

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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
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NEWS RELEASE

FOR RELEASE

October 22, 2015

Contact: Andy Nielsen  
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Auditor of State Mary Mosiman today released an audit report on the City of Nashua, Iowa.

The City's receipts totaled \$2,029,369 for the year ended June 30, 2014. The receipts included \$583,299 in property tax, \$700,762 from charges for service, \$348,059 from operating grants, contributions and restricted interest, \$235,918 from capital grants, contributions and restricted interest, \$140,509 from local option sales tax, \$17,350 from unrestricted interest on investments and \$3,472 from other general receipts.

Disbursements for the year ended June 30, 2014 totaled \$1,800,125, and included \$444,769 for public safety, \$364,710 for debt service and \$220,572 for public works. Also, disbursements for business type activities totaled \$423,109.

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/1421-0166-B00F.pdf>.

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**CITY OF NASHUA**

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

**JUNE 30, 2014**

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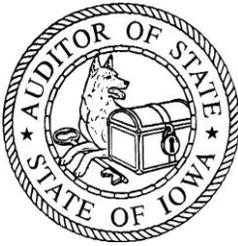
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**City of Nashua**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2014)</b>		
John Phyfe	Mayor	Jan 2014
Richard Baldwin	Mayor Pro tem	Jan 2016
Richard Crooks	Council Member	Jan 2014
Terry McGinnis	Council Member	Jan 2014
Roger Gigler	Council Member	Jan 2016
Robert Mehmen (Elected Nov 2013)	Council Member	Jan 2016
Rebecca Neal	City Clerk	Indefinite
Melissa Berends	Treasurer	Indefinite
Dave Skilton	Attorney	Indefinite
<b>(After January 2014)</b>		
John Phyfe	Mayor	(Resigned)
Deanne Lantow (Appointed)	Mayor	Nov 2015
Richard Baldwin	Mayor Pro tem	Jan 2016
Robert Mehmen	Council Member	Jan 2016
Roger Gigler	Council Member	Jan 2016
Rolland Cagley	Council Member	Jan 2018
Richard Crooks	Council Member	Jan 2018
Rebecca Neal	City Clerk	(Retired Mar 2015)
Tabatha Caswell (Appointed)	City Clerk	Indefinite
Melissa Berends	Treasurer	Indefinite
Dave Skilton	Attorney	Indefinite

**City of Nashua**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Nashua, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements 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 City'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 statements.

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

## Opinions

### *Basis for Modified Opinions*

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, 2013.

### *Modified Opinions*

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, 2013, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Nashua as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

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

### Other Matters

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nashua's basic financial statements. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

The other information, the budgetary comparison information on pages 26 through 28, 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2015 on our consideration of the City of Nashua'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 City of Nashua's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

