

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE

July 24, 2013

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released a compilation report on the City of Cincinnati, Iowa, for the year ended June 30, 2012.

The City's receipts totaled \$396,710 for the year ended June 30, 2012. The receipts included \$35,842 in property and other city tax, \$132,053 from charges for service, \$51,304 from operating grants, contributions and restricted interest, \$47,334 from capital grants, contributions and restricted interest, \$26,163 from local option sales tax, \$3,267 from unrestricted interest on investments, \$95,713 from note and loan proceeds and \$5,034 from other general receipts.

Disbursements for the year ended June 30, 2012 totaled \$391,064, and included \$47,299 for general government, \$27,635 for culture and recreation and \$19,830 for public safety. Also, disbursements for business type activities totaled \$259,059.

A copy of the compilation 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/1222-0017-B00F.pdf>.

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CITY OF CINCINNATI
ACCOUNTANT'S COMPILATION REPORT
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2012

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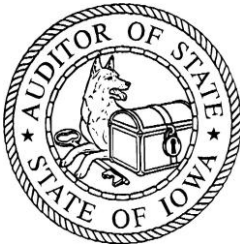
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City of Cincinnati

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Jean A Morrison	Mayor	Jan 2012
Joe Sivetts	Mayor Pro tem	Jan 2012
Rick Long	Council Member	Jan 2012
Alice McClure	Council Member	Jan 2012
Lisa Owens	Council Member	Jan 2012
Ron Shady	Council Member	Jan 2014
David Owens	City Clerk	Indefinite
Debra George	Attorney	Indefinite
(After January 2012)		
Roberta Glovas	Mayor	(Resigned Sept 2012)
Dave Rummans (Appointed)	Mayor	Jan 2014
Joe Sivetts	Mayor Pro tem	Jan 2016
Ron Shady	Council Member	Jan 2014
Rick Long	Council Member	(Resigned Apr 2012)
Jared Opperman (Appointed)	Council Member	Jan 2014
Kim Summers	Council Member	(Resigned Jul 2012)
Bob Wireman (Appointed)	Council Member	Jan 2014
Robert Conger	Council Member	Jan 2016
David Owens	City Clerk	(Resigned Jun 2012)
Jane Logsdon (Appointed)	City Clerk	Indefinite
Debra George	Attorney	(Resigned Apr 2012)
Mike Craver (Appointed)	Attorney	Indefinite

City of Cincinnati



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Mary Mosiman, CPA
Auditor of State

Accountant's Compilation Report

To the Honorable Mayor and
Members of the City Council:


We have compiled the accompanying basic financial statements, other information and supplementary information listed in the table of contents of the City of Cincinnati, Iowa, as of and for the year ended June 30, 2012. We have not audited or reviewed the accompanying basic financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the basis of accounting described in Note 1.


Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting described in Note 1 and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements. 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 standards.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance there are no material modifications that should be made to the financial statements.

We are not independent with respect to the City of Cincinnati.

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 Cincinnati and other parties to whom the City of Cincinnati may report. This report is not intended to be and should not be used by anyone other than these specified parties.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 30, 2013

City of Cincinnati

Basic Financial Statements

City of Cincinnati

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 19,830	-	14,500	-
Public works	19,826	-	27,648	-
Culture and recreation	27,635	2,200	9,049	-
General government	47,299	335	-	-
Debt service	17,415	-	-	-
Total governmental activities	132,005	2,535	51,197	-
Business type activities:				
Water	55,595	54,243	-	-
Sewer	203,464	75,275	107	47,334
Total business type activities	259,059	129,518	107	47,334
Total	\$ 391,064	132,053	51,304	47,334

General Receipts:

Property and other city tax levied for general purposes
 Local option sales tax
 Unrestricted interest on investments
 Loan proceeds
 Note proceeds
 Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Nonexpendable:

Cemetery perpetual care

Expendable:

