



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE

November 1, 2016

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Auditor of State Mary Mosiman today released an audit report on City of Little Sioux, Iowa.

The City's receipts totaled \$172,342 for the year ended June 30, 2013. The receipts included \$26,703 in property and other City tax, \$108,079 from charges for service, \$26,186 from operating grants, contributions and restricted interest, \$9,863 from local option sales tax, \$164 from unrestricted interest on investments and \$1,347 from other general receipts.

Disbursements for the year totaled \$170,052, and included \$27,352 for public works, \$23,906 for general government and \$8,041 for public safety. Also, disbursements for business type activities totaled \$103,863.

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 <https://auditor.iowa.gov/reports/1322-0401-B00F>.

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CITY OF LITTLE SIOUX
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

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Little Sioux

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Garry Klein	Mayor	Jan 2014
Daniel Carritt	Council Member	Jan 2014
Anne Earleywine	Council Member	Jan 2014
Duane Wallis	Council Member	Resigned Apr 2013
Christine Hussing (Appointed)	Council Member	Nov 2013
John Grimes	Council Member	Resigned Oct 2012
John Carritt (Appointed)	Council Member	Nov 2013
Gardena Wallis	Council Member	Jan 2016
Amber McCall	Clerk/Treasurer	Nov 2012
Kristie Ruffcorn	Clerk/Treasurer	Indefinite
Todd Argotsinger	Attorney	Indefinite

City of Little Sioux



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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, each major fund and the aggregate remaining fund information of the City of Little Sioux, Iowa, as of and for the year ended June 30, 2013, and the related notes to the 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.

Basis for Qualified 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, 2012.

Qualified 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, 2012, as discussed in the Basis for Qualified Opinions 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, each major fund and the aggregate remaining information of the City of Little Sioux as of June 30, 2013, 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 opinion is not modified with respect to this matter.

Other Matters

Other Information

The other information, the budgetary comparison information on pages 20 through 22 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 October 17, 2016 on our consideration of the City of Little Sioux'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 Little Sioux's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

October 17, 2016

Basic Financial Statements

City of Little Sioux

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 8,041	-	4,673
Public works	27,352	15,528	21,513
Culture and recreation	6,280	-	-
Community and economic development	610	-	-
General government	23,906	1,400	-
Total governmental activities	66,189	16,928	26,186
Business type activities:			
Water	29,850	30,904	-
Sewer	74,013	60,247	-
Total business type activities	103,863	91,151	-
Total	\$ 170,052	108,079	26,186
General Receipts and Transfers:			
Property and other city tax levied for general purposes			
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			
Cash Basis Net Position			
Restricted:			
Expendable:			
Streets			
Fire department			
Unrestricted			
Total cash basis net position			

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Governmental Activities	Business Type Activities	Total
(3,368)	-	(3,368)
9,689	-	9,689
(6,280)	-	(6,280)
(610)	-	(610)
(22,506)	-	(22,506)
(23,075)	-	(23,075)
-	1,054	1,054
-	(13,766)	(13,766)
-	(12,712)	(12,712)
(23,075)	(12,712)	(35,787)
26,703	-	26,703
9,863	-	9,863
164	-	164
1,347	-	1,347
(14,204)	14,204	-
23,873	14,204	38,077
798	1,492	2,290
63,515	52,387	115,902
\$ 64,313	53,879	118,192

26,563	-	26,563
2,487	-	2,487
35,263	53,879	89,142
\$ 64,313	53,879	118,192

Exhibit B

City of Little Sioux

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

As of and for the year ended June 30, 2013

	Special Revenue			Total
	General	Road Use Tax	<u>Nonmajor</u> Volunteer Fire Department	
Receipts:				
Property tax	\$ 24,129	-	-	24,129
Other city tax	12,437	-	-	12,437
Licenses and permits	25	-	-	25
Use of money and property	1,436	-	-	1,436
Intergovernmental	1,815	21,513	-	23,328
Charges for service	14,177	-	-	14,177
Special assessments	1,351	-	-	1,351
Miscellaneous	1,400	-	2,908	4,308
Total receipts	56,770	21,513	2,908	81,191
Disbursements:				
Operating:				
Public safety	7,490	-	551	8,041
Public works	13,638	13,714	-	27,352
Culture and recreation	6,280	-	-	6,280
Community and economic development	610	-	-	610
General government	23,906	-	-	23,906
Total disbursements	51,924	13,714	551	66,189
Excess of receipts over disbursements	4,846	7,799	2,357	15,002
Other financing sources (uses):				
Operating transfers out	(14,204)	-	-	(14,204)
Total other financing sources (uses)	(14,204)	-	-	(14,204)
Change in cash balances	(9,358)	7,799	2,357	798
Cash balances beginning of year	44,621	18,764	130	63,515
Cash balances end of year	\$ 35,263	26,563	2,487	64,313
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	26,563	-	26,563
Fire department	-	-	2,487	2,487
Unassigned	35,263	-	-	35,263
Total cash basis fund balances	\$ 35,263	26,563	2,487	64,313

