



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

June 25, 2018

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Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$2,733,265 for the year ended June 30, 2017. The receipts included \$224,668 of property tax, \$306,430 of charges for service, \$142,206 of operating grants, contributions and restricted interest, \$191,261 of capital grants, contributions and restricted interest, \$96,294 of local option sales tax and \$1,769,296 of note proceeds and \$3,110 of other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$2,478,662, and included \$226,391 for public works, \$181,724 for public safety and \$108,175 for debt service. Also, disbursements for business type activities totaled \$1,813,042.

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/1722-0542-B00F>.

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**CITY OF COGGON**

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

**JUNE 30, 2017**

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**City of Coggon**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Daniel Huber	Mayor	Jan 2018
Terry Bumgarner	Mayor Pro tem	Jan 2018
Ray Archibald	Council Member	Jan 2018
Tom Broghammer	Council Member	Resigned Jul 2016
Brandon Lewis (Appointed Sep 2016)	Council Member	Aug 2017
Cheryl Schott	Council Member	Jan 2020
Richard Zieser	Council Member	Jan 2020
Brenda Quandt	City Clerk/Treasurer	Indefinite
Kara Bullerman	Attorney	Indefinite

**City of Coggon**



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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 Coggon, Iowa, as of and for the year ended June 30, 2017, 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 are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2016.

### *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, 2016, 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, each major fund and the aggregate remaining fund information of the City of Coggon as of June 30, 2017, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As discussed 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 Coggon's basic financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), 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, 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, 2016 as discussed in the "Basis for Modified Opinions" paragraphs 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, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 24 through 30 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 June 15, 2018 on our consideration of the City of Coggon'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 solely 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 effectiveness of the City's 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 Coggon's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

June 15, 2018

**City of Coggon**

## **Basic Financial Statements**

City of Coggon

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 181,724	4,249	57,732	80,953
Public works	226,391	48,284	81,687	-
Health and social services	8,000	-	-	-
Culture and recreation	67,031	144	2,787	-
General government	74,299	1,221	-	-
Debt service	108,175	-	-	-
Total governmental activities	665,620	53,898	142,206	80,953
Business type activities:				
Water	70,166	75,355	-	-
Sewer	1,742,876	177,177	-	110,308
Total business type activities	1,813,042	252,532	-	110,308
Total	\$ 2,478,662	306,430	142,206	191,261
<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				
Note proceeds				
Sale of capital assets				
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:				
Streets				
Fire and rescue				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

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

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Governmental Activities	Business Type Activities	Total
(38,790)	-	(38,790)
(96,420)	-	(96,420)
(8,000)	-	(8,000)
(64,100)	-	(64,100)
(73,078)	-	(73,078)
(108,175)	-	(108,175)
(388,563)	-	(388,563)
-	5,189	5,189
-	(1,455,391)	(1,455,391)
-	(1,450,202)	(1,450,202)
(388,563)	(1,450,202)	(1,838,765)
191,708	-	191,708
32,960	-	32,960
96,294	-	96,294
769	119	888
45,010	1,724,286	1,769,296
2,222	-	2,222
(21)	21	-
368,942	1,724,426	2,093,368
(19,621)	274,224	254,603
238,949	175,774	414,723
\$ 219,328	449,998	669,326
\$ 22,134	-	22,134
7,901	-	7,901
11,142	-	11,142
106,452	-	106,452
71,699	449,998	521,697
\$ 219,328	449,998	669,326