Streets

Local option sales tax

Debt service

Other purposes

Unrestricted

Total cash basis net assets

See accompanying accountant's compilation report.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(5,330)	-	(5,330)
7,822	-	7,822
(16,386)	-	(16,386)
(46,964)	-	(46,964)
(17,415)	-	(17,415)
(78,273)	-	(78,273)
-	(1,352)	(1,352)
-	(80,748)	(80,748)
-	(82,100)	(82,100)
(78,273)	(82,100)	(160,373)
35,842	-	35,842
26,163	-	26,163
385	2,882	3,267
5,600	2,800	8,400
-	87,313	87,313
5,034	-	5,034
73,024	92,995	166,019
(5,249)	10,895	5,646
219,360	107,255	326,615
\$ 214,111	118,150	332,261
\$ 36,305	-	36,305
24,952	-	24,952
150,096	-	150,096
-	9,356	9,356
13,036	-	13,036
(10,278)	108,794	98,516
\$ 214,111	118,150	332,261

City of Cincinnati

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

As of and for the year ended June 30, 2012

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 32,869	-	-
Local option sales tax	-	-	26,163
Licenses and permits	335	-	-
Use of money and property	1,250	85	-
Intergovernmental	15,756	25,476	-
Charges for service	150	-	-
Miscellaneous	14,789	-	-
Total receipts	65,149	25,561	26,163
Disbursements:			
Operating:			
Public safety	17,822	-	-
Public works	706	19,120	-
Culture and recreation	22,761	-	4,774
General government	45,816	-	1,483
Debt Service	17,415	-	-
Total disbursements	104,520	19,120	6,257
Excess (deficiency) of receipts over (under) disbursements	(39,371)	6,441	19,906
Other financing sources:			
Loan proceeds	2,800	2,800	-
Change in cash balances	(36,571)	9,241	19,906
Cash balances beginning of year	26,293	15,711	130,190
Cash balances end of year	\$ (10,278)	24,952	150,096
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Restricted for:			
Streets	-	24,952	-
Local option sales tax	-	-	150,096
Other purposes	-	-	-
Unassigned	(10,278)	-	-
Total cash basis fund balances	\$ (10,278)	24,952	150,096

See accompanying accountant's compilation report.

<u>Permanent</u>		
<u>Cemetery</u>		
<u>Perpetual</u>		
<u>Care</u>	<u>Nonmajor</u>	<u>Total</u>
-	2,973	35,842
-	-	26,163
-	-	335
298	2	1,635
-	-	41,232
-	-	150
800	210	15,799
1,098	3,185	121,156
-	2,008	19,830
-	-	19,826
100	-	27,635
-	-	47,299
-	-	17,415
100	2,008	132,005
998	1,177	(10,849)
-	-	5,600
998	1,177	(5,249)
35,307	11,859	219,360
36,305	13,036	214,111
36,305	-	36,305
-	-	24,952
-	-	150,096
-	13,036	13,036
-	-	(10,278)
36,305	13,036	214,111

City of Cincinnati

City of Cincinnati

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

As of and for the year ended June 30, 2012

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 54,243	75,275	129,518
Operating disbursements:			
Business type activities	55,595	65,475	121,070
Excess (deficiency) of operating receipts over (under) operating disbursements	(1,352)	9,800	8,448
Non-operating receipts (disbursements):			
Intergovernmental	-	47,441	47,441
Interest on investments	1,699	1,183	2,882
Loan proceeds	-	2,800	2,800
Revenue capital loan note proceeds	-	87,313	87,313
Debt service	-	(540)	(540)
Capital outlay	-	(137,449)	(137,449)
Net non-operating receipts (disbursements)	1,699	748	2,447
Change in cash balances	347	10,548	10,895
Cash balances beginning of year	83,673	23,582	107,255
Cash balances end of year	\$ 84,020	34,130	118,150
Cash Basis Fund Balances			
Restricted for debt service	\$ -	9,356	9,356
Unrestricted	84,020	24,774	108,794
Total cash basis fund balances	\$ 84,020	34,130	118,150

See accompanying accountant's compilation report.