See notes to financial statements.

City of Little Sioux

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

As of and for the year ended June 30, 2013

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 29,202	52,384	81,586
Special assessments	1,702	7,863	9,565
Total operating receipts	30,904	60,247	91,151
Operating disbursements:			
Business type activities	29,850	19,581	49,431
Excess (deficiency) of operating receipts over (under) operating disbursements	1,054	40,666	41,720
Non-operating disbursements:			
Payments to County for debt service	-	(54,432)	(54,432)
Excess (deficiency) of receipts over (under) disbursements	1,054	(13,766)	(12,712)
Transfers in	14,204	-	14,204
Change in cash balances	15,258	(13,766)	1,492
Cash balances beginning of year	48,195	4,192	52,387
Cash balances end of year	\$ 63,453	(9,574)	53,879
Cash Basis Fund Balances			
Unrestricted	\$ 63,453	(9,574)	53,879

See notes to financial statements.

City of Little Sioux

City of Little Sioux

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

The City of Little Sioux is a political subdivision of the State of Iowa located in Harrison County. It was first incorporated in 1883 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 Little Sioux has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

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

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or 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 often have constraints on cash balances 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. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the community economic and development and business type activities functions.

(2) Cash and Pooled Investments

The City'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 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.

(3) 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, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013 was \$1,604, equal to the required contribution for the year.

(4) 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 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 the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2013 were \$6,964.

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 Lexington Insurance Company.

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 excess risk-sharing recoveries, then payment of such claims or losses 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 claim 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 casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation in the amount of \$1,000,000. 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.

(5) Interfund Transfers

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

Transfer to	Transfer from	Amount
Enterprise:		
Water	General	<u>\$ 14,204</u>

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

(6) Deficit Balance

The Enterprise, Sewer Fund had a deficit balance of \$9,574 at June 30, 2013. The deficit balance was a result of disbursements in excess of sewer receipts.

(7) Service Contract

In May 2008, the City entered into a service contract agreement with Harrison County for the City's sanitary sewer improvement project. Under the agreement, the City will manage the sanitary sewer collection system and collect a service fee from each customer. The City will remit \$25 of each monthly service fee to the County for payment of the debt issued by the County for the project. During the year ended June 30, 2013, the City paid \$54,432 to the County.

City of Little Sioux

Other Information

City of Little Sioux
 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, 2013

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 24,129	-
Other city tax	12,437	-
Licenses and permits	25	-
Use of money and property	1,436	-
Intergovernmental	23,328	-
Charges for service	14,177	81,586
Special assessments	1,351	9,565
Miscellaneous	4,308	-
Total receipts	81,191	91,151
Disbursements:		
Public safety	8,041	-
Public works	27,352	-
Health and social services	-	-
Culture and recreation	6,280	-
Community and economic development	610	-
General government	23,906	-
Business type activities	-	103,863
Total disbursements	66,189	103,863
Excess (deficiency) of receipts over (under) disbursements	15,002	(12,712)
Other financing sources, net	(14,204)	14,204
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	798	1,492
Balances beginning of year	63,515	52,387
Balances end of year	\$ 64,313	53,879

See accompanying independent auditor's report.