**Exhibit B**

## City of Coggon

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

As of and for the year ended June 30, 2017

	<u>Special Revenue</u>			Total
	General	Local Option Sales Tax	Nonmajor	
Receipts:				
Property tax	\$ 169,592	-	55,076	224,668
Other city tax	-	96,294	-	96,294
Licenses and permits	1,388	-	-	1,388
Use of money and property	348	421	-	769
Intergovernmental	114,860	-	84,687	199,547
Charges for service	47,893	-	-	47,893
Miscellaneous	4,404	-	23,825	28,229
Total receipts	<u>338,485</u>	<u>96,715</u>	<u>163,588</u>	<u>598,788</u>
Disbursements:				
Operating:				
Public safety	159,913	-	21,811	181,724
Public works	128,544	-	97,847	226,391
Health and social services	8,000	-	-	8,000
Culture and recreation	57,774	-	9,257	67,031
General government	63,643	-	10,656	74,299
Debt service	-	-	108,175	108,175
Total disbursements	<u>417,874</u>	<u>-</u>	<u>247,746</u>	<u>665,620</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(79,389)</u>	<u>96,715</u>	<u>(84,158)</u>	<u>(66,832)</u>
Other financing sources (uses):				
Note proceeds	45,010	-	-	45,010
Sale of capital assets	2,222	-	-	2,222
Transfers in	-	-	72,875	72,875
Transfers out	(21)	(72,875)	-	(72,896)
Total other financing sources (uses)	<u>47,211</u>	<u>(72,875)</u>	<u>72,875</u>	<u>47,211</u>
Change in cash balances	<u>(32,178)</u>	<u>23,840</u>	<u>(11,283)</u>	<u>(19,621)</u>
Cash balances beginning of year	<u>103,877</u>	<u>81,034</u>	<u>54,038</u>	<u>238,949</u>
Cash balances end of year	<u>\$ 71,699</u>	<u>104,874</u>	<u>42,755</u>	<u>219,328</u>
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Streets	\$ -	-	22,134	22,134
Fire and rescue	-	-	7,901	7,901
Debt service	-	-	11,142	11,142
Other purposes	-	104,874	1,578	106,452
Unassigned	71,699	-	-	71,699
Total cash basis fund balances	<u>\$ 71,699</u>	<u>104,874</u>	<u>42,755</u>	<u>219,328</u>

See notes to financial statements.

City of Coggon

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

As of and for the year ended June 30, 2017

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 73,825	177,177	251,002
Miscellaneous	1,530	-	1,530
Total operating receipts	75,355	177,177	252,532
Operating disbursements:			
Business type activities	70,166	112,045	182,211
Excess of operating receipts over operating disbursements	5,189	65,132	70,321
Non-operating receipts (disbursements):			
Intergovernmental	-	110,308	110,308
Interest on investments	-	119	119
Note proceeds	-	1,724,286	1,724,286
Capital projects	-	(1,630,831)	(1,630,831)
Net non-operating receipts (disbursements)	-	203,882	203,882
Excess of receipts over disbursements	5,189	269,014	274,203
Transfers in	18,219	18,240	36,459
Transfers out	(18,219)	(18,219)	(36,438)
Total transfers	-	21	21
Change in cash balances	5,189	269,035	274,224
Cash balances beginning of year	13,621	162,153	175,774
Cash balances end of year	\$ 18,810	431,188	449,998
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 18,810	431,188	449,998

See notes to financial statements.

City of Coggon

Notes to Financial Statements

June 30, 2017

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

The City of Coggon is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1857 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 Coggon 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.

Blended Component Unit

Coggon Fire and Rescue Association (Association) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa for the purpose of assisting the Coggon Fire Department in the execution and performances of responsibilities to the citizens of Coggon. The Association receives donations and fundraising receipts for the benefit of the Coggon Volunteer Fire Department. These donations are to be used to purchase items which are not included in the City's budget. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be blended. Based on these criteria the Fire Association is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. The Association is reported as part of the City and blended into the nonmajor governmental funds.

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: Linn County Assessor's Conference Board, Linn County Joint E-911 Service Board and Linn County Emergency Management Commission.



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 receipts, 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:

Restricted net position results when constraints placed on the use of cash balances 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. 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, Local Option Sales Tax Fund is used to account for local option sales tax collections to be used for streets, water and sewer.

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 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 are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

**(2) Cash and Pooled Investments**

The City’s deposits in banks at June 30, 2017 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.

