



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

State Capitol Building  
Des Moines, Iowa 50319-0004

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

October 30, 2013

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of South English, Iowa.

The City's receipts totaled \$2,645,745 for the year ended June 30, 2012. The receipts included \$25,866 in property tax, \$65,093 from charges for service, \$28,926 from operating grants, contributions and restricted interest, \$1,631,188 from capital grants, contributions and restricted interest, \$453 from unrestricted interest on investments, \$894,000 from revenue note proceeds and \$219 from other general receipts.

Disbursements for the year totaled \$2,632,026, and included \$18,336 for general government, \$18,327 for public works and \$13,552 for culture and recreation. Disbursements for business type activities totaled \$2,578,335.

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/1222-0513-B00F.pdf>.

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**CITY OF SOUTH ENGLISH**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2012**

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**City of South English**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2012)</b>		
Kendra Van Dyke	Mayor	Jan 2012
Jerry Sanders (Appointed Jan 2011)	Council Member	Nov 2011
Virginia Garrett	Council Member	Jan 2012
Bill Hoylman	Council Member	Jan 2012
Jeff Miller	Council Member	Jan 2012
Barb Spicer	Council Member	Jan 2012
Jacki McDermott	City Clerk/Treasurer	Indefinite
John Wehr	Attorney	Indefinite
<b>(After January 2012)</b>		
Kendra Van Dyke	Mayor	Jan 2014
Terry Allen	Council Member	Jan 2014
Bill Hoylman	Council Member	Jan 2014
Jeff Miller	Council Member	Jan 2014
Jerry Sanders	Council Member	Jan 2014
Barb Spicer	Council Member	Jan 2014
Jacki McDermott	City Clerk/Treasurer	Indefinite
John Wehr	Attorney	Indefinite

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Mary Mosiman, CPA  
Auditor of State

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of South English, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund of the City of South English as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South English's basic financial statements. Supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South English's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11 and 24 through 26 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



MARY MOSIMAN, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 7, 2013

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of South English provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2012 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased approximately \$8,000, due primarily to a decrease in disbursements for public works projects.
- The cash basis net assets of the City's business type activities increased approximately \$6,000, due primarily to sewer collections being collected for the first time in fiscal year 2012.

### **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 financial statement by providing information about the most significant funds.

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

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

Supplementary Information provides detailed information about the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **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 which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water system and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue, Road Use Tax Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

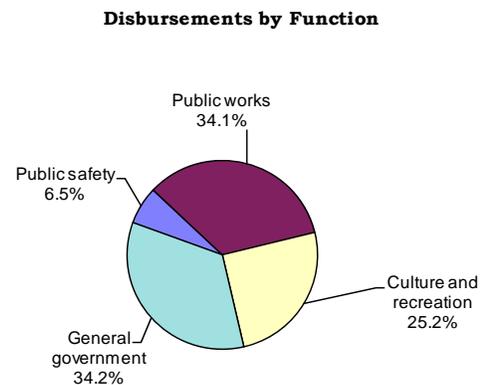
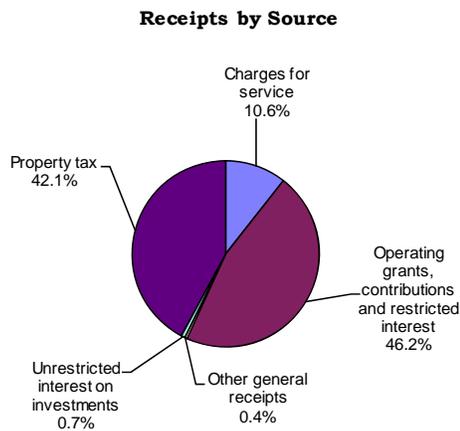
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased slightly from a year ago, increasing from \$50,175 to \$57,823. 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, 2012
Receipts:	
Program receipts:	
Charges for service	\$ 6,475
Operating grants, contributions and restricted interest	28,326
General receipts:	
Property tax	25,866
Unrestricted interest on investments	453
Other general receipts	219
Total receipts	<u>61,339</u>
Disbursements:	
Public safety	3,476
Public works	18,327
Culture and recreation	13,552
General government	18,336
Total disbursements	<u>53,691</u>
Change in cash basis net assets	7,648
Cash basis net assets beginning of year	<u>50,175</u>
Cash basis net assets end of year	<u>\$ 57,823</u>