Total	Budgeted	Final to
	Amounts	Total
	Original/Final	Variance
24,129	23,367	762
12,437	12,766	(329)
25	100	(75)
1,436	400	1,036
23,328	20,000	3,328
95,763	121,000	(25,237)
10,916	-	10,916
4,308	-	4,308
172,342	177,633	(5,291)
8,041	8,400	359
27,352	31,500	4,148
-	2,500	2,500
6,280	12,000	5,720
610	490	(120)
23,906	36,150	12,244
103,863	87,303	(16,560)
170,052	178,343	8,291
2,290	(710)	3,000
-	-	-
2,290	(710)	3,000
115,902	94,511	21,391
118,192	93,801	24,391

City of Little Sioux

Notes to Other Information – Budgetary Reporting

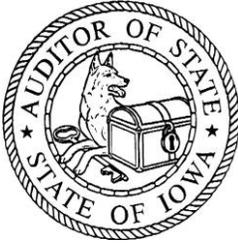
June 30, 2013

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds 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, there were no budget amendments.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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 the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Little Sioux, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 17, 2016. Our report expressed qualified opinions on the financial statements 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 balance at July 1, 2012.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Little Sioux'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 Little Sioux's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Little Sioux'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 Little Sioux'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 (D) 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 (E) through (N) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Little Sioux'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, 2013 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 Little Sioux's Responses to Findings

The City of Little Sioux's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Little Sioux'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 result 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 Little Sioux 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

October 17, 2016

City of Little Sioux

City of Little Sioux

Schedule of Findings

Year ended June 30, 2013

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. Generally, one individual has control over each of the following areas for the City:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – preparing bank account reconciliations, initiating cash receipt and disbursement transactions and recording.
 - (3) Investments – record keeping, custody of investments and reconciling earnings.
 - (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (6) Payroll – recordkeeping, preparing and distributing.
 - (7) Utilities – billing, collecting, depositing and posting.

For the Volunteer Fire Department one person has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – posting, reconciling and check writing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Volunteer Fire Department should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

Response – The Mayor, City Clerk and Clerk Pro Tem are currently working together to improve controls.

Conclusion – Response accepted.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2013

- (B) Financial Reporting – During the audit, we identified receipts and disbursements in the City’s general ledger which did not agree with bank deposits and cancelled checks. In addition, the City’s general ledger excluded disbursements totaling \$24,794 and included duplicate disbursements of \$1,665. There is no independent review of recorded receipts and disbursements to ensure they are properly recorded. Adjustments were subsequently made to properly report these amounts in the City’s financial statements.

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

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits. A reconciliation is designed to ensure the proper recording of utility receipts, propriety of adjustments and write-offs and propriety of delinquent account balances.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. 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 Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

- (D) Bank Reconciliations – Bank and investment balances were not reconciled to the City’s general ledger as recorded in the City’s accounting system.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger balances monthly. The reconciliations should subsequently be reviewed by an independent person. Variances, if any, should be reviewed and resolved timely.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2013

- (E) Disbursements – Although the City Council minutes includes approval of claims, a listing of the claims approved is not included. In addition, 6 of 25 disbursements tested were unsupported.

Recommendation – The City should establish procedures to include a detailed listing of claims approved by the City Council in the minutes. In addition, the City should retain supporting documentation for all disbursements.

Response – The recommendation has been in place since January 2016.

Conclusion – Response accepted.

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

The City does not have written policies and procedures for:

- Password privacy and confidentiality.
- Requiring password changes every 60 to 90 days.
- Internet usage
- Backup of critical files including storage off-site.

The City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies and procedures as well as a written disaster recovery plan addressing the above items to improve the City’s internal control over its computer system.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

- (G) Safeguarding Assets – The City does not properly safeguard petty cash, undeposited receipts, accounting records or unused checks. Checks received are not restrictively endorsed upon receipt.

Recommendation – The City should establish procedures to properly safeguard petty cash, undeposited receipts, accounting records and unused checks. A restrictive endorsement (for deposit only) should be placed on checks when received.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2013

- (H) Payroll – A mathematical error was found in the Clerk’s IPERS withholding and net pay in April 2013 which resulted in an overpayment of \$17. An independent person does not test wages and withholdings to ensure proper payroll calculations. Timesheets were not required for all employees. Employee timesheets were not signed by the employee or supervisor. For a portion of the fiscal year the City used the wrong IPERS employee withholding rate (5.38% instead of 5.78%). This resulted in employees being over paid since the amount remitted to IPERS was correctly calculated.

Recommendation – An independent person should periodically review and test wages and withholding rates for proper calculations. Evidence of testing should be retained. Timesheets should be prepared for all employees and the timesheets should be signed by the employee and approved and signed by the supervisor.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

- (I) Special Revenue Funds – Property tax collections for the employee benefits levy and emergency levy were recorded in the City’s General Fund rather than Special Revenue Funds as required by the Uniform Chart of Accounts.