City of Cincinnati

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Cincinnati is a political subdivision of the State of Iowa located in Appanoose County. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Cincinnati 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: Appanoose County Assessor's Conference Board, Appanoose County Emergency Management Commission, Appanoose County Joint E911 Service Board and Rathbun Area Solid Waste Commission.

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 the following 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 are 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 funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies 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 the road use tax allocation from the State of Iowa to be used road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax and its uses.

The Permanent, Cemetery Perpetual Care Fund is used to account for a trust for care and maintenance of the cemetery.

The City reports the following major proprietary funds:

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

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

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

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

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

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

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

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

(3) Bonds and Notes Payable

Sewer Revenue Bonds

Annual debt service requirements to maturity for the sewer revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 3,661	5,695	9,356
2014	4,169	5,187	9,356
2015	4,377	4,979	9,356
2016	4,596	4,760	9,356
2017	4,826	4,530	9,356
2018-2022	27,999	18,781	46,780
2023-2027	35,735	11,045	46,780
2028-2029	22,044	1,793	23,837
Total	<u>\$ 107,407</u>	<u>56,770</u>	<u>164,177</u>

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$157,800 of sewer revenue bonds issued in December 1988. The bonds mature annually on July 1 and bear interest at 5.0% per annum, which is also due and payable every July 1. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2029. Annual principal and interest payments on the bonds are expected to require more than 100% of net receipts. The total principal and interest remaining to be paid on the bonds is \$164,177. For the current year, no principal and interest were paid and total customer net receipts were \$9,800. The fiscal year 2012 payment, which was due on July 1, 2011, was paid in June 2011 while the 2013 payment was made on July 1, 2012.

The resolution providing for the issuance of the revenue bonds includes the following provisions:

- (a) The bonds will be only redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.

- (b) The City shall make annual payments of \$9,356, including interest at 5.0% per annum, to Farmers Home Administration in the years 1991 through 2029, inclusive.
- (c) User rates shall be established at a level which produces and maintains net receipts at a level net less than 125% the amount of principal and interest on the bonds falling due in the same year.
- (d) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (e) Additionally monthly transfers to a sewer revenue reserve account shall be made until an amount equal to the principal and interest due in any subsequent year has been accumulated. This account is restricted for the purpose of paying principal and interest payments on the bonds.
- (f) The City shall cause the books and accounts of the sewer utility to be audited annually.
- (g) All users of the System, including the City, shall pay for usage.

The City's net revenues for the year ended June 30, 2012 were less than the required 125% of bond principal and interest falling due during the year.

The City has not set up a separate sewer revenue bond sinking account and monthly transfers to the account have not been made.

The City has not set up a separate sewer reserve account and the required transfers have not been made.

The City has not complied with the provision in the sewer revenue bond resolution requiring the books and accounts to be audited annually.

The City does not pay for use of the sewer system as required by the sewer revenue bond resolution.

Sewer Revenue Capital Loan Notes

On March 2, 2011, the City entered into an agreement with the Iowa Finance Authority (IFA) for the issuance of up to \$193,000 of sewer revenue capital loan notes with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements, extensions and a new pump station for the sewer utility system. The City will draw down funds from the IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2012, the City had drawn \$87,313 of the authorized amount. An initiation fee of 1% of the authorized borrowing for the sewer revenue capital loan notes was charged by the Iowa Finance Authority and withheld from the first proceeds of the sewer revenue capital loan notes drawn by the City. Final payment schedules will not be adopted until the City has drawn down the lesser of total project costs or the authorized amount of the notes.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue capital loan notes. The notes are payable solely from sewer customer net receipts. Annual principal and interest payments on the notes are expected to require more than 100% of net receipts. The total amount of principal and interest remaining to be paid on the notes at June 30, 2012 is not

available since final repayment schedules have not been adopted. For the current year, principal and interest paid and total customer net receipts were \$58 and \$9,800, respectively.