At June 30, 2017, the City did not have any investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 72.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds					
	Fire Station		Street		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 25,000	8,925	70,000	5,600	95,000	14,525
2019	25,000	7,925	70,000	2,800	95,000	10,725
2020	30,000	6,750	-	-	30,000	6,750
2021	30,000	5,400	-	-	30,000	5,400
2022	30,000	4,050	-	-	30,000	4,050
2023-2024	75,000	3,488	-	-	75,000	3,488
Total	\$ 215,000	36,538	140,000	8,400	355,000	44,938

Bank Loans

On January 9, 2014, the City entered into a promissory note for \$27,000 with a local bank for the purchase of a C4500 truck. The note requires quarterly payments of \$2,436 beginning April 9, 2014 and includes interest at 4.99%. During the fiscal year ended June 30, 2017, the City paid \$7,130 in principal and \$174 in interest on this note. The loan was retired during fiscal year 2017.

On November 1, 2014, the City entered into a promissory note for \$23,534 with a local bank for the purchase of radio read meters for the utility system. The note requires quarterly payments of \$1,599 beginning February 1, 2015 and includes interest at 4.00%. During the fiscal year ended June 30, 2017, the City paid \$5,870 in principal and \$524 in interest on this note. The balance outstanding at June 30, 2017 is \$9,264.

On September 1, 2015, the City entered into a promissory note for \$19,216 with a local bank for the purchase of radio read meters for the utility system. The note requires quarterly payments of \$1,332 beginning December 1, 2015 and includes interest at 4.99%. During the fiscal year ended June 30, 2017, the City paid \$4,652 in principal and \$678 in interest on this note. The balance outstanding at June 30, 2017 is \$11,261.

On December 2, 2016, the City entered into a promissory note for \$45,010 with a local bank for the purchase of a Model 7500 plow. The note requires quarterly payments of \$2,535 beginning March 2, 2017 and includes interest at 4.575%. During the fiscal year ended June 30, 2017, the City paid \$4,102 in principal and \$977 in interest on this note. The balance outstanding at June 30, 2017 is \$40,908.

#### Revenue Loan Anticipation Project Notes

On September 29, 2010, the City entered into an interest free revenue loan anticipation project note agreement with the Iowa Finance Authority for up to \$408,150 to be used for the purpose of paying costs of planning and designing improvements to the sanitary sewer system. The note matured three years from issuance but the City amended the agreement to extend the maturity date to September 29, 2019. At June 30, 2017, the balance owed on the note is \$400,181.

On December 29, 2016, the City entered into a revenue loan anticipation project note agreement with the Community Savings Bank for up to \$2,314,000 to be used for the purpose of paying costs of planning, designing and constructing improvements and extensions to the sanitary sewer system. At June 30, 2017, the City had drawn down \$1,724,286 on the notes. The note matures on June 20, 2018.

The notes were issued pursuant to Chapters 76.13 and 384.24A of the Code of Iowa in anticipation of the receipt of and are payable from the proceeds of an authorized loan agreement and the corresponding issuance of sewer revenue bonds.

#### **(4) Pension Plan**

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2017 totaled \$10,942.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$110,475 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's proportion was 0.0017554%, which was an increase of 0.000011% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$13,103, \$32,071 and \$14,989, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 178,733	110,475	52,864

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**(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 half of families premiums. There are 3 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 fully-insured plan with Wellmark. Retirees under age 65 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 monthly premiums paid by the City for single plans for employees range from \$731 to \$1,030 per month. For the year ended June 30, 2017, the City contributed \$30,787 and plan members eligible for benefits contributed \$7,701 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2017, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 3,800
Compensatory time	600
Total	<u>\$ 4,400</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue: Local Option Sales Tax	\$ 36,437
	Enterprise: Water	18,219
	Enterprise: Sewer	18,219
		<u>\$ 72,875</u>
Enterprise: Water	Special Revenue: Local Option Sales Tax	18,219
Sewer	General	21
	Special Revenue: Local Option Sales Tax	18,219
		<u>18,240</u>
Total		<u>\$ 109,334</u>

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

**(9) Subsequent Events**

In October 2017, the City entered into a contract for \$922,960 for mercury removal at the old waste water treatment plant. The City will pay for this project through a combination of a low interest rate loan in the amount of \$657,000 and grant funds in the amount of \$536,000.

In February 2017, the City entered into a loan agreement providing for the issuance of up to \$657,000 of sewer revenue loan agreement anticipation project note for the mercury cleanup project.

