



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ March 11, 2014

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an audit report on the Cincinnati Sewer Utility, Cincinnati, Iowa.

The Sewer Utility's receipts totaled \$190,154 for the year ended June 30, 2013. The receipts included \$96,527 from charges for service, \$92,413 from bond proceeds, \$1,040 from unrestricted interest on investments and \$174 of miscellaneous fees.

Disbursements for the year ended June 30, 2013 totaled \$150,822, and included \$34,652 for operations, \$95,244 for capital outlay and \$20,926 for debt service.

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/1323-0017-BC00.pdf>.

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CINCINNATI SEWER UTILITY
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

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Cincinnati Sewer Utility

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dave Rummans (Appointed)	Mayor	Nov 2013
Joe Sivetts	Mayor Pro tem	Jan 2016
Jared Opperman (Appointed)	Council Member	Nov 2013
Bob Wireman (Appointed)	Council Member	Nov 2013
Ron Shady	Council Member	Jan 2014
Robert Conger	Council Member	Jan 2016
Jane Logsdon	City Clerk	Indefinite
Mike Craver	Attorney	Indefinite

Cincinnati Sewer Utility



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statement

We have audited the accompanying financial statement of the Cincinnati Sewer Utility, Cincinnati, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statement, which collectively comprise the Sewer Utility's financial statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Sewer Utility's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sewer Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the business type activities of Cincinnati Sewer Utility as of June 30, 2013, and the changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Emphasis of a Matter

As discussed in Note 1, the financial statement of the Cincinnati Sewer Utility is intended to present the financial position and results of the cash transactions of only that portion of the City of Cincinnati attributable to the transactions of the Cincinnati Sewer Utility.

Basis of Accounting

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statement.

The supplementary 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 statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, 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 financial statement taken as a whole.

The other information, the budgetary comparison information on pages 17 18 has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2014 on our consideration of the Cincinnati Sewer Utility's internal control over financial reporting and on 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 in considering the Cincinnati Sewer Utility's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 21, 2014

Financial Statement

Cincinnati Sewer Utility

Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Net Position

As of and for the year ended June 30, 2013

Operating receipts:	
Charges for service	\$ 96,527
Operating disbursements:	
Business type activities	34,652
Excess of operating receipts over operating disbursements	<u>61,875</u>
Non-operating receipts (disbursements):	
Interest on investments	1,040
Bond proceeds	92,413
Miscellaneous	174
Debt service	(20,926)
Capital outlay	(95,244)
Net non-operating receipts (disbursements)	<u>(22,543)</u>
Excess of receipts over disbursements	39,332
Transfers in from other funds of the City	24,553
Transfers out to other funds of the City	<u>(13,805)</u>
Change in cash basis net position	50,080
Cash basis net position beginning of year	34,130
Cash basis net position end of year	<u>\$ 84,210</u>
Cash Basis Net Position	
Restricted for debt service	\$ 14,481
Unrestricted	<u>69,729</u>
Total cash basis net position	<u>\$ 84,210</u>

See notes to financial statements.

Cincinnati Sewer Utility
Notes to Financial Statements
June 30, 2013

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Cincinnati Sewer Utility is a department of the City of Cincinnati. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis.

The financial statement of the Cincinnati Sewer Utility is intended to present the financial position and results of the cash transactions of only that portion of the City of Cincinnati attributable to the transactions of the Cincinnati Sewer Utility.

B. Basis of Presentation

The accounts of the Sewer Utility are classified as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise 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 an Enterprise fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Measurement Focus and Basis of Accounting

The Sewer Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Sewer Utility is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the Sewer Utility in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The Sewer Utility's deposits in banks at June 30, 2013 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 Sewer Utility 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 Sewer Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bond and Notes Payable

Annual debt service requirements to maturity for the sewer revenue bond and capital loan notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 11,169	10,437	21,606
2015	11,377	10,019	21,396
2016	11,596	9,590	21,186
2017	11,826	9,150	20,976
2018	13,067	8,699	21,766
2019-2023	72,399	35,742	108,141
2024-2028	87,522	20,779	108,301
2029-2032	59,790	4,201	63,991
Total	\$ 278,746	108,617	387,363