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 46,492
Sewer	12,126
Operating grants, contributions and restricted interest	600
Capital grants, contributions and restricted interest	1,631,188
General receipts:	
Revenue note proceeds	894,000
Total receipts	<u>2,584,406</u>
Disbursements:	
Water	51,323
Sewer	2,527,012
Total disbursements	<u>2,578,335</u>
Change in cash basis net assets	6,071
Cash basis net assets beginning of year	<u>15,268</u>
Cash basis net assets end of year	<u>\$ 21,339</u>

The cash basis net assets of the City's business type activities increased 39.8%, or \$6,071.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of South English completed the year, its governmental funds reported a combined fund balance of \$57,823, an increase of \$7,648 from last year's total of \$50,175. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$1,263 to \$9,468 during the fiscal year. The increase is due primarily to an increase in property taxes received in the current fiscal year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$6,385 to \$48,355 during the fiscal year. The increase is due to receipts exceeding disbursements during the year.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance decreased \$4,231 to \$19,231. The decrease is primarily due to unexpected repairs to the water system during the year.
- The Enterprise, Sewer Fund cash balance increased \$10,302 to \$2,108. The City began collections for sewer services for the first time during the year.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The City's receipts were \$1,433,420 more than budgeted due to the City not budgeting for grant reimbursements for the installation of a sewer system. Total disbursements were \$490,374 less than budgeted. Business type activities disbursements were \$481,665 less than budgeted. This is due primarily to the City budgeting disbursements in excess of the costs necessary for the sewer project.

## DEBT ADMINISTRATION

At June 30, 2012, the City had \$986,000 of revenue notes outstanding, compared to \$1,018,895 of notes outstanding last year, as shown below:

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
Sewer revenue anticipation project note	\$ -	776,000
State revolving fund project note	-	138,895
Water revenue note	92,000	104,000
Sewer revenue note	894,000	-
Total	\$ 986,000	1,018,895

Debt decreased as a result of issuing a sewer revenue note to pay the cost of a sewer construction project, including refunding sewer project notes.

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 had no outstanding general obligation debt at June 30, 2012. The City of South English's general obligation constitutional debt limit is approximately \$304,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of South English's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. The City's fiscal year 2013 tax levy rate stayed the same as fiscal year 2012 at \$8.10/\$1,000 of taxable valuation. The actual taxable property valuation for the City in fiscal year 2012 was \$3,205,122 compared with a fiscal year 2013 actual taxable property valuation of \$3,289,008.

The fiscal year 2013 budget includes receipts of \$173,743 and disbursements of \$161,938. These amounts represent a decrease in anticipated receipts and disbursements from fiscal year 2012 due to anticipated completion of street and sewer improvement projects.

## 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 Jacki McDermott, City Clerk, P.O. Box 112, South English, Iowa 52335.

**City of South English**

## **Basic Financial Statements**

City of South English

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
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 3,476	-	4,500	-
Public works	18,327	6,375	18,019	-
Culture and recreation	13,552	-	5,807	-
General government	18,336	100	-	-
Total governmental activities	53,691	6,475	28,326	-
Business type activities:				
Water	51,323	46,492	600	-
Sewer	2,527,012	12,126	-	1,631,188
Total business type activities	2,578,335	58,618	600	1,631,188
Total	\$ 2,632,026	65,093	28,926	1,631,188