The resolution providing for the issuance of the sewer revenue capital loan notes issued under the loan agreement between the City, the Iowa Finance Authority and the Iowa Department of Natural Resources includes the following provisions:

- (1) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (2) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

Bank Loans

On April 16, 2008, the City entered into a bank loan for \$21,280 to purchase a tractor. The loan bears interest at 6.0% per annum and is to be repaid in monthly installments of \$412, including interest, for a period of 5 years. During the year ended June 30, 2012, the remaining principal balance of \$8,522 and interest of \$298 was paid on the loan.

On July 13, 2011, the City entered into a bank loan for \$8,400 to purchase a mower. The loan bears interest at 4.5% per annum and is to be repaid in monthly installments of \$367, including interest, for a period of 2 years. During the year ended June 30, 2012, the remaining principal balance of \$8,400 and interest of \$196 was paid on the loan.

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary during the year ended June 30, 2012. 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, 2012 was \$3,970, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2012, primarily relating to the General Fund, is \$2,075. This liability has been computed based on the rates of pay in effect at June 30, 2012.

(6) 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 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% 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, 2012 were \$6,754.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

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, 2012, 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 membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is

refunded 100% 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 in the amount of \$1,000,000 and \$100,000, respectively. 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.

(7) Deficit Balance

The General Fund had a deficit balance of \$10,278 at June 30, 2012. The deficit will be eliminated by future property tax collections and transfers from the Special Revenue, Local Option Sales Tax Fund.

City of Cincinnati

Other Information

City of Cincinnati
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 35,842	-	35,842
Local option sales tax	26,163	-	26,163
Licenses and permits	335	-	335
Use of money and property	1,635	2,882	4,517
Intergovernmental	41,232	47,441	88,673
Charges for service	150	129,518	129,668
Miscellaneous	15,799	-	15,799
Total receipts	121,156	179,841	300,997
Disbursements:			
Public safety	19,830	-	19,830
Public works	19,826	-	19,826
Culture and recreation	27,635	-	27,635
Community and economic development	-	-	-
General government	47,299	-	47,299
Debt service	17,415	-	17,415
Business type activities	-	259,059	259,059
Total disbursements	132,005	259,059	391,064
Deficiency of receipts under disbursements	(10,849)	(79,218)	(90,067)
Other financing sources, net	5,600	90,113	95,713
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(5,249)	10,895	5,646
Balances beginning of year	219,360	107,255	326,615
Balances end of year	\$ 214,111	118,150	332,261

See accompanying accountant's compilation report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
33,430	33,430	2,412
31,022	31,022	(4,859)
130	130	205
-	-	4,517
38,734	38,734	49,939
134,000	134,000	(4,332)
-	-	15,799
<u>237,316</u>	<u>237,316</u>	<u>63,681</u>
21,700	21,700	1,870
55,074	55,074	35,248
30,358	30,358	2,723
2,500	2,500	2,500
41,834	61,834	14,535
-	-	(17,415)
171,477	364,949	105,890
<u>322,943</u>	<u>536,415</u>	<u>145,351</u>
(85,627)	(299,099)	209,032
-	193,472	(97,759)
(85,627)	(105,627)	111,273
192,342	192,342	134,273
<u>106,715</u>	<u>86,715</u>	<u>245,546</u>

City of Cincinnati

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and 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 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 \$213,472. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the debt service function.

City of Cincinnati

Supplementary Information

City of Cincinnati

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

As of and for the year ended June 30, 2012

	Special Revenue			Total
	Employee Benefits	Fireman's Firecall	Fireman's Fundraiser	
Receipts:				
Property tax	\$ 2,973	-	-	2,973
Use of money and property	-	2	-	2
Miscellaneous	-	-	210	210
Total receipts	2,973	2	210	3,185
Disbursements:				
Operating:				
Public safety	-	-	2,008	2,008
Excess (deficiency) of receipts over (under) disbursements	2,973	2	(1,798)	1,177
Cash balances beginning of year	8,164	1,504	2,191	11,859
Cash balances end of year	\$ 11,137	1,506	393	13,036
Cash Basis Fund Balances				
Restricted for other purposes	\$ 11,137	1,506	393	13,036

See accompanying accountant's compilation report.