September 24, 2015

**City of Nashua**

## **Basic Financial Statements**

City of Nashua

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 444,769	13,391	30,092	-
Public works	220,572	39,928	166,057	-
Health and social services	6,650	-	-	-
Culture and recreation	181,216	43,151	140,295	-
Community and economic development	64,729	43,537	2,409	-
General government	94,370	7,843	9,206	-
Debt service	364,710	-	-	-
Total governmental activities	1,377,016	147,850	348,059	-
Business type activities:				
Water	215,892	234,382	-	-
Sewer	205,517	316,430	-	235,918
Utility deposits	1,700	2,100	-	-
Total business type activities	423,109	552,912	-	235,918
<b>Total Primary Government</b>	<b>\$ 1,800,125</b>	<b>700,762</b>	<b>348,059</b>	<b>235,918</b>
<b>Component Unit:</b>				
Nashua Volunteer Firefighter's Association	\$ 32,993	-	29,310	-
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Nonexpendable:				
Watson estate - general				
Watson estate - library				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Library				
Fire				
Police				
Local option - Lake/dam				
Local option - Urban revitalization				
Employee benefits				
Customer deposits				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Nashua Volunteer Firefighter's Association
(401,286)	-	(401,286)	
(14,587)	-	(14,587)	
(6,650)	-	(6,650)	
2,230	-	2,230	
(18,783)	-	(18,783)	
(77,321)	-	(77,321)	
(364,710)	-	(364,710)	
(881,107)	-	(881,107)	
-	18,490	18,490	
-	346,831	346,831	
-	400	400	
-	365,721	365,721	
(881,107)	365,721	(515,386)	
			(3,683)
513,911	-	513,911	-
69,388	-	69,388	-
140,509	-	140,509	-
16,965	385	17,350	-
3,472	-	3,472	-
285,888	(285,888)	-	-
1,030,133	(285,503)	744,630	-
149,026	80,218	229,244	(3,683)
1,705,485	277,613	1,983,098	9,594
\$ 1,854,511	357,831	2,212,342	5,911
\$ 825,218	-	825,218	-
150,000	-	150,000	-
76,006	-	76,006	-
80,351	-	80,351	-
125,207	12,920	138,127	-
18,594	-	18,594	-
78,794	-	78,794	-
2,208	-	2,208	-
183,988	-	183,988	-
59,780	-	59,780	-
95,767	-	95,767	-
-	5,322	5,322	-
158,598	339,589	498,187	5,911
\$ 1,854,511	357,831	2,212,342	5,911

City of Nashua

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

As of and for the year ended June 30, 2014

	Special Revenue			
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
Receipts:				
Property tax	\$ 355,289	-	-	-
Other city tax	-	-	-	140,509
Licenses and permits	5,740	-	-	-
Use of money and property	20,818	-	366	-
Intergovernmental	49,011	166,057	-	-
Charges for service	76,726	-	-	-
Miscellaneous	197,628	-	-	-
Total receipts	705,212	166,057	366	140,509
Disbursements:				
Operating:				
Public safety	353,759	-	-	-
Public works	27,510	168,414	-	-
Health and social services	6,650	-	-	-
Culture and recreation	179,759	-	-	-
Community and economic development	61,143	-	840	-
General government	88,128	-	-	-
Debt service	-	-	-	-
Total disbursements	716,949	168,414	840	-
Excess (deficiency) of receipts over (under) disbursements	(11,737)	(2,357)	(474)	140,509
Other financing sources (uses):				
Transfers in	70,255	-	-	-
Transfers out	-	-	-	(140,509)
Total other financing sources (uses)	70,255	-	-	(140,509)
Change in cash balances	58,518	(2,357)	(474)	-
Cash balances beginning of year	443,444	78,363	80,825	-
Cash balances end of year	\$ 501,962	76,006	80,351	-
<b>Cash Basis Fund Balances</b>				
Nonspendable:				
Watson estate - general	\$ -	-	-	-
Watson estate - library	-	-	-	-
Restricted for:				
Streets	-	76,006	-	-
Urban renewal purposes	-	-	80,351	-
Debt service	-	-	-	-
Library	18,594	-	-	-
Fire	78,794	-	-	-
Police	2,208	-	-	-
Local option - Lake/dam	183,988	-	-	-
Local option - Urban revitalization	59,780	-	-	-
Employee benefits	-	-	-	-
Unassigned	158,598	-	-	-
Total cash basis fund balances	\$ 501,962	76,006	80,351	-

See notes to financial statements.

	Permanent			
Employee Benefits	Debt Service	Watson Estate		Total
158,622	69,388	-		583,299
-	-	-		140,509
-	-	-		5,740
-	-	-		21,184
-	-	-		215,068
-	-	-		76,726
-	-	-		197,628
158,622	69,388	-		1,240,154
91,010	-	-		444,769
24,648	-	-		220,572
-	-	-		6,650
1,457	-	-		181,216
2,746	-	-		64,729
6,242	-	-		94,370
-	364,710	-		364,710
126,103	364,710	-		1,377,016
32,519	(295,322)	-		(136,862)
-	356,142	-		426,397
-	-	-		(140,509)
-	356,142	-		285,888
32,519	60,820	-		149,026
63,248	64,387	975,218		1,705,485
95,767	125,207	975,218		1,854,511
-	-	825,218		825,218
-	-	150,000		150,000
-	-	-		76,006
-	-	-		80,351
-	125,207	-		125,207
-	-	-		18,594
-	-	-		78,794
-	-	-		2,208
-	-	-		183,988
-	-	-		59,780
95,767	-	-		95,767
-	-	-		158,598
95,767	125,207	975,218		1,854,511