Recommendation – The City should establish a Special Revenue, Employee Benefits Fund and a Special Revenue, Emergency Fund. The property tax collections in the Special Revenue, Employee Benefits Fund should be used for employee benefits attributable to General Fund and Special Revenue, Road Use Tax Fund employees. The property tax collections in the Special Revenue, Emergency Fund may be transferred to the General Fund with City Council approval.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

- (J) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The City’s Annual Financial Report amounts for receipts and disbursements do not agree with the City’s records.

Recommendation – The City should ensure the amounts reported in the Annual Financial Report are supported by the City’s records.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2013

- (K) Separately Maintained Records – The Volunteer Fire Department maintains separate accounting records for its fundraising activities. The individual transaction activity is not included in the City’s accounting records.

In addition, supporting documentation for receipts and disbursements was not retained.

Recommendation – Chapter 384.20 of the Code of Iowa states in part that 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 reported to the Council on a monthly basis.

In addition, supporting documentation should be retained for receipts and disbursements.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

- (L) Utility Records – During the audit we identified that certain utility records were not retained by the City and available for review.

Recommendation – The City should ensure all utility records are retained.

- (M) Delinquent Sewer Accounts – Pursuant to a service contract agreement with the County, the City bills sewer service to customers located in the rural community of River Sioux in addition to the City’s own customers. A portion of the sewer collections are remitted to the County which pays the debt associated with the construction of the sewer system.

The service agreement with the County requires the City to report uncollected sewer fees in excess of \$500 to the County monthly and file small claims proceedings or certify unpaid sewer fees against property taxes annually. The City has not reported unpaid sewer fees to the County.

For delinquent City accounts, the City has not consistently certified the unpaid sewer amounts to the County Treasurer. The City has not pursued collection of delinquent River Sioux customers since they reside outside the City limits.

Recommendation – The City should implement procedures to report uncollected sewer fees to the County monthly and ensure unpaid City accounts are annually certified to the County Treasurer as required. The City should consult with the County to determine how to pursue the delinquent accounts from the community of River Sioux.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2013

- (N) City Council Oversight – The City Council has a fiduciary responsibility to provide oversight of the City’s operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity. Many of the findings included in this report are indications the City Council needs to exercise additional fiduciary oversight.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort by all members. In the future, the City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Little Sioux

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 exceeded the amounts budgeted in the community and economic development and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not except as follows:

Transfers were not approved in the City Council minutes. Minutes from August and December 2012 City Council meetings could not be located.

In addition, City Council minutes were not properly signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City Council should approve all interfund transfers and the action should be recorded in the City Council minutes. The City should ensure an official minutes record is maintained for all City Council meetings held. In addition, the City should comply with Chapter 380.7 of the Code of Iowa and ensure all minutes are signed as required.

Response – We agree and will implement the recommendation.

Conclusion – Response accepted.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2013

- (7) Deposits and Investments - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming depositories has not been adopted by the City Council as required by Chapter 12C.2 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. A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

Response - We agree and will implement the recommendation.

Conclusion - Response accepted.

- (8) Local Option Sales Tax (LOST) - The LOST ballot requires 50% of LOST collections be allocated for maintenance and repair of City streets and 50% to be allocated for maintenance and repair of City buildings. The City's LOST receipts are credited to the General Fund and no documentation is maintained to support how the funds were used or the unspent balances held for the specified purposes.

Recommendation - The City should establish a Special Revenue, Local Option Sales Tax Fund to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

Response - We agree and will ensure the funds are allocated properly now and in the future.

Conclusion - Response accepted.

- (9) Financial Condition - At June 30, 2013, the City had a deficit balance of \$9,574 in the Enterprise, Sewer Fund.

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

Response - We agree and will implement the recommendation.

Conclusion - Response accepted.

- (10) 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 City does not receive an image of the back of each cancelled check.

Recommendation - The City 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 - We agree and will implement the recommendation.

Conclusion - Response accepted.

City of Little Sioux

Schedule of Findings

Year ended June 30, 2013

- (11) Petition for Audit – Except as noted, all items included in the Petition for Audit have been resolved.

City of Little Sioux

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Ryan J. Pithan, Senior Auditor
Anthony M. Heibult, Senior Auditor
Mallory A. Sims, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State