**General Receipts:**

Property and other city tax levied for general purposes  
 Unrestricted interest on investments  
 Revenue 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:  
 Streets  
 Library  
 Water deposits  
 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
1,024	-	1,024
6,067	-	6,067
(7,745)	-	(7,745)
(18,236)	-	(18,236)
(18,890)	-	(18,890)
-	(4,231)	(4,231)
-	(883,698)	(883,698)
-	(887,929)	(887,929)
(18,890)	(887,929)	(906,819)
25,866	-	25,866
453	-	453
-	894,000	894,000
219	-	219
26,538	894,000	920,538
7,648	6,071	13,719
50,175	15,268	65,443
\$ 57,823	21,339	79,162
\$ 48,355	-	48,355
5,200	-	5,200
-	10,000	10,000
4,268	11,339	15,607
\$ 57,823	21,339	79,162

**Exhibit B**

## City of South English

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

As of and for the year ended June 30, 2012

	General	Special Revenue Road Use Tax	Total
Receipts:			
Property tax	\$ 25,866	-	25,866
Licenses and permits	100	-	100
Use of money and property	453	-	453
Intergovernmental	7,500	18,019	25,519
Charges for service	6,375	-	6,375
Miscellaneous	3,026	-	3,026
Total receipts	43,320	18,019	61,339
Disbursements:			
Operating:			
Public safety	3,476	-	3,476
Public works	6,693	11,634	18,327
Culture and recreation	13,552	-	13,552
General government	18,336	-	18,336
Total disbursements	42,057	11,634	53,691
Change in cash balances	1,263	6,385	7,648
Cash balances beginning of year	8,205	41,970	50,175
Cash balances end of year	\$ 9,468	48,355	57,823
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Streets	\$ -	48,355	48,355
Library	5,200	-	5,200
Unassigned	4,268	-	4,268
Total cash basis fund balances	\$ 9,468	48,355	57,823

See notes to financial statements.

City of South English

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	\$ 46,492	12,126	58,618
Operating disbursements:			
Business type activities	34,903	3,973	38,876
Excess of operating receipts over operating disbursements	11,589	8,153	19,742
Non-operating receipts (disbursements):			
Intergovernmental	-	1,631,188	1,631,188
Revenue note proceeds	-	894,000	894,000
Miscellaneous	600	-	600
Debt service	(16,420)	(920,413)	(936,833)
Capital outlay	-	(1,602,626)	(1,602,626)
Net non-operating receipts (disbursements)	(15,820)	2,149	(13,671)
Change in cash balances	(4,231)	10,302	6,071
Cash balances beginning of year	23,462	(8,194)	15,268
Cash balances end of year	\$ 19,231	2,108	21,339
<b>Cash Basis Fund Balances</b>			
Restricted for water deposits	\$ 10,000	-	10,000
Unrestricted	9,231	2,108	11,339
Total cash basis fund balances	\$ 19,231	2,108	21,339

See notes to financial statements.

City of South English

Notes to Financial Statements

June 30, 2012

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

The City of South English is a political subdivision of the State of Iowa located in Keokuk County. It was first incorporated in 1892 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 South English 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 which 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: Keokuk County Assessor's Conference Board, Keokuk County Emergency Management Commission and Keokuk County Joint E911 Service Board.

B. Basis of Presentation

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

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

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 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.

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.

The Special Revenue, Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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:

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 classification.

#### 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 amounts budgeted in the culture and recreation and business type activities functions prior to amendment.

### **(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 has 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 revenue notes are as follows:

Year Ending June 30,	Water		Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 12,000	3,910	-	20,115	12,000	24,025
2014	14,000	3,400	10,048	33,459	24,048	36,859
2015	15,000	2,805	15,357	19,731	30,357	22,536
2016	16,000	2,168	15,706	19,382	31,706	21,550
2017	17,000	1,487	16,063	19,025	33,063	20,512
2018-2022	18,000	765	85,961	89,479	103,961	90,244
2023-2027	-	-	96,187	79,253	96,187	79,253
2028-2032	-	-	107,628	67,812	107,628	67,812
2033-2037	-	-	120,431	55,009	120,431	55,009
2038-2042	-	-	134,757	40,683	134,757	40,683
2043-2047	-	-	150,787	24,653	150,787	24,653
2048-2052	-	-	141,075	6,933	141,075	6,933
Total	\$ 92,000	14,535	894,000	475,534	986,000	490,069

During the year ended June 30, 2012, \$894,000 of sewer revenue notes were issued and \$12,000 of water revenue notes were redeemed.