**City of Nashua**

City of Nashua

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

As of and for the year ended June 30, 2014

	Enterprise			Total
	Water	Sewer	Nonmajor Utility Deposits	
Operating receipts:				
Charges for service	\$ 234,382	316,430	-	550,812
Miscellaneous	-	-	2,100	2,100
Total operating receipts	234,382	316,430	2,100	552,912
Operating disbursements:				
Business type activities	160,690	184,561	1,700	346,951
Excess of operating receipts over operating disbursements	73,692	131,869	400	205,961
Non-operating receipts (disbursements):				
Interest on investments	-	385	-	385
Intergovernmental	-	235,918	-	235,918
Capital projects	(55,202)	(20,956)	-	(76,158)
Total non-operating receipts (disbursements)	(55,202)	215,347	-	160,145
Excess of receipts over disbursements	18,490	347,216	400	366,106
Transfers out	(96,885)	(189,003)	-	(285,888)
Change in cash balances	(78,395)	158,213	400	80,218
Cash balances beginning of year	290,578	(17,887)	4,922	277,613
Cash balances end of year	\$ 212,183	140,326	5,322	357,831
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Debt service	\$ -	12,920	-	12,920
Customer deposits	-	-	5,322	5,322
Unrestricted	212,183	127,406	-	339,589
Total cash basis fund balances	\$ 212,183	140,326	5,322	357,831

See notes to financial statements.

City of Nashua

Notes to Financial Statements

June 30, 2014

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

The City of Nashua is a political subdivision of the State of Iowa located in Chickasaw and Floyd Counties. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Nashua 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.

These financial statements present the City of Nashua (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Nashua Volunteer Firefighter's Association, Inc. was organized as a non-profit entity under Chapter 504A of the Code of Iowa. The purpose of the Association is to promote fellowship and brotherhood among members and to provide and support community service activities. The Association is legally separate from the City but is financially accountable to the City, or the relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Chickasaw County Assessor's Conference Board, Watershed Management Authority, Iowa Northland Regional Council of Governments,

Floyd-Mitchell-Chickasaw Solid Waste Management Agency, Chickasaw County Emergency Management Commission, Floyd County Joint E911 Service Board and the Chickasaw County E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position 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 Cash Basis Statement of Activities and Net position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

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

Expendable restricted net position results when constraints placed on net asset use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for the City's local option sales tax (LOST) receipts and related disbursements.

The Employee Benefits Fund is used to account for the tax levy and disbursements for employee benefits, such as health insurance and pensions.

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

The Permanent, Watson Estate Fund accounts for gifts made to the City required to be held perpetually with interest earnings to be used for general purposes and for the City's library.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the culture and recreation function before the budget was amended.

**(2) Cash and Pooled Investments**

The City’s deposits in banks at June 30, 2014 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 ensure there will be no loss of public funds.

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

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

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds/notes and sewer revenue bonds are as follows:

Year Ending June 30,	General Obligation		Sewer Revenue		Total	
	Bonds/Notes		Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 114,000	31,976	99,000	56,040	213,000	88,016
2016	118,000	28,920	102,000	53,070	220,000	81,990
2017	121,000	25,754	105,000	50,010	226,000	75,764
2018	125,000	22,509	109,000	46,860	234,000	69,369
2019	128,000	19,155	112,000	43,590	240,000	62,745
2020-2024	274,000	62,610	617,000	165,330	891,000	227,940
2025-2029	250,000	18,990	724,000	66,510	974,000	85,500
Total	\$ 1,130,000	209,914	1,868,000	481,410	2,998,000	691,324