City of Cincinnati

Schedule of Indebtedness

As of and for the year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Farmer's Home Administration revenue bonds:			
Sewer	Dec 15, 1988	5.00%	\$ 157,800
Revenue capital loan notes:			
Sewer	Mar 2, 2011 *	3.00%	\$ 193,000
Bank loans:			
Tractor	Apr 16, 2008	6.00%	\$ 21,280
Mower	Jul 13, 2011	4.50	8,400
Total			

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying accountant's compilation report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
107,407	-	-	107,407	-
-	87,313	-	87,313	58
8,522	-	8,522	-	298
-	8,400	8,400	-	196
\$ 8,522	8,400	16,922	-	494

Schedule 3

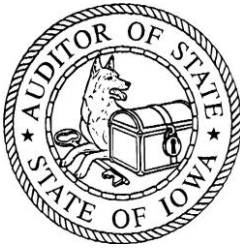
City of Cincinnati

Bond Maturities

June 30, 2012

Year Ending June 30,	Revenue Bonds	
	Sewer	
	Issued Dec 15, 1988	
	Interest Rates	Amount
2013	5.00%	\$ 3,661
2014	5.00	4,169
2015	5.00	4,377
2016	5.00	4,596
2017	5.00	4,826
2018	5.00	5,067
2019	5.00	5,320
2020	5.00	5,587
2021	5.00	5,866
2022	5.00	6,159
2023	5.00	6,467
2024	5.00	6,791
2025	5.00	7,130
2026	5.00	7,486
2027	5.00	7,861
2028	5.00	8,254
2029	5.00	13,790
Total		<u>\$ 107,407</u>

See accompanying accountant's compilation report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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Mary Mosiman, CPA
Auditor of State

To the Honorable Mayor and
Members of the City Council:

At your request, we made inquiries and observations regarding the City of Cincinnati's operations during the year ended June 30, 2012. Following are the findings we identified as a result of our inquiries and observations, along with related recommendations.

- (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) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (2) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
 - (3) Payroll – recordkeeping, preparation and distribution.
 - (4) Utilities – billing, collecting, depositing and posting.
 - (5) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
 - (6) Cash – handling, reconciling and recording.
 - (7) Debt – recordkeeping, compliance and debt payment processing.
 - (8) Computer system – performing all general accounting functions and controlling all data and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – The City has begun the process of segregating duties: the City Clerk is not a signatory on any accounts; the designated signatories and the City Council review the disbursements; an initial receipts register has been implemented for utility payments; the City has begun preparing financial and investment policies and procedures. The City will continue to review procedures to see if the Mayor or City Council can provide additional oversight through review of reports, reconciliations and transactions for the City. The City will also implement a monthly utility reconciliation to track utility billings and receipts.

Conclusion – Response accepted.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2012

(B) Utilities – The following were noted regarding the City’s utilities:

- Utility billings, collections and delinquent accounts were not reconciled throughout the year.
- A delinquent accounts listing was not prepared and maintained.
- The City’s shut-off policy and procedures are not strictly enforced.
- Paid utility stubs or other receipt records did not always indicate the date or amount paid. Accordingly, we were unable to determine whether penalties were properly applied throughout the year.
- Delinquent accounts submitted to the County Treasurer for special assessment were improperly written off and special assessment receipts were not properly reconciled to the delinquent accounts when received.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person should review the reconciliations and monitor delinquent accounts. Established shut-off policies and procedures should be followed. All paid utility stubs or receipt records should indicate the actual date and amount paid. Delinquent accounts submitted to the County Treasurer should not be written off and should be reconciled when the special assessments are received.

Response – A delinquent list by month is being prepared and utilized. A shut-off procedure is in place by ordinance and is currently being enforced. Delinquent accounts are no longer written off when submitted to the County Treasurer and special assessment receipts from the County Treasurer for delinquent accounts are being properly applied to the delinquent accounts when received.

Conclusion – Response accepted.

