual has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions and custody of assets.
- (2) Cash – initiating cash receipt and disbursement functions, handling and recording cash.
- (3) Investments – detailed record keeping, custody of investments and recording earnings.
- (4) Long term debt – recording and reconciling.
- (5) Receipts – opening mail, collecting, depositing, journalizing, maintaining the deposit/check register and posting.
- (6) Disbursements – check preparation, purchasing, check signing, recording, maintaining the check register and reconciling.
- (7) Payroll – input of rates and other information, preparing, check signing, recording and distributing.
- (8) Transfers – recording and reconciling.
- (9) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting – preparing, reconciling and distributing.

For the Volunteer Fire Department and Sabula Ambulance Service, one individual had control over each of the following areas:

- (1) Cash – handling and recording cash and preparing bank reconciliations.
- (2) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (3) Disbursements – check writing, approval, posting and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, Volunteer Fire Department and Sabula Ambulance Service should review the operating procedures over City and separately maintained records to obtain the maximum internal control possible under the circumstances.

Response – The City will review operating procedures over City records to obtain the maximum internal control possible. The City manager will contact the fire and ambulance treasurers and set up procedures for internal controls.

Conclusion – Response accepted.

City of Sabula

Schedule of Findings

Year ended June 30, 2006

- (B) Information System (Computer System) – The following weaknesses in the City’s computer-based system were noted:

The City does not have written policies for:

- 1) Requiring a computer log documenting who recorded transactions.
- 2) Requiring a time out and/or log off function or screen saver password to protect a terminal if left unattended.
- 3) Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality.
- 4) Requiring the use of an anti-virus program.
- 5) Ensuring only software licensed to the City is installed on City computers.
- 6) Use of the internet.

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 its information system. A written disaster recovery plan should be developed and should be tested periodically.

Response – The City will develop written policies addressing the six items for the computer system. The City will also develop a written disaster recovery policy.

Conclusion – Response accepted.

- (C) Bank Reconciliations – Monthly reconciliations are not prepared (including a listing of outstanding checks) to reconcile book and bank balances.

Recommendation – A monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month and retained.

Response – A monthly reconciliation of book and bank balances will be done and a list of outstanding checks will be maintained.

Conclusion – Response accepted.

- (D) Reconciliation of Utility and Ambulance Billings and Collections – Utility and ambulance billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility and ambulance billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – The City will establish procedures for reconciling utility and ambulance billings, collections and delinquencies for each period and reconcile collections to deposits.

Conclusion – Response accepted.

City of Sabula

Schedule of Findings

Year ended June 30, 2006

- (E) Receipts – Although the City issues receipts, the receipts are not prenumbered by the printer. The Volunteer Fire Department and Sabula Ambulance Service do not issue receipts for their collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all City, Volunteer Fire Department and Sabula Ambulance Service money.

Response – The City will prenumber by hand the current supply of receipt books. When the supply is used up, prenumbered receipts will be ordered. The fire and ambulance treasurers will be advised to issue receipt for all collections.

Conclusion – Response accepted.

- (F) Disbursements – The City, Volunteer Fire Department and Sabula Ambulance Service checks required only one signature to validate the disbursement.

Recommendation – Checks issued should be countersigned by a person who does not otherwise participate in the preparation of checks. Prior to signing, the checks and supporting documents should be reviewed for propriety.

Response – The City is currently utilizing counter signature on our checks. The fire and ambulance services will develop a two signature checking system and implement review policy prior to issuing checks.

Conclusion – Response accepted.

- (G) Payroll – The City does not maintain individual payroll files for each employee. Time cards were not always approved and initialed by the employee's supervisor.

Recommendation – Individual payroll files should be established and retained for each employee. Time cards should be approved and initialed by the employee's supervisor or by an independent official who is not involved with payroll.

Response – Individual payroll files will be established and time cards will be signed by employees and supervisors.

Conclusion – Response accepted.

- (H) Record of Investments – A detailed record of investment transactions was not maintained.

Recommendation – A detailed record of investment transactions should be maintained. This record should include investment number, purchase date, redemption date, interest rate and amount of principal and interest received.