**(10) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.



## **Other Information**

City of Coggon  
 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, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total
<b>Receipts:</b>				
Property tax	\$ 224,668	-	-	224,668
Other city tax	96,294	-	-	96,294
Licenses and permits	1,388	-	-	1,388
Use of money and property	769	119	-	888
Intergovernmental	199,547	110,308	-	309,855
Charges for service	47,893	251,002	-	298,895
Miscellaneous	28,229	1,530	23,825	5,934
<b>Total receipts</b>	<b>598,788</b>	<b>362,959</b>	<b>23,825</b>	<b>937,922</b>
<b>Disbursements:</b>				
Public safety	181,724	-	21,811	159,913
Public works	226,391	-	-	226,391
Health and social services	8,000	-	-	8,000
Culture and recreation	67,031	-	-	67,031
General government	74,299	-	-	74,299
Debt service	108,175	-	-	108,175
Capital projects	-	-	-	-
Business type activities	-	1,813,042	-	1,813,042
<b>Total disbursements</b>	<b>665,620</b>	<b>1,813,042</b>	<b>21,811</b>	<b>2,456,851</b>
Excess (deficiency) of receipts over (under) disbursements	(66,832)	(1,450,083)	2,014	(1,518,929)
Other financing sources, net	47,211	1,724,307	-	1,771,518
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(19,621)	274,224	2,014	252,589
Balances beginning of year	238,949	175,774	5,887	408,836
Balances end of year	\$ 219,328	449,998	7,901	661,425

See accompanying independent auditor's report.

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Budgeted Amounts		Final to
Original	Final	Total
		Variance
224,171	224,171	497
88,741	88,741	7,553
-	-	1,388
3,000	3,000	(2,112)
1,926,700	2,531,468	(2,221,613)
287,967	287,967	10,928
1,000	3,000	2,934
<u>2,531,579</u>	<u>3,138,347</u>	<u>(2,200,425)</u>
39,923	150,533	(9,380)
133,055	228,739	2,348
8,000	8,250	250
62,406	76,020	8,989
75,611	75,811	1,512
108,175	108,175	-
1,843,000	2,343,000	2,343,000
152,888	369,234	(1,443,808)
<u>2,423,058</u>	<u>3,359,762</u>	<u>902,911</u>
108,521	(221,415)	(1,297,514)
-	190,760	1,580,758
108,521	(30,655)	283,244
<u>614,910</u>	<u>614,910</u>	<u>(206,074)</u>
<u>723,431</u>	<u>584,255</u>	<u>77,170</u>

City of Coggon

Notes to Other Information – Budgetary Reporting

June 30, 2017

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 blended 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 Funds, the Debt Service 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, two budget amendments increased budgeted disbursements by \$936,704. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the public safety and the business type activities functions.

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City of Coggon

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Two Years\*

Other Information

	<u>2017</u>	<u>2016</u>
City's proportion of the net pension liability	0.0017554%	0.0017443%
City's proportionate share of the net pension liability	\$ 110,475	86,178
City's covered-employee payroll	\$ 125,977	119,501
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.69%	72.11%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

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City of Coggon

Schedule of City Contributions

Iowa Public Employees' Retirement System  
For the Last Eight Years  
(In Thousands)

Other Information

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 10,942	11,250	10,671	8,934
Contributions in relation to the statutorily required contribution	<u>(10,942)</u>	<u>(11,250)</u>	<u>(10,671)</u>	<u>(8,934)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 122,524	125,977	119,501	100,051
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%

See accompanying independent auditor's report.

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2013	2012	2011	2010
9,607	7,975	6,198	6,011
(9,607)	(7,975)	(6,198)	(6,011)
-	-	-	-
110,812	98,824	89,179	90,386
8.67%	8.07%	6.95%	6.65%

City of Coggon

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.