(C) Financial Reporting – During the compilation, we identified a material amount of receipts and disbursements recorded to incorrect funds and time periods in the City’s accounting records. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

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

Response – A new accounting system has been implemented to ensure accurate fund accounting. The City will prepare procedures to ensure proper recording of all receipts and disbursements.

Conclusion – Response accepted.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2012

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

The City does not have written policies for:

- (1) Requiring the use of a user name or password.
- (2) Requiring the maintenance of password privacy and confidentiality.
- (3) Requiring passwords to be changed at least every 60 to 90 days.
- (4) Requiring password history to be maintained to prevent employees from using the same password.
- (5) Usage 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 to improve the City’s control over its computer system. Also, a written disaster recovery plan should be developed and tested periodically.

Response – The City will develop and implement written policies on computer use. The City will develop and implement a written disaster recovery plan for its computer system.

Conclusion – Response accepted.

- (E) 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 staff.
- (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.
- (4) Ensure city accounts are appropriately utilized.

Response – The City has begun developing an accounting policies and procedures manual.

Conclusion – Response accepted

- (F) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2012

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

Response – The City will adopt a formal written policy on credit card use. The City currently requires supporting documentation to substantiate charges.

Conclusion – Response accepted.

- (G) Bank Reconciliations - Monthly reconciliations of book to bank and cash balances were not prepared.

Recommendation - To improve financial accountability and control, a monthly reconciliation of the book balances to the bank and cash balances should be prepared and retained. Any variances should be investigated and resolved in a timely manner.

Response – The City prepares and maintains monthly reconciliations of book to bank and cash balances.

Conclusion – Response accepted.

- (H) Disbursements - Invoices and other supporting documentation were not always available to support disbursements.

Recommendation - All disbursements should be supported by invoices or other supporting documentation.

Response – The City currently requires supporting documentation for all disbursements.

Conclusion – Response accepted.

- (I) Disbursement Allocation – The City has no formal policy detailing how certain disbursements should be allocated.

Recommendation – The City should establish a written policy providing guidelines for proper and consistent allocation of these costs.

Response – The City is in the process of forming an accounting manual and will form a policy for cost allocations and will pass a resolution to clearly indicate where to charge costs in the future.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2012

Findings Related to Statutory Matters:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the debt service function. 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 sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – This occurred prior to current staff. Every effort will be made to ensure this is done correctly in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in 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 ensure the coverage is adequate for current operations.
- (6) City Council Minutes – Except as noted below, no transactions were found which we believe should have been approved in the minutes but were not.

Publications of the lists of bills did not always include all claims paid by the City.

The City did not publish annual gross salaries as required by an Attorney General's opinion dated April 12, 1978.

The City Council went into closed session on July 23, 2012, September 20, 2012 and January 8, 2013. The minutes record did not document the reason for the closed sessions 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, list of approved claims, summary of receipts, total disbursements by fund and annual individual gross salaries are published as required. Also, annual gross salaries should be published.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2012

Response – The City will cite the Iowa Code Chapter 21.5 exemption for all closed sessions. The City will ensure all minutes, list of approved claims, summary of receipts and disbursements and annual individual gross salaries are 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 which 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 Iowa Code Chapter 12B.10B.

Conclusion – Response accepted.

- (8) Revenue Bonds – The following instances of non-compliance with the sewer revenue bond requirements were noted:

- The City’s sewer revenue bond resolution, Section 14, requires “the rates or charges to consumers of services of the System shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the System and for the payment of principal and interest on the Bonds and Parity Bonds as the same fall due.... Net revenues shall be maintained at a level not less than 125% of principal and interest falling due in the same year.” The City’s fiscal 2012 net sewer operating receipts of \$9,800 is less than 125% of the \$9,356 of sewer revenue bond principal and interest due during fiscal 2012.
- Section 14 of the sewer revenue bond resolution requires all users of the system, including the City, be charged for use. All City departments are not charged for sewer usage.
- Section 15(a) of the sewer revenue bond resolution requires a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sinking account. A sinking account has not been established and monthly transfers are not being made.
- Section 15(c) of the sewer revenue bond resolution requires a reserve account be established and transfers be made in an amount equal to the maximum amount of principal and interest coming due in any succeeding year. A reserve account has not been established.
- The City has not complied with the sewer revenue bond provision, Section 16(d), which states the City will cause the books and accounts to be audited annually.