Response – A record of investment transactions will be developed and documented in a record book.

Conclusion – Response accepted.

City of Sabula

Schedule of Findings

Year ended June 30, 2006

- (I) Records of Accounts – Volunteer Fire Department and Sabula Ambulance Service – The Volunteer Fire Department and Sabula Ambulance Service maintain bank accounts separate from the City Clerk’s accounting records. The transactions and resulting balances of these accounts were not reported to the City Council each month and were not recorded in the City Clerk’s accounting records. The transactions are, however, recorded in these financial statements.

Disbursements for the Volunteer Fire Department are not supported by invoice.

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

Disbursements should be supported by original invoice or other supporting documentation.

Response – The City will request monthly financial information from the fire and ambulance departments and will incorporate this information into the City’s books. Disbursements will be supported by original invoices or other documentation for the fire and ambulance departments.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Sabula
Schedule of Findings
Year ended June 30, 2006

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development and general government 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 – Budget amendments will be made prior to exceeding the function areas.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined by an Attorney General’s opinion dated April 25, 1979 were noted.
- (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 or employees were noted.
- (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 insure 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.

City Council minutes were not always published within 15 days and publications did not include total disbursements by fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes and total disbursements by fund as required by the Code of Iowa.

Response – The City will try to publish minutes within 15 days of each meeting in the weekly newspaper. Expense claims will be published by funds instead of alphabetically.

Conclusion – Response accepted.

City of Sabula

Schedule of Findings

Year ended June 30, 2006

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted, except as follows:

The City has not approved an investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should approve a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Response – The City will develop a written investment policy.

Conclusion – Response accepted.

- (8) Local Option Sales Tax (LOST) – The City’s local option sales tax referendum requires 50% of the LOST receipts be allocated for property tax relief and 50% for economic development. The City transfers 100% of the LOST receipts collected to the General Fund for expenditure from that fund. A record documenting LOST receipts, expenditures and balances is not maintained, including documentation of compliance with referendum provisions for the use of LOST dollars.

During the year ended June 30, 2006, the City spent \$36,540 of LOST money in the economic development function. This amount included \$11,517 for principal, interest and fees related to the fire and water improvement general obligation capital loan notes and \$20,000 for a pickup for the Public Works department. While these expenditures appear to meet compliance with the “property tax relief” ballot requirement, it is unclear how these expenditures meet the definition of economic development. In addition, the pickup purchase would more appropriately be classified in the public works function rather than the community and economic development function and, as noted in (9) below, the general obligation notes should have been paid from a Debt Service Fund and charged against the debt service function.

Recommendation – The City should maintain a record documenting local option sales tax receipts, disbursements and balances. The record should clearly document compliance with the use of LOST dollars for both property tax relief and economic development. The City should consult legal counsel to determine the disposition of the fiscal 2006 use of LOST dollars. The City should implement procedures to ensure disbursements are posted to the correct fund and/or function.

Response – The City will establish an economic development fund and deposit 50% of LOST revenues in the fund. Expenditures will also be made out of the fund.

Conclusion – Response acknowledged. The City should also consult legal counsel regarding the use of fiscal 2006 LOST dollars. The City should also establish procedures to insure compliance with LOST ballot provisions pertaining to how LOST funds can be used.

City of Sabula

Schedule of Findings

Year ended June 30, 2006

- (9) Payment of General Obligation Notes – General obligation capital loan notes were paid from the General Fund and the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states, in part, “Money pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

Recommendation – In accordance with Chapter 384.4 of the Code of Iowa, the City should transfer from the General and Enterprise, Water Funds to the Debt Service Fund for future funding contributions. Payments of the notes should be made from the Debt Service Fund.

Response – The City has now established a debt service fund and is making payments in accordance with Chapter 284.4 of the Code of Iowa.

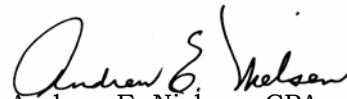
Conclusion – Response accepted.

City of Sabula

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Matt R. Ritchey, Staff Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State