## **Supplementary Information**

**City of Coggon**

## City of Coggon

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

As of and for the year ended June 30, 2017

	Special Revenue				Total
	Road Use Tax	Employee Benefits	Coggon Fire and Rescue Association	Debt Service	
Receipts:					
Property tax	\$ -	22,116	-	32,960	55,076
Intergovernmental	81,687	-	-	3,000	84,687
Miscellaneous	-	-	23,825	-	23,825
Total receipts	81,687	22,116	23,825	35,960	163,588
Disbursements:					
Operating:					
Public safety	-	-	21,811	-	21,811
Public works	85,408	12,439	-	-	97,847
Culture and recreation	-	9,257	-	-	9,257
General government	-	10,656	-	-	10,656
Debt service	-	-	-	108,175	108,175
Total disbursements	85,408	32,352	21,811	108,175	247,746
Excess (deficiency) of receipts over (under) disbursements	(3,721)	(10,236)	2,014	(72,215)	(84,158)
Other financing uses:					
Transfers in	-	-	-	72,875	72,875
Change in cash balances	(3,721)	(10,236)	2,014	660	(11,283)
Cash balances beginning of year	25,855	11,814	5,887	10,482	54,038
Cash balances end of year	\$ 22,134	1,578	7,901	11,142	42,755
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Streets	\$ 22,134	-	-	-	22,134
Fire and rescue	-	-	7,901	-	7,901
Debt service	-	-	-	11,142	11,142
Other purposes	-	1,578	-	-	1,578
Total cash basis fund balances	\$ 22,134	1,578	7,901	11,142	42,755

See accompanying independent auditor's report.

City of Coggon  
Schedule of Indebtedness  
Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Fire station	May 20, 2009	2.00-4.50%	\$ 380,000
Street improvement	May 20, 2009	2.00-4.00	600,000
Total			
Revenue loan anticipation project notes:			
Sewer	Sep 29, 2010	0.00%	\$ 408,150
Sewer	Dec 29, 2016	1.65	2,314,000
Bank loans:			
Public works truck (C4500)	Jan 9, 2014	4.990%	\$ 27,000
Water meters	Nov 1, 2014	4.000	23,534
Water meters	Sep 1, 2015	4.990	19,216
Public works truck (C7500)	Dec 2, 2016	4.575	45,010
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
240,000	-	25,000	215,000	10,300
205,000	-	65,000	140,000	7,875
<u>\$ 445,000</u>	<u>-</u>	<u>90,000</u>	<u>355,000</u>	<u>18,175</u>
400,181	-	-	400,181	-
-	1,724,286	-	1,724,286	-
<u>\$ 400,181</u>	<u>1,724,286</u>	<u>-</u>	<u>2,124,467</u>	<u>-</u>
7,130	-	7,130	-	174
15,134	-	5,870	9,264	524
15,913	-	4,652	11,261	678
-	45,010	4,102	40,908	977
<u>\$ 38,177</u>	<u>45,010</u>	<u>21,754</u>	<u>61,433</u>	<u>2,353</u>

**City of Coggon**

City of Coggon

Bond Maturities

June 30, 2017

General Obligation Bonds						
Year Ending June 30,	Fire Station Improvement		Street Improvements		Total	
	Issued May 20, 2009		Issued May 20, 2009			
	Interest Rates	Amount	Interest Rates	Amount		
2018	4.00%	\$ 25,000	4.00%	\$ 70,000	95,000	
2019	4.00	25,000	4.00	70,000	95,000	
2020	4.50	30,000		-	30,000	
2021	4.50	30,000		-	30,000	
2022	4.50	30,000		-	30,000	
2023	4.50	35,000		-	35,000	
2024	4.50	40,000		-	40,000	
Total		\$ 215,000		\$ 140,000	355,000	

See accompanying independent auditor's report.

**City of Coggon**



## City of Coggon

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Direct:			
U.S. Department of Agriculture: Water and Waste Disposal Systems for Rural Communities	10.760		\$ 1,364,505
U.S. Department of Homeland Security: Assistance to Firefighters Grant	97.044	EMW-2015-F0-02718	80,953
Total direct			<u>\$ 1,445,458</u>
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Economic Development Authority: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	13-WS-002	\$ 150,180
U.S. Department of Homeland Security: Iowa Department of Homeland Security and and Emergency Management: Hazard Mitigation Grant	97.039	DR-4234-0006-01	19,207
Total indirect			<u>\$ 169,387</u>
Total			<u>\$ 1,614,845</u>

**Basis of Presentation** – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Coggon under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Coggon, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Coggon.