Recommendation – The City should consult bond counsel to determine the disposition of these matters. The City should establish procedures to ensure all City departments are charged for sewer usage and an annual audit of the City’s sewer books and accounts is made, as required.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2012

Response – The City’s water-sewer rates were increased effective July 1, 2012 to ensure net receipts in excess of 125% of principal and interest falling due in same year. The City will begin charging sewer fees to the City departments of Community Center Building and City Hall. The City will consult legal counsel in regards to the 30-year old sewer revenue bond provision Section 16(d) requiring the City have its books and accounts audited annually as this conflicts with current law whereby cities of our population are not required to have books and accounts audited yearly. The City has implemented new accounting software and has created the necessary sinking and reserve accounts and the City will comply with balance and monthly transfer requirements.

Conclusion – Response accepted.

- (9) Part Time Help – Chapter 372.13 (4) of the Code of Iowa states, “Except as otherwise provided by state or city law, the council may appoint city officers and employees, and prescribe their powers, duties, compensation, and terms.” The City’s public works employee hires part-time help to assist with mowing, snow removal and other jobs. While the City Council approves the part-time hourly wage, the City Council does not specifically appoint the part-time employees, as required. In addition, compensation for part-time help is not recorded through the City’s payroll and no taxes are withheld from the part-time employees’ compensation.

Recommendation – The City Council should approve the hiring of all City employees, as required. In addition, the City should report compensation for part-time help as payroll. IRS form SS-8 for “Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding” should be submitted by the City or employee if determination of independent contractor status is desired. In the absence of an IRS determination pursuant to IRS form SS-8, the City should withhold tax, as required.

Response – The City Council will approve all hires. All compensation of elected officials and city employees – including part-time help – is paid through payroll and taxes are withheld and reported.

Conclusion – Response accepted.

- (10) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures....”. The City’s Annual Financial Report reported fund balances which did not materially agree with City records.

Recommendation – The City should ensure the Annual Financial Report materially agrees with the City’s records.

Response – The AFR for FY2012 was prepared by untrained staff. The City has installed new accounting software which will assist in accurate fund reporting and the City will implement procedures to ensure all future AFRs materially agree with the City’s records.

Conclusion – Response accepted.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2012

- (11) Financial Condition – The General Fund had a deficit balance of \$10,278 at June 30, 2012.

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

Response – The City will make necessary transfers to the General Fund to correct the deficit balance and will actively monitor funds in the future to ensure no funds have deficit balances.

Conclusion – Response accepted.


- (12) Other Information Required by the Farmers Home Administration Sewer Bond Resolution


Insurer	Description	Amount	Expiration Date
Iowa Communities Assurance Pool	Property	\$ 1,000,000	Feb. 15, 2013
	General liability	1,000,000	Feb. 15, 2013
	Auto liability	1,000,000	Feb. 15, 2013
	Wrongful acts official liability	1,000,000	Feb. 15, 2013
	Law enforcement liability	1,000,000	Feb. 15, 2013
	Auto physical damage	Actual Cost	Feb. 15, 2013
	Iowa Municipalities Workers Compensation Association	Workers' Compensation	1,000,000

Statistical Information

Description	Amount
Sewer customers served at June 30, 2012	200
Sewer rates in effect at June 30, 2012:	
First 1,000 gallons or less per month	\$ 13.50
All over 1,000 gallons, per month , per 1,000 gallons	5.10

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cincinnati during the course of our work. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


 MARY MOSIMAN, CPA
 Auditor of State


 WARREN G. JENKINS, CPA
 Chief Deputy Auditor of State


May 30, 2013

City of Cincinnati

Staff

This compilation was performed by:

Brian R. Brustkern, CPA, Manager
Justin M. Scherrman, Staff Auditor
Ryan Baker, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State