Water Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$160,000 of water revenue notes issued in September, 2003. The notes were issued for the purpose of paying the costs of improvements and extensions to the water system. The notes are payable solely and only out of the net earnings of the Water Utility System and are payable through 2018. The total principal and interest to be paid on the notes is \$106,535. For the current year, principal and interest paid and total customer net receipts were \$16,420 and \$11,589, respectively.

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

- (1) The notes are payable solely and only out of the future net receipts of the water utility.
- (2) Gross receipts are to be at least sufficient to pay the expenses of operation and maintenance of the utility and to leave a balance of net receipts at least sufficient to pay the principal of and interest on the notes and any other parity obligations outstanding from time to time.

The Enterprise, Water Fund's net receipts for the year ended June 30, 2012 were less than the amount required.

Sewer Revenue Note

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay an \$894,000 sewer revenue note issued October 6, 2011. The note was issued for the purpose of paying the cost of a new sewer system. The note is payable solely and only out of the net earnings of the Sewer Utility System and is payable through 2052. The total principal and interest remaining to be paid on the note is \$1,369,534. The first payment on the note is an interest only payment of \$20,115 due on October 6, 2012.

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

- (1) The note will only be payable from the net receipts of the sewer utility.
- (2) Monthly transfers shall be made to a separate sewer operation and maintenance account within the Enterprise Funds sufficient to meet the current operating expenses of the month plus an amount equal to 1/12<sup>th</sup> of operating expenses payable on an annual basis such as insurance.
- (3) Sufficient monthly transfers shall be made to a separate sewer revenue sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (4) Monthly transfers shall be made to a sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying note principal and interest payments when insufficient money is available in other accounts.
- (5) Sewer rates shall be established at a level which produces net revenues at a level not less than 110% of the amount of principal and interest due on the note in the same year.

**(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. 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 \$1,356, equal to the required contribution for the year.

**(5) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **Other Information**

City of South English  
 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
Receipts:		
Property tax	\$ 25,866	-
Other city tax	-	-
Licenses and permits	100	-
Use of money and property	453	-
Intergovernmental	25,519	1,631,188
Charges for service	6,375	58,618
Miscellaneous	3,026	600
Total receipts	<u>61,339</u>	<u>1,690,406</u>
Disbursements:		
Public safety	3,476	-
Public works	18,327	-
Culture and recreation	13,552	-
General government	18,336	-
Business type activities	-	2,578,335
Total disbursements	<u>53,691</u>	<u>2,578,335</u>
Excess (deficiency) of receipts over (under) disbursements	7,648	(887,929)
Other financing sources (uses), net	-	894,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	7,648	6,071
Balances beginning of year	50,175	15,268
Balances end of year	<u>\$ 57,823</u>	<u>21,339</u>

See accompanying independent auditor's report.

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Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
25,866	25,158	25,158	708
-	1,421	1,421	(1,421)
100	175	175	(75)
453	421	421	32
1,656,707	232,218	232,218	1,424,489
64,993	55,432	55,432	9,561
3,626	500	3,500	126
<u>1,751,745</u>	<u>315,325</u>	<u>318,325</u>	<u>1,433,420</u>
3,476	3,476	3,476	-
18,327	18,820	22,193	3,866
13,552	10,200	15,200	1,648
18,336	20,850	21,531	3,195
2,578,335	1,767,937	3,060,000	481,665
<u>2,632,026</u>	<u>1,821,283</u>	<u>3,122,400</u>	<u>490,374</u>
(880,281)	(1,505,958)	(2,804,075)	1,923,794
<u>894,000</u>	<u>1,497,091</u>	<u>2,837,419</u>	<u>(1,943,419)</u>
13,719	(8,867)	33,344	(19,625)
65,443	51,078	51,078	14,365
<u>79,162</u>	<u>42,211</u>	<u>84,422</u>	<u>(5,260)</u>

City of South English

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Other 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 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 \$1,301,117. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions prior to amendment.