Sewer Revenue Bond

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay a \$157,800 sewer revenue bond issued in December 1988. The bond matures annually on July 1 and bears interest at 5.0% per annum, which is also due and payable every July 1. Proceeds from the bond provided financing for the construction of improvements to the sewer treatment plant. The bond is payable solely from sewer customer net receipts and is payable through 2029. Annual principal and interest payments on the bond are expected to require approximately 15% of net receipts. The total principal and interest remaining to be paid on the bond is \$154,823. For the current year, \$9,356 of principal and interest were paid and total customer net receipts were \$61,875.

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

- (a) The bond will be only redeemed from the future earnings of the enterprise activity and the bond holder holds 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 bond 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 bond.
- (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, 2013 were greater than the required 125% of bond principal and interest falling due during the year.

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

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

The City has complied with the provision in the sewer revenue bond resolution requiring the books and accounts to be audited annually.

The City pays 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, 2013, the City had drawn \$181,656, the final loan 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.

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 approximately 18% of net receipts. The total amount of principal and interest remaining to be paid on the notes at June 30, 2013 is \$232,540. For the current year, \$11,115 of principal and interest was paid and total customer net receipts were \$61,875.

The resolution providing for the issuance of the sewer revenue capital loan notes 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.

The City's net revenues for the year ended June 30, 2013 were greater than the required 110% of bond principal and interest falling due during the year.

(4) Pension and Retirement Benefits

The Sewer Utility 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 5.78% of their annual covered salary and the Sewer Utility is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. The Sewer Utility's contribution to IPERS for the year ended June 30, 2013 was \$646, equal to the required contribution for the year.

(5) Compensated Absences

Sewer Utility 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 Sewer Utility until used or paid. The Utility's approximate liability for earned vacation payable to employees at June 30, 2013 is \$329. This liability has been computed based on rates of pay in effect at June 30, 2013.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer To	Transfer From	Amount
Transfers in from other funds of the City:		
Enterprise:		
Sewer Utility	General	\$ 16,582
	Special Revenue:	
	Road Use Tax	2,971
	Enterprise:	
	Water	5,000
Total transfers in from other funds of the City		\$ 24,553
Transfers out to other funds of the City:		
General	Enterprise:	
	Sewer Utility	\$ 10,926
Special Revenue:		
Road Use Tax	Enterprise:	
	Sewer Utility	2,879
Total transfers out to other funds of the City		\$ 13,805

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

(7) Risk Management

The City is a member 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 679 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 at a level determined by the Board not to exceed 300% of 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 Sewer Utility's share of the City's contributions to the Pool for the year ended June 30, 2013 was \$1,791.

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 \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by the Lexington 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, 2013, 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.

Cincinnati Sewer Utility

Other Information

Cincinnati Sewer Utility
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balance –
 Budget and Actual (Cash Basis)

Other Information

Year ended June 30, 2013

	Actual	Budgeted Amount <u>Original/Final</u>	Final to Actual Variance
Receipts:			
Use of money and property	\$ 1,040	80	960
Charges for service	96,527	76,881	19,646
Miscellaneous	174	-	174
Total receipts	<u>97,741</u>	<u>76,961</u>	<u>20,780</u>
Disbursements:			
Business type activities	150,822	168,880	18,058
Deficiency of receipts under disbursements	(53,081)	(91,919)	38,838
Other financing sources, net	103,161	93,000	10,161
Change in cash basis net position	50,080	1,081	48,999
Cash basis net position beginning of year	34,130	34,130	-
Cash basis net position end of year	<u>\$ 84,210</u>	<u>35,211</u>	<u>48,999</u>

See accompanying independent auditor's report.

Cincinnati Sewer Utility

Notes to Other Information – Budgetary Reporting

June 30, 2013

The Sewer Utility prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Sewer Utility, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Sewer Utility's disbursements are budgeted in the City's business type activities function. The Sewer Utility's budget is reflected in the original and final budgeted amount. The Sewer Utility's budget was not amended during the year.