**Summary of Significant Accounting Policies** – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Indirect Cost Rate** – The City of Coggon did not use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

**City of Coggon**



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

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Auditor of State

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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, each major fund and the aggregate remaining fund information of the City of Coggon, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 15, 2018. The financial statements were prepared on the cash basis of receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed modified opinions on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Coggon'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 Coggon's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Coggon'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 have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, 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 Coggon's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-17 through II-D-17 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-E-17 through II-G-17 to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Coggon'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 which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2017 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 Coggon's Responses to the Findings

The City of Coggon's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Coggon'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 Coggon 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

June 15, 2018



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

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Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Coggon, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City of Coggon's major federal program for the year ended June 30, 2017. The City of Coggon's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Coggon's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Coggon's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Coggon's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Coggon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

## Report on Internal Control Over Compliance


The management of the City of Coggon is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Coggon's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Coggon's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item III-A-17, we consider to be a material weakness.

The City of Coggon's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City of Coggon's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
MARY MOSIMAN, CPA  
Auditor of State

June 15, 2018

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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

- (a) Modified opinions were issued on the financial statements prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles since we were unable to satisfy ourselves to the distribution by fund of the total fund balance at July 1, 2016.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Coggon did not qualify as a low-risk auditee.

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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

**INTERNAL CONTROL DEFICIENCIES:**

II-A-17 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – Generally, one individual in the City has control over each of the following areas for which no compensating controls exist:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Debt – recordkeeping, compliance and debt payment processing.
- (6) Computer system – performing all general accounting functions and controlling all data input and output.
- (7) Compensated absences – maintaining records and balances
- (8) Utilities – billing, collecting, depositing, reconciling and recording.

For the Coggon Fire and Rescue Association, one individual in the City has control over each of the following areas for which no compensating controls exist:

- (1) Receipts, disbursements and cash.

Cause – The City and Association has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City’s and Association’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City and Association should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.



City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Response – We are working on strengthening our internal controls. We currently have two persons sign off on the bank statement and City Clerk’s report verifying the balances match. We will work with the Association to improve controls.

Conclusion – Response accepted.

II-B-17 Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are in integral part of ensuring the reliability and accuracy of the City’s financial statements.

Condition – The City is currently using dual systems to track receipts and disbursements. Paper ledgers and computer software from Datatech. The two sets of records do not currently reconcile.

Cause – City policies do not require the Clerk to maintain a sole set of records for tracking city finances.

Effect – Lack of policies and procedures resulted in the City not fully utilizing computer accounting software to its fullest potential. The Clerk relies on the paper ledgers as a “backup” to the financial software. Fund balances have not been properly established in the computer software to allow the Clerk to pull out meaningful reports from the computer system.

Recommendation – The City should implement procedures to ensure only one set of records is maintained for tracking city finances. Fund balances should be established at a point in time and information collected solely in the computer system.

Response – We will work towards using one system in the future.

Conclusion – Response accepted.

II-C-17 Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances. Supervisory review of bank reconciliations can help ensure the accuracy of recorded amounts.

Condition – Monthly bank statements are reconciled to the City’s monthly financial report. However, the monthly bank reconciliations are not reviewed and approved by an independent person.

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Cause – Procedures have not been designed and implemented to ensure bank reconciliations are independently reviewed for completeness and accuracy.

Effect – The lack of independent review of bank reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – An independent person should review the reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

Response – We have already implemented the recommendation.

Conclusion – Response accepted.

II-D-17 Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – Utility billings, collections and delinquent accounts were reconciled throughout the year and a delinquent accounts listing was prepared. However, variances existed which were not resolved and there was no evidence of independent review of the utility reconciliations.

Cause – Policies have not been established and procedures have not been implemented to resolve variances in reconciling utility billings, collections and delinquent account balances and to require an independent review of the reconciliations.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – Variances between utility billings, collections and delinquent accounts should be investigated and resolved timely. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquents. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – Variances in the monthly reconciliations will be investigated. We will start having reports reviewed and signed off by the Mayor.