## **Supplementary Information**

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City of South English  
Schedule of Indebtedness  
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes:			
Water	Sep 9, 2003	4.25%	\$ 160,000
Sewer	Oct 6, 2011	2.25	894,000
Total			
Anticipatory financing:			
Sewer revenue anticipation project note	Oct 23, 2010	2.75%	\$ 776,000
State revolving fund project note	Jul 29, 2009	0.00	275,000
Total			

See accompanying independent auditor's report.

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Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
104,000	-	12,000	92,000	4,420
-	894,000	-	894,000	-
<u>\$ 104,000</u>	<u>894,000</u>	<u>12,000</u>	<u>986,000</u>	<u>4,420</u>
776,000	-	776,000	-	5,518
138,895	-	138,895	-	-
<u>\$ 914,895</u>	<u>-</u>	<u>914,895</u>	<u>-</u>	<u>5,518</u>

**Schedule 2**

## City of South English

## Note Maturities

June 30, 2012

Year Ending June 30,	Revenue Notes					Total	
	Water		Sewer				
	Issued Sept. 10, 2003		Issued Oct. 6, 2011				Interest
	Interest Rates	Amount	Interest Rates	Amount			
2013	4.25%	\$ 12,000	2.25%	\$ -	12,000		
2014	4.25	14,000	2.25	10,048	24,048		
2015	4.25	15,000	2.25	15,357	30,357		
2016	4.25	16,000	2.25	15,706	31,706		
2017	4.25	17,000	2.25	16,063	33,063		
2018	4.25	18,000	2.25	16,428	34,428		
2019		-	2.25	16,802	16,802		
2020		-	2.25	17,184	17,184		
2021		-	2.25	17,574	17,574		
2022		-	2.25	17,974	17,974		
2023		-	2.25	18,382	18,382		
2024		-	2.25	18,800	18,800		
2025		-	2.25	19,228	19,228		
2026		-	2.25	19,665	19,665		
2027		-	2.25	20,112	20,112		
2028		-	2.25	20,569	20,569		
2029		-	2.25	21,037	21,037		
2030		-	2.25	21,515	21,515		
2031		-	2.25	22,004	22,004		
2032		-	2.25	22,504	22,504		
2033		-	2.25	23,016	23,016		
2034		-	2.25	23,539	23,539		
2035		-	2.25	24,074	24,074		
2036		-	2.25	24,621	24,621		
2037		-	2.25	25,181	25,181		
2038		-	2.25	25,754	25,754		
2039		-	2.25	26,339	26,339		
2040		-	2.25	26,938	26,938		
2041		-	2.25	27,550	27,550		
2042		-	2.25	28,177	28,177		
2043		-	2.25	28,817	28,817		
2044		-	2.25	29,472	29,472		
2045		-	2.25	30,142	30,142		
2046		-	2.25	30,827	30,827		
2047		-	2.25	31,528	31,528		
2048		-	2.25	32,245	32,245		
2049		-	2.25	32,978	32,978		
2050		-	2.25	33,728	33,728		
2051		-	2.25	34,495	34,495		
2052		-	2.25	7,627	7,627		
Total		<u>\$ 92,000</u>		<u>\$ 894,000</u>	<u>986,000</u>		

See accompanying independent auditor's report.

City of South English  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2012

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture: Water and Waste Disposal Systems for Rural Communities	10.760		\$ 1,400,334
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Economic Development Authority: Community Development Block Grants/State's Program	14.228	10-WS-066	202,292
Total			<u>\$ 1,602,626</u>

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

See accompanying independent auditor's report.

**City of South English**



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA  
Auditor of State

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of South English, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 7, 2013. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of South English is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of South English's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of South English's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of South English's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of South English's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 through II-I-12 to be material weaknesses.

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

#### Compliance and Other Matters

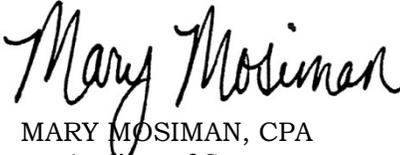
As part of obtaining reasonable assurance about whether the City of South English's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of South English's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of South English's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of South English and other parties to whom the City of South English may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of South English 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.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 7, 2013

**City of South English**

**Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA

Auditor of State

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Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

### Compliance

We have audited the City of South English, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of South English's major federal program for the year ended June 30, 2012. The City of South English's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of South English's management. Our responsibility is to express an opinion on the City of South English's compliance based on our audit.