### Sewer Revenue Bonds

On August 6, 2008, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of \$2,318,000 of sewer revenue bonds with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds 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 and extensions to the sewer system. During the year ended June 30, 2014, the City paid principal of \$96,000 and interest of \$58,920. At June 30, 2014, the outstanding principal balance was \$1,868,000.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,318,000 of sewer revenue bonds issued in August 2008. Proceeds from the bonds provided financing for constructing improvements and extensions to the sewer utility. The bonds are payable solely and only out of the net earnings of the sewer utility system and are payable through 2029. Annual principal and interest payments on the bonds are expected to require approximately 118% of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,349,410. For the current year, principal and interest paid and total customer net receipts were \$154,920 and \$131,869, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sewer rates shall be established at a level which produces net receipts at a level not less than 110% of the amount of principal and interest due on the bonds in the same year.
- (c) Sufficient monthly transfers shall be made to a sewer sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (d) A surplus account shall be established and maintained into which there shall be set apart and paid all the net receipts remaining after first making the required payments into the sinking account. All money credited to the surplus account shall be transferred and credited to the sinking account whenever necessary to prevent or remedy a default in the payment of principal or interest on the bonds.

The City has not established or made the required transfers to a sewer sinking account. The City's sewer net receipts for the year ended June 30, 2014 were less than the required 110% of principal and interest due on the bonds.

#### **(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 5.95% of their annual covered salary and the City is required to contribute 8.93% 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, 2014 was \$36,316, equal to the required contribution for the year.

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

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 8 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially self-funded plan with Wellmark. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$612 for single coverage and \$1,530 for family coverage. For the year ended June 30, 2014, the City contributed \$88,514 and plan members eligible for benefits contributed \$6,812 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. This accumulation is not recognized as a disbursement by the City until used or paid.

The City's approximate liability for earned vacation hours payable to employees at June 30, 2014, primarily relating to the General Fund, is approximately \$14,000. This liability has been computed based on rates of pay in effect at June 30, 2014.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 70,255
Debt Service	Special Revenue:	
	Local Option Sales Tax	70,254
	Enterprise:	
	Water	96,885
	Sewer	189,003
		356,142
Total		\$ 426,397

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

## **(8) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 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 casualty 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 estimated for the fiscal 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 basis rate 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 property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2014 was \$26,949.

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 through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2014, 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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member

The City also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Subsequent Events**

On July 1, 2014, the City authorized a \$150,000 general obligation note to finance construction of street, storm sewer, sanitary sewer and water system improvements.

On July 1, 2014, the City authorized a \$200,000 general obligation note to finance municipal power house improvements.

**(10) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and other information.

**City of Nashua**

## **Other Information**

City of Nashua  
 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, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 583,299	-	583,299
Other city tax	140,509	-	140,509
Licenses and permits	5,740	-	5,740
Use of money and property	21,184	385	21,569
Intergovernmental	215,068	235,918	450,986
Charges for service	76,726	550,812	627,538
Miscellaneous	197,628	2,100	199,728
Total receipts	<u>1,240,154</u>	<u>789,215</u>	<u>2,029,369</u>
Disbursements:			
Public safety	444,769	-	444,769
Public works	220,572	-	220,572
Health and social services	6,650	-	6,650
Culture and recreation	181,216	-	181,216
Community and economic development	64,729	-	64,729
General government	94,370	-	94,370
Debt service	364,710	-	364,710
Business type activities	-	423,109	423,109
Total disbursements	<u>1,377,016</u>	<u>423,109</u>	<u>1,800,125</u>
Excess (deficiency) of receipts over (under) disbursements	(136,862)	366,106	229,244
Other financing sources (uses), net	<u>285,888</u>	<u>(285,888)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	149,026	80,218	229,244
Balances beginning of year	<u>1,705,485</u>	<u>277,613</u>	<u>1,983,098</u>
Balances end of year	<u>\$ 1,854,511</u>	<u>357,831</u>	<u>2,212,342</u>

See accompanying independent auditor's report.