During the year ended June 30, 2013, disbursements in the business type activities function, which includes the Sewer Utility, did not exceed the amount budgeted.

Supplementary Information

Cincinnati Sewer Utility
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Farmer's Home Administration sewer revenue bond	Dec 15, 1988	5.00%	\$ 157,800
Sewer revenue capital loan notes	Mar 2, 2011 *	3.00%	\$ 181,656

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
107,407	-	3,661	103,746	5,695
87,313	94,343	6,656	175,000	4,459

Cincinnati Sewer Utility

Bond and Note Maturities

June 30, 2013

Year Ending June 30,	Sewer					Total
	Revenue Bond		Revenue Notes			
	Issued Dec 15, 1988		Issued March 2, 2011			
	Interest Rates	Amount	Interest Rates	Amount		
2014	5.00%	\$ 4,169	3.00%	\$ 7,000	11,169	
2015	5.00	4,377	3.00	7,000	11,377	
2016	5.00	4,596	3.00	7,000	11,596	
2017	5.00	4,826	3.00	7,000	11,826	
2018	5.00	5,067	3.00	8,000	13,067	
2019	5.00	5,320	3.00	8,000	13,320	
2020	5.00	5,587	3.00	8,000	13,587	
2021	5.00	5,866	3.00	9,000	14,866	
2022	5.00	6,159	3.00	9,000	15,159	
2023	5.00	6,467	3.00	9,000	15,467	
2024	5.00	6,791	3.00	9,000	15,791	
2025	5.00	7,130	3.00	10,000	17,130	
2026	5.00	7,486	3.00	10,000	17,486	
2027	5.00	7,861	3.00	10,000	17,861	
2028	5.00	8,254	3.00	11,000	19,254	
2029	5.00	13,790	3.00	11,000	24,790	
2030		-	3.00	11,000	11,000	
2031		-	3.00	12,000	12,000	
2032		-	3.00	12,000	12,000	
Total		\$ 103,746		\$ 175,000	278,746	

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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 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, the financial statement of the Cincinnati Sewer Utility, Cincinnati, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statement, and have issued our report thereon dated February 21, 2014. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Cincinnati Sewer Utility's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sewer Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sewer Utility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the 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 Cincinnati Sewer Utility's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (B) through (F) to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Sewer Utility's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Sewer Utility. 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.

Cincinnati Sewer Utility's Responses to the Findings

The Cincinnati Sewer Utility's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Cincinnati Sewer Utility's responses were not subjected to the auditing procedures applied in our audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Cincinnati Sewer Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Sewer Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Cincinnati Sewer Utility 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

February 21, 2014

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2013

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

- (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 Sewer Utility, 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, depositing, journalizing, reconciling and posting.
 - (4) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
 - (5) Payroll – recordkeeping, preparing and distributing.
 - (6) Utilities – billing, collecting, depositing and posting.
 - (7) Debt – recordkeeping, compliance and debt payment processing.
 - (8) Computer system – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Sewer Utility 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 (including the Sewer Utility) 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 and a non-signatory Council Member reviews the bank statement reconciliations. A monthly financial packet is presented for the Council's approval and includes: a balance sheet of all financial assets, an income and expenditures statement along with a profit and loss statement and a budget versus actual report for comparing year to date totals. An initial receipts register has been implemented for utility payments. The City has begun preparing updated financial and investment policies and procedures. The City has implemented new accounting software for a more accurate capture and reporting of receipts and disbursements. The City will continue to review procedures to see if additional oversight and control can be achieved.

Conclusion – Response accepted.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2013

(B) Utilities – The following were noted regarding the Sewer Utility:

- Utility billings, collections and delinquent accounts were not reconciled throughout the year.
- The Utility's shut-off policy and procedures are not strictly enforced.

Recommendation – 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.

Response – The Sewer Utility has begun a utility billings, collections and delinquent account reconciliation. The Sewer Utility is currently enforcing the shut-off policy and procedures. However, the Sewer Utility will evaluate the policy to determine if more concise language is needed to enable clear understanding of the policy by all parties involved.