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

In our opinion, the City of South English complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

### Internal Control Over Compliance

The management of the City of South English is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of South English's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of South English's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A deficiency in the City's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

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

The City of South English's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of South English's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of South English and other parties to whom the City of South English may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 7, 2013

City of South English  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2012

**Part I: Summary of the Independent Auditor's Results:**

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness and a significant deficiency in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of South English did not qualify as a low-risk auditee.

City of South English

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

**INTERNAL CONTROL DEFICIENCIES:**

II-A-12 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. One individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, recording, depositing, journalizing, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparation, posting and distribution.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Long-term debt – recording, debt payment processing and reconciling.
- (8) Financial reporting – preparing and reconciling.
- (9) 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. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

Response – The Mayor and City Clerk are required to sign all checks and payroll checks. All disbursements, including library disbursements, are now approved through City Council meetings prior to payment. There is no petty cash. An independent person will review and approve utility receipts and debt records on a periodic basis. The City Council will review and approve CD activity and all other financial activity monthly. The Mayor will review the reconciliation records. An accounting manual and policies and procedures will be established.

Conclusion – Response accepted.

City of South English

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

- II-B-12 Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. An elected official or other independent person should review the reconciliations and monitor delinquent accounts. The City should develop procedures to require support for adjustments to utility billings and reconcile postings with deposits.

Response – Policies and procedures will be established to reconcile utility billings, collections and delinquent accounts for each billing period. The Mayor will review the reconciliations and monitor delinquencies. The City will develop procedures to require support for adjustments to utility billings and reconcile postings with deposits.

Conclusion – Response accepted.

- II-C-12 Initial Receipts Listing – The City does not prepare an initial listing of receipts and, accordingly, an independent person does not compare the listing to deposits to determine all receipts have been properly deposited.

Recommendation – An initial receipt listing should be prepared by the City and an independent person should periodically compare the initial receipt listing to deposits to ensure all receipts have been properly deposited

Response – An initial receipt listing is already prepared at the White State Bank for all check receipts left there (all cash left at the Bank is immediately deposited to the City account by the bank teller and a copy of the deposit slip is left in the City Drawer). A copy of the check receipt list will be requested and all checks received by mail will be added to that list. An independent person will periodically compare the initial receipt listing to deposits to ensure all receipts have been properly deposited.

Conclusion – Response accepted.

- II-D-12 Accounting Policies and Procedures Manual - The City does not have an accounting policies and procedures manual.

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

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

Response – An accounting policies and procedures manual will be developed.

Conclusion – Response accepted.

City of South English

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

- II-E-12 Procurement Card and Charge Accounts – The City has one procurement card for use by the librarian and multiple charge accounts set up at businesses for use by employees while on City business. The City has not adopted a formal policy to regulate use of the procurement card or charge accounts for proper accountability.

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

Response – The City will adopt a formal written policy regarding charge accounts. The policy will state who is authorized to use charge accounts and for what purposes as well as the types of supporting documentation required to substantiate the charges. The procurement card will be discontinued.

Conclusion – Response accepted.

- II-F-12 Timesheet Approval – Although time sheets are maintained and retained for all employees, there is no indication time sheets are reviewed and approved by a supervisor prior to the preparation of payroll.

Recommendation – Time sheets should be reviewed and approved by a supervisor prior to preparation of payroll. The approval should be evidenced by the the signature or initials of the reviewer.

Response – Time sheets will be maintained and retained for all hourly employees and reviewed by the Mayor and City Council prior to distribution of payroll.

Conclusion – Response accepted.

- II-G-12 Monthly Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations included only the City’s checking accounts and did not include the library checking account, the library investment account or other reconciling items necessary to reconcile with the monthly financial reports. Also, the City’s fund balances did not reconcile to the bank at June 30, 2012. As a result, adjustments were made to the general ledger for reporting purposes. In addition, bank reconciliations are not reviewed by an independent person.