<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
<u>Original</u>	<u>Final</u>	
561,137	561,137	22,162
147,994	147,994	(7,485)
2,418	2,418	3,322
25,017	51,517	(29,948)
281,900	406,900	44,086
657,489	657,489	(29,951)
82,475	82,475	117,253
<u>1,758,430</u>	<u>1,909,930</u>	<u>119,439</u>
569,495	569,495	124,726
238,423	253,423	32,851
11,860	11,860	5,210
131,830	213,830	32,614
62,928	84,428	19,699
122,386	130,386	36,016
365,581	365,581	871
496,681	496,681	73,572
<u>1,999,184</u>	<u>2,125,684</u>	<u>325,559</u>
(240,754)	(215,754)	444,998
-	-	-
(240,754)	(215,754)	444,998
<u>1,745,396</u>	<u>1,745,396</u>	<u>237,702</u>
<u>1,504,642</u>	<u>1,529,642</u>	<u>682,700</u>

City of Nashua

Notes to Other Information – Budgetary Reporting

June 30, 2014

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the discretely presented component unit. 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, the Debt Service Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$126,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the culture and recreation function before the budget was amended.

**Supplementary Information**

City of Nashua  
Schedule of Indebtedness  
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Sewer	Jun 11, 2008	3.00%	\$ 1,000,000
Welcome center	Oct 28, 2009	2.85	270,000
Water	Aug 22, 2012	2.48	500,000
Total			
Revenue bonds:			
Sewer revenue	Aug 6, 2008	* 3.00%	\$ 2,318,000

\* The City is required to annually pay a .25% servicing fee on the outstanding principal balance.  
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
803,000	-	43,000	760,000	24,090
58,000	-	58,000	-	836
436,021	-	66,021	370,000	10,925
<u>\$ 1,297,021</u>	-	167,021	1,130,000	35,851
<u>1,964,000</u>	-	96,000	1,868,000	58,920

**Schedule 2**

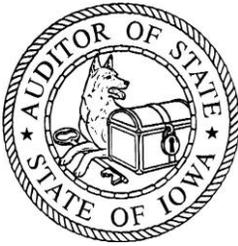
## City of Nashua

## Bond and Note Maturities

June 30, 2014

Year Ending June 30,	General Obligation Bonds/Notes					Revenue Bonds	
	Sewer		Water		Total	Sewer	
	Issued Jun 11, 2008		Issued Aug 22, 2012			Issued Aug 6, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2015	3.00%	\$ 44,000	2.48%	\$ 70,000	114,000	3.00%	\$ 99,000
2016	3.00	46,000	2.48	72,000	118,000	3.00	102,000
2017	3.00	47,000	2.48	74,000	121,000	3.00	105,000
2018	3.00	49,000	2.48	76,000	125,000	3.00	109,000
2019	3.00	50,000	2.48	78,000	128,000	3.00	112,000
2020	3.00	52,000		-	52,000	3.00	116,000
2021	3.00	53,000		-	53,000	3.00	119,000
2022	3.00	55,000		-	55,000	3.00	123,000
2023	3.00	56,000		-	56,000	3.00	127,000
2024	3.00	58,000		-	58,000	3.00	132,000
2025	3.00	60,000		-	60,000	3.00	136,000
2026	3.00	62,000		-	62,000	3.00	140,000
2027	3.00	63,000		-	63,000	3.00	145,000
2028	3.00	65,000		-	65,000	3.00	149,000
2029	3.00	-		-	-	3.00	154,000
Total		<u>\$ 760,000</u>		<u>\$ 370,000</u>	<u>1,130,000</u>		<u>\$ 1,868,000</u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE  
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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 statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Nashua, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 24, 2015. Our report expressed modified opinions on the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles since we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Nashua's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Nashua's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Nashua'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 deficiencies in internal control we consider to be material weaknesses and 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 Nashua's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (E) to be material weaknesses.