Conclusion – Response accepted.

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

II-E-17 Journal Entries

Criteria – An effective internal control system provides for internal controls related to preparation of journal entries by all employees. Supporting documentation for all journal entries supports the accuracy of the entries by the employees and an independent review helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – There was no evidence of independent review for journal entries tested.

Cause – The City has a limited number of employees and procedures have not been designed to clearly document the review and approval of journal entries.

Effect – Lack of independent approval of transactions could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – To strengthen controls, journal entries should be supported and the support should be provided to the reviewer for approval by an independent person.

Response – We will follow the recommendation.

Conclusion – Response accepted.

II-F-17 Computer System Policies

Criteria – Properly designed policies and procedures pertaining to control activities over the City's computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have written policies for:

- password privacy and confidentiality.
- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- ensuring only software licensed to the City is installed on computers.
- usage of the internet.
- personal use of computer equipment and software.

Cause – Management has not required written policies for the above computer based controls.

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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

Response – We will incorporate items into our SOP manual.

Conclusion – Response accepted.

II-G-17 Payroll Increases

Criteria – Payroll compensation for City employees should be established by the City Council and documented in the City Council minutes.

Condition – Annual wage increases for City employees were approved as a percentage increase but the actual approved rate or salary was not documented in the City Council minutes.

Cause – Policies have not been established and procedures have not been implemented to require the City Council meeting minutes include approved wage rates and salaries.

Effect – The lack of documentation of approved wage rates or salaries in the City Council meeting minutes reduces transparency and increases the risk of unauthorized pay increases.

Recommendation – Salaries and wage rate of all employees should be properly documented in the City Council meeting minutes.

Response – Have implemented.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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

**INSTANCE OF NON-COMPLIANCE:**

No items were noted.

**INTERNAL CONTROL DEFICIENCY:**

**CFDA Number 10.760: Water and Waste Disposal Systems for Rural Communities  
Federal Award Year: 2016  
U.S. Department of Agriculture**

III-A-17      Segregation of Duties – The City did not properly segregate invoice  
(2017-001)      processing, check writing, mailing, reconciling and recording of  
disbursements, including those related to federal programs.

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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

IV-A-17 Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety and the 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 have rearranged the budget report based on a recommendation by the auditor last fall and will watch much closer.

Conclusion – Response accepted.

IV-B-17 Questionable Disbursements – We did not find any disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted.

IV-C-17 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-17 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Brandon Lewis, Council Member, Owner of Lewis Construction	Roof repair per quote	\$ 7,000
Debra Hinton, Public Works Director, Owner Equipment on Loan	Loan of Equipment	1,225
Brenda Quandt, City Clerk/Treasuer husband is part-owner of Pat’s Electric	Camera Installation	510

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member and the Public Works Director do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transaction with the Council Member does not appear to represent a conflict of interest since the contract was entered into prior to him being appointed to the City Council.

IV-E-17 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.

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

IV-F-17 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-G-17 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

IV-H-17 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.

IV-I-17 Bank Loan Note – On December 2, 2016, the City entered into a bank loan for the purchase of a plow truck. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with the Code of Iowa requirements before entering into future loan agreements.

Response – We will comply in the future.

Conclusion – Response accepted.

IV-J-17 Senior Discount – Section 388.6 of the Code of Iowa state, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the city or its agencies, as provided in section 384.91.” Senior discounts on garbage rates were provided by the City Council.

Recommendation – The City is required to establish and apply consistent billing rates to certain types of customers, such residential or commercial. The City Council should implement procedures which ensure nondiscriminatory garbage rates are used for all customers.

Response – The City will make the appropriate changes to bring their policies into compliance.

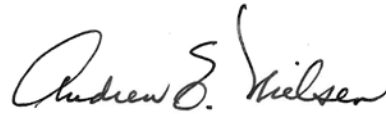
Conclusion – Response accepted.

City of Coggon

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Kelly L. Hilton, Senior Auditor  
Molly N. Kalkwarf, Assistant Auditor  
Michael G. DeAngelis, Intern 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