Recommendation – To provide better control over financial transactions and overall accountability, monthly bank reconciliations should include all checking accounts, investments and reconciling items. The reconciliations should agree with the fund and account balances on the City Clerk/Treasurer’s monthly financial report and be reviewed by an independent person.

Response – All library funds and investments will be remitted over to the City and maintained in the City Account. Reconciliations will now include all funds. The reconciliations will agree with the fund and account balances on the City Clerk/Treasurer’s monthly financial report and be reviewed by an independent person.

Conclusion – Response accepted.

City of South English

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

II-H-12 Financial Reporting – During the audit, we identified material amounts of receipts and disbursements not posted correctly. 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 receipts and disbursements are properly recorded in the City’s financial statements.

Response – The City will work on a policy containing a system of checks and balances to ensure receipts and disbursements are properly recorded.

Conclusion – Response accepted.

II-I-12 Computer System – During our review of internal control, the existing control activities in the City’s computer system were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer systems were noted.

The City does not have written policies for:

- (1) Logging off unattended computers.
- (2) Passwords, including password privacy and confidentiality, requiring passwords to be changed every 60 to 90 days and requiring passwords to be a minimum of eight characters long.
- (3) Complete system backup done at fiscal year end.
- (4) Backups for PC hard drives.
- (5) The use of an anti-virus program on computers.
- (6) Ensuring only software licensed to the City is installed on computers.
- (7) Internet usage.
- (8) Personal use of computer equipment and software.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer system.

Response – A written policy will be put into place.

Conclusion – Response accepted.

City of South English

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

- II-J-12 Disaster Recovery Plan – The City does not have a written disaster recovery plan for financial data.

Recommendation – The City should develop a written disaster recovery plan. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site. Additionally, weekly back up of computer files, copies of user documentation and the disaster recovery plan should be maintained at an off-site location.

Response – The City will develop policies and procedures covering a formal written disaster plan which includes the following: identification of critical applications, staff responsibilities, steps for recovery of the system, computer equipment needed for temporary processing, identification of business location(s) which could be used to process critical applications in the event of an emergency, a requirement that a copy of the plan be kept off site, a requirement to keep system back-ups current and off site, an inventory of all hardware and components, an inventory of all software applications, a requirement that copies of all user documentation and policy and procedures manuals be located off site and a requirement that extra stocks of paper supplies, such as checks, warrants, purchase orders, etc. be located off site.

Conclusion – Response accepted.

- II-K-12 Chart of Accounts and Fund Accounting – The City has not fully implemented the Uniform Chart of Accounts. As a result, certain receipts and disbursements were not properly reported in the Annual Financial Report. These were resolved and properly classified for audit purposes.

Recommendation – To provide better financial information and control, a chart of accounts, such as the Uniform Chart of Accounts approved by the City Finance Committee, should be adopted by the City. The City should record receipts and disbursements to the proper accounts on a consistent basis.

Response – The City has implemented this process and is working with the software engineer to use the Uniform Chart of Accounts in the accounting system.

Conclusion – Response accepted.

City of South English

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

II-L-12 Interest Allocation – At June 30, 2012, a total of \$453 of interest received was recorded to the General Fund in the City’s financial statements. No allocation of the interest received was made to the appropriate Enterprise Fund.

Recommendation – The City should ensure all interest earned is properly recorded to the appropriate fund in the City’s financial statements.

Response – The City will ensure all interest earned is properly recorded in the City’s financial statements.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of South English

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 10.760: Water and Waste Disposal Systems for Rural Communities  
Federal Award Year: 2012  
U.S. Department of Agriculture**

III-A-12 Procurement and Suspension and Debarment – OMB Circular A-133 requires the City to perform a verification check for covered transactions by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity or adding a clause or condition to the covered contract with the entity. The City did not perform verification checks. Additionally, the City did not ensure contracts were not awarded to suspended or debarred parties.