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

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 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 Nashua's Responses to the Findings

The City of Nashua's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Nashua's responses were not subjected to the auditing procedures applied in the audit of the financial statements 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 City'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 City'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 City of Nashua 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

September 24, 2015

City of Nashua

Schedule of Findings

Year ended June 30, 2014

**Findings Related to the Financial Statements:**

**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. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas for the City:
- (1) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.
  - (2) Cash and petty cash – reconciling bank accounts, initiating and recording cash receipt and disbursement transactions and long term debt. Bank reconciliations were not reviewed by an independent person.
  - (3) Investments – investing, recording and custody.
  - (4) Long-term debt – recording and reconciling.
  - (5) Receipts – collecting, depositing, journalizing and posting.
  - (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
  - (7) Disbursements – purchasing, check signing, recording and reconciling.
  - (8) Payroll – recordkeeping, preparing and distributing.
  - (9) Computer system – performing all general accounting functions and controlling all data input and output.
  - (10) Financial reporting – preparing, reconciling and distributing.

For the Nashua Volunteer Firefighter’s Association and the Water Over the Dam Committee, one person has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – posting, reconciling and check writing.
- (3) Cash and investments – handling and recording cash and investing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, the Nashua Volunteer Firefighter’s Association and the Water Over the Dam Committee should review their 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 documented by the signature or initials of the independent reviewer and the date of the review.

Response – The City Council will discuss further ways to segregate duties for all entities.

Conclusion – Response accepted.

City of Nashua

Schedule of Findings

Year ended June 30, 2014

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled monthly. In addition, a delinquent accounts listing was not generated.

Recommendation – A listing of delinquent accounts should be generated and retained monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a City Council designated independent person should review the reconciliations and monitor delinquencies. The review should be documented by the signature or initials of the reviewer and the date of review.

Response – An effort will be made to reconcile in the future.

Conclusion – Response accepted.

- (C) Financial Reporting – During the audit, we identified material amounts of receipts and disbursements not recorded in the City's general ledger. In addition, certain transfers were recorded as receipts and one transfer out was recorded as a transfer in. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

Also, certain receipts, disbursements and ending fund balances reported in the City's Annual Financial Report did not agree with the general ledger.

Recommendation – The City should implement procedures to ensure receipts and disbursements and transfers are properly recorded in the City's financial records and in the Annual Financial Report.

Response – The City will comply in the future.

Conclusion – Response accepted.

- (D) Bank Reconciliations – Bank reconciliations were not prepared monthly for part of the fiscal year and the City's fund balances did not reconcile to the bank at June 30, 2014. 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 in the City Clerk/Treasurer's monthly financial report and be reviewed by an independent person.

Response – The City has hired a new Treasurer. The City Clerk will be working closely with the Treasurer to ensure bank reconciliations are completed monthly.

Conclusion – Response accepted.

City of Nashua

Schedule of Findings

Year ended June 30, 2014

- (E) Monthly Treasurer's Report – The June 2014 Treasurer's Report generated by the City's software does not equal the City Clerk's manual Treasurer's Report.

Recommendation – The City should establish procedures to ensure computer generated reports are accurate. The City should work with its software provider to determine the cause for the report errors and take immediate action to correct the reports.

Response – The City will work with the software providers to address this issue.

Conclusion – Response accepted.

- (F) Transfers to the Debt Service Fund – At June 30, 2014, the Debt Service Fund had a balance of \$125,207. During the year ended June 30, 2014, the City made transfers to the Debt Service Fund from the Special Revenue, Local Option Sales Tax and the Enterprise, Water and Sewer Funds which exceeded debt requirements by \$60,530.

Recommendation – The City should review the Debt Service Fund activity and determine if corrective transfers should be made or whether a reduction in the debt service property tax levy is appropriate.