Conclusion – Response accepted.

(C) Computer System – The Utility 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 Sewer Utility does not have a written disaster recovery plan.

Recommendation – The Sewer Utility should develop written policies addressing the above items to improve the Sewer Utility's control over its computer system. Also, a written disaster recovery plan should be developed and tested periodically.

Response – The City will prepare a written computer usage policy addressing the concerns for passwords, privacy, confidentiality and internet usage. The City will prepare a written disaster recovery plan. The new policy and plan will also cover the Sewer Utility.

Conclusion – Response accepted.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2013

- (D) Accounting Policies and Procedures Manual – The Sewer Utility 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 Sewer Utility accounts are appropriately utilized.

Response – The City is in the process of developing an accounting policies and procedures manual which will also cover the Sewer Utility.

Conclusion – Response accepted.

- (E) Credit Cards – The Sewer Utility has credit cards for use by various employees while on Sewer Utility business. The Sewer Utility 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.

Recommendation – The Sewer Utility should adopt a formal written policy regulating the use of Sewer Utility 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 is in the process of preparing a written credit card policy as part of its financial policy, which will cover the Sewer Utility as well and address the concerns of credit card control, authorization to use, purposes for use and the types of supporting documentation required to substantiate charges. The City currently requires supporting documentation for all disbursements.

Conclusion – Response accepted.

- (F) Disbursement Allocation – The Sewer Utility has no formal policy detailing how certain disbursements should be allocated.

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

Response – The City is in the process of preparing a written financial policy which will cover the Sewer Utility as well and address the issues of consistent allocation of receipts, disbursements and costs.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2013

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2013 did not exceed the amount budgeted in the business type activities function.
- (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 Sewer Utility money for travel expenses of spouses of Sewer Utility officials or employees were noted.
- (4) Business Transactions – No business transactions between the Sewer Utility and Sewer Utility officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Sewer Utility officials and employees is carried by the City 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 – No transactions were found which we believe should have been approved in the minutes but were not.
- (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 is in the process of preparing a written investment policy in order to be in compliance with the provisions of Chapter 12B.10B of the Code of Iowa.

Conclusion – Response accepted.

- (8) Revenue Bond – The following instances of non-compliance with the sewer revenue bond requirements were noted:
 - 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. The Sewer Utility transferred the funds necessary to pay principal and interest to the City’s Debt Service Fund and the payments were made from the City’s Debt Service Fund.
 - 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.

Recommendation – The Sewer Utility should comply with the sewer revenue bond requirements and the principal and interest coming due should be paid out of the sewer sinking account.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2013

Response – The Sewer Utility has established a sinking account for the sewer revenue bond, with transfers equal to 1/12 of the principal and interest coming due being made into said sinking account and principal and interest will be paid out of this account. The Sewer Utility will establish a reserve account for the sewer revenue bond by designating CD fund balances for the reserve account.

Conclusion – Response accepted.

(9) 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, 2014
	General liability	1,000,000	Feb. 15, 2014
	Auto liability	1,000,000	Feb. 15, 2014
	Wrongful acts official liability	1,000,000	Feb. 15, 2014
	Law enforcement liability	1,000,000	Feb. 15, 2014
	Auto physical damage	Actual Cost	Feb. 15, 2014
Iowa Municipalities Workers Compensation Association	Workers' Compensation	1,000,000	Jul 1, 2013

Statistical Information

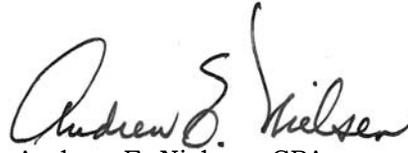
Description	Amount
Sewer customers served at June 30, 2013	189
Sewer rates in effect at June 30, 2013:	
First 1,000 gallons or less per month	\$ 28.50
All over 1,000 gallons, per month , per 1,000 gallons	11.56

Cincinnati Sewer Utility

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
Justin Scherrman, Senior Auditor
Leslie Downing, 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