Recommendation – The City should perform a verification check for covered transactions by checking the Excluded Parties List System. In addition, the City should ensure contractors are not suspended or debarred by obtaining certification from the entity or adding a clause or condition to the contract language.

Response – Should the City receive federal awards and/or federal funds in the future, the City will perform a verification check for covered transactions by checking the Excluded Parties List System. The City will also ensure contracts include a clause or condition certifying the contractor is not suspended or debarred.

Conclusion – Response accepted.

III-B-12 Cash Management – Payment requests are prepared by the City Clerk and approved by the City Council during monthly meetings. The payment request is then sent to the Area 15 Regional Planning Commission which prepares a draw request based on an allocation of costs between the Water and Waste Disposal Systems for Rural Communities grant and other applicable grants. The City does not compare the actual federal drawdown received with the actual payment request and cash disbursements.

Recommendation – The City should establish a variance report of expected versus actual cash disbursements of federal awards and drawdowns of federal funds to determine if federal drawdowns match actual disbursements.

Response – Should the City receive another federal award and/or federal funds in the future, the City will establish a variance report of expected versus actual cash disbursements of federal awards and drawdowns of federal funds to ensure federal drawdowns match actual disbursements.

Conclusion – Response accepted.

City of South English

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted for the culture and recreation and business type functions prior to amendment. 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 prior to budget amendment.

Response – The City will never do this again.

Conclusion – Response accepted.

IV-B-12 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s Opinion dated April 25, 1979 were noted.

IV-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 Business Transactions – Except as follows, no business transactions between the City and City officials or employees for the year ended June 30, 2012 were noted. During the year, a Council Member was paid \$8 per hour while serving as the City Librarian and was also paid a salary of \$65 per month as the City Water Meter Reader. Council Members also served as a Water/Sewer Operator and a Water Sewer Assistant Operator and were paid \$400 per month. In accordance with Chapter 372.13(8) of the Code of Iowa, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will consult legal counsel to determine the disposition of this matter.

Conclusion – Response accepted.

City of South English

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

- IV-E-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Kendra Van Dyke, Mayor, Owner of K & J Trucking	Rock for streets	\$ 201

In accordance with Chapter 362.5(k) of the Code of Iowa, the transactions do not appear to represent a conflict of interest since the disbursements were less than \$2,500 during the fiscal year.

- IV-F-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

- IV-G-12 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

- IV-H-12 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

- IV-I-12 Revenue Notes – The City’s water revenue note resolution requires the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers to produce gross revenues at least sufficient to pay the expenses of operation and maintenance and to leave a balance of net revenues at least sufficient to pay the principal of and interest on the notes outstanding as they become due. The City’s fiscal year 2012 net water receipts of \$11,589 were less than the \$16,420 of water revenue note principal and interest due during fiscal year 2012.

Recommendation – The City should comply with the water revenue note net revenue requirement by making every effort to increase its revenues and/or decrease its disbursements.

Response – The City will comply with the water note net revenue requirements by making every effort to increase its revenues and/or decreasing its disbursements.

Conclusion – Response accepted.

City of South English

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

IV-J-12 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 receipts, disbursements and fund balances which do not materially agree with City records.

Recommendation – The City should ensure future Annual Financial Reports are supported by the City’s records.

Response – This will be monitored closely.

Conclusion – Response accepted.

IV-K-12 Publishing Salaries – The City did not publish gross salaries for all employees in accordance with Chapter 372.13 of the Code of Iowa and an Attorney General’s opinion dated April 12, 1978.

Recommendation – The City should publish actual gross salaries for all employees in accordance with Chapter 372.13 of the Code of Iowa and an Attorney General’s opinion dated April 12, 1978.

Response – We did not know about this rule at the time. We began publishing in 2013 and will continue to do so in the future.

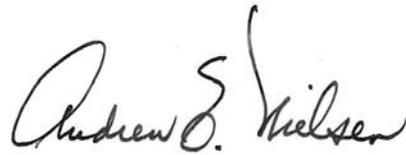
Conclusion – Response accepted.

City of South English

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Jamie T. Reuter, Staff Auditor  
Stephen J. Hoffman, 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