Response – The City will review the Debt Service Fund to determine if corrections need to be made.

Conclusion – Response accepted.

- (G) Accounting Procedures Manual – The City does not have a current accounting policies and procedures manual.

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

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

Response – A manual is being developed.

Conclusion – Response accepted.

City of Nashua

Schedule of Findings

Year ended June 30, 2014

- (H) Nashua Volunteer Firefighter's Association and Water Over the Dam Committee – Bank reconciliations were not prepared during the year ended June 30, 2014. Receipts were not issued. In addition, detailed supporting documentation for disbursements was not retained.

Recommendation – The Nashua Volunteer Firefighter's Association and the Water Over the Dam Committee should ensure monthly bank reconciliations are prepared, retained and reviewed by an independent person and the review is documented by the signature or initials of the reviewer and the date of the review. Pre-numbered receipts should be issued for all collections at the time of the collection to provide additional control over the proper collection and recording of all money received. All disbursements should be supported by original invoices or other documentation.

Response – Changes will be made to comply with this recommendation.

Conclusion – Response accepted.

- (I) Computer Systems – During our review of internal control, the existing control activities in the City's computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with written accounting policies, applicable laws and regulations. The City does not have written policies for:

- requiring time out/log off or screen saver passwords to protect computer terminals when not in use.
- requiring use of passwords and requiring passwords to be changed at least every 60 to 90 days.
- maintaining password privacy and confidentiality.
- requiring the use of anti-virus programs on the computers.
- ensuring only software licensed to the City is installed on computers.
- usage of the internet.

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

Response – Passwords were being changed and anti-virus is used, but a policy is needed and will be set by the City Council.

Conclusion – Response accepted.

City of Nashua

Schedule of Findings

Year ended June 30, 2014

- (J) 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. Currently, a back-up of the system is done on a daily basis and is kept off site.

Conclusion – Response accepted.

- (K) Payroll – Time sheets were not retained for the first half of the year for all employees and there was no indication the time sheets had been reviewed and approved by the appropriate supervisory personnel prior to preparation of the payroll. In addition, employee vacation and sick leave balances were not kept up to date.

Recommendation – Time cards should be retained and reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review. Vacation and sick leave balances should be updated for usage with each payroll.

Response – The City will have the department head review all time cards for their employees and the Mayor will review the time card for the City Clerk before payroll is completed. If the Mayor is not available, the Police Chief will review the Clerk's timesheet. The reviews will be documented by the signature and date of the reviewer.

Conclusion – Response accepted.

City of Nashua

Schedule of Findings

Year ended June 30, 2014

- (L) Chart of Accounts and Fund Accounting – The City has not fully implemented the Uniform Chart of Accounts recommended by the City Finance Committee. 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, the Uniform Chart of Accounts or its equivalent 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 started this process and is working with the software provider to use the Uniform Chart of Accounts in the accounting system.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Nashua

Schedule of Findings

Year ended June 30, 2014

**Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the culture and recreation function prior to the May 2014 budget 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 sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will take steps to amend the budget to ensure disbursements do not exceed the budgeted amounts.

Conclusion – Response accepted.

- (2) 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.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transaction between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Paul Becthold, Police Officer, Owner of Becthold Plumbing	Heat pump	\$ 3,998
Suzzann Bussey, Deputy City Clerk	Consignment sales at Welcome Center	263
Marleen Weigand, Director of Welcome Center	Consignment sales at Welcome Center	21
Rolland Cagley, Council Member	Consignment sales at Welcome Center	50
Tom Bussey, spouse of employee	Consignment sales at Welcome Center	337
Marlys Cagley, spouse of employee	Consignment sales at Welcome Center	20
Bill Neal, spouse of City Clerk, Rebecca Neal	Consignment sales at Welcome Center	132

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions for consignment sales do not appear to represent conflicts of interest since the total transactions did not exceed \$2,500 for the fiscal year.

City of Nashua

Schedule of Findings

Year ended June 30, 2014

In accordance with Chapters 362.5(3)(d) and (k) of the Code of Iowa, the transaction for the heat pump may represent a conflict of interest since the transaction is greater than \$2,500 and was not competitively bid.

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

Response – The City will consult with legal counsel to determine the next course of action.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not, except as follows:.

Two disbursements were not approved by the City Council and three disbursements were approved by the City Council after payment.

The City Council went into closed session during the fiscal year. However, the minutes record did not document the specific information regarding the closed session required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

The minutes were not always signed as required by Chapter 380.7 of the Code of Iowa.

Total disbursements by fund and a summary of receipts were not published as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa, sign minutes and should include total disbursements by fund and a summary of receipts in the published minutes as required. The City should also ensure disbursements are approved by the City Council prior to making payments.

Response – We will comply with the Code requirements for closed sessions. We will sign official minute, and include total disbursements by fund and a summary of receipts in the publish minutes as required. The City Council will also approve disbursements prior to making payments to vendors.

Conclusion – Response accepted.

- (7) Deposits and Investments – The City has not approved 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 12.10B of the Code of Iowa.

Response – The City Council has recently located a written investment policy. The City Council will review the investment policy and will update as needed.

Conclusion – Response accepted.

City of Nashua

Schedule of Findings

Year ended June 30, 2014

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

The City's sewer revenue bond resolution requires a sinking account be established and payments are to be made into the sinking account in equal monthly installments on the first day of each month. The City has not established or made the required transfers to a sewer sinking account.

The sewer revenue bond resolution requires sewer user rates 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 bonds falling due in the same year. During the year ended June 30, 2014, the City was not in compliance with the net receipt requirement of the sewer revenue bond resolution.

Recommendations – The City should comply with the bond resolution by establishing the required sinking account and making the required transfers. The City should ensure sewer user rates are established at a level which produces net receipts of 110% of the annual principal and interest payments on the bonds.

Response – A separate account will be put in place for the sinking account. The City will review the sewer user rates to ensure the rates will produce net receipts of 110% of the annual principal and interest payments on the bonds.

Conclusion – Response accepted.

- (9) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.
- (10) Separately Maintained Records – The Water Over the Dam Committee maintains bank accounts for fundraiser and donation activity separate from the City Clerk's accounting records. The transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget or monthly financial reports.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and annual budget and should be reported to the City Council on a monthly basis.

Response – The City will work with the Water Over the Dam Committee to comply with this recommendation.

Conclusion – Response accepted.

- (11) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Water Over the Dam Committee does not receive images of the back of each cancelled check.

City of Nashua

Schedule of Findings

Year ended June 30, 2014

Recommendation – The Water Over the Dam Committee should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response – The banks will be notified this is needed.

Conclusion – Response accepted.

- (12) 941 Reports – The City is required to file an Employer’s Quarterly Federal Tax Return (Form 941) with the Internal Revenue Service. The City did not retain supporting documentation for the 941 reports for the quarters ended September 30 and December 31, 2013.

Recommendation – The City should retain supporting documentation for all Form 941 quarterly reports.

Response – The City has new administration. The Employer’s Quarterly Federal Tax Return (Form 941) are completed on a quarterly basis and are retained in the office of City Hall.

Conclusion – Response accepted.

- (13) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires 25% of the LOST proceeds to be used for lake/dam disbursements and 25% for urban revitalization. The City credits all LOST receipts to the Special Revenue, LOST Fund and transfers 50%, the lake/dam and urban revitalization portions, to the General Fund. The City is not tracking how funds are being disbursed in the General Fund for these purposes.

Recommendation – The City should adequately track LOST disbursements and unspent balances to compliance with ballot requirements.

Response – The City will set up separate funds for lake/dam and urban revitalization to better account for activity related to those restrictions.

Conclusion – Response accepted.

City of Nashua

Staff

This audit was performed by:

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Melissa A. Hastert, Staff Auditor  
Jessica R. Frisch, Assistant Auditor

  
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