



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

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NEWS RELEASE

FOR RELEASE

June 27, 2018

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

The City's receipts totaled \$364,861 for the year ended June 30, 2017. The receipts included \$32,822 of property tax, \$68,847 of charges for service, \$91,739 of operating grants, contributions and restricted interest, \$48,407 of capital grants, contributions and restricted interest, \$44,796 of local option sales tax, \$366 of unrestricted interest on investments, note proceeds of \$76,000 and \$1,884 of other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$325,950, and included \$84,814 for capital projects, \$81,249 for public works and \$43,902 for public safety. Also, disbursements for business type activities totaled \$33,112.

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/1722-0146-B00F>.

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

JUNE 30, 2017

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City of Meservey

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Miller	Mayor	Jan 2020
Scott Brown	Council Member	(Resigned Oct 2016)
Micheal Howey	Council Member	(Resigned Nov 2016)
David Weide	Council Member	(Resigned Nov 2016)
Joey Dickman	Council Member	Jan 2018
Zoe Myers (Elected Jan 2017)	Council Member	Jan 2018
Patrick White	Council Member	Jan 2018
Ben Albee (Elected Jan 2017)	Council Member	Jan 2020
Richard Harman (Elected Jan 2017)	Council Member	Jan 2020
Angie Even	City Clerk	(Resigned May 2017)
Sue Entner	City Clerk	(Resigned Nov. 2017)
Tammie Goates	City Clerk	Indefinite
Brian Miller	Attorney	Indefinite

City of Meservey



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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 and each major of the City of Meservey, 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.

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 balances 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 and each major fund of the City of Meservey as of June 30, 2017, 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 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 Meservey's basic financial statements. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 24 through 29, 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 Meservey'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 Meservey's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

June 15, 2018

City of Meservey

Basic Financial Statements

City of Meservey

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 43,902	-	39,389	48,407
Public works	81,249	34,256	27,421	-
Health and social services	1,200	-	-	-
Culture and recreation	37,292	-	24,929	-
General government	34,682	415	-	-
Debt service	9,699	-	-	-
Capital projects	84,814	-	-	-
Total governmental activities	292,838	34,671	91,739	48,407
Business type activities:				
Water	33,112	34,176	-	-
Total	\$ 325,950	68,847	91,739	48,407
General Receipts:				
Property and other city tax levied for general purposes				
Local option sales tax				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Note proceeds				
Miscellaneous				
Total general receipts				
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 for:				
Sewer				
Fire				
Library				
Parks				
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
43,894	-	43,894
(19,572)	-	(19,572)
(1,200)	-	(1,200)
(12,363)	-	(12,363)
(34,267)	-	(34,267)
(9,699)	-	(9,699)
(84,814)	-	(84,814)
(118,021)	-	(118,021)
-	1,064	1,064
(118,021)	1,064	(116,957)
32,822	-	32,822
44,796	-	44,796
384	-	384
366	-	366
76,000	-	76,000
-	1,500	1,500
154,368	1,500	155,868
36,347	2,564	38,911
158,423	42,219	200,642
\$ 194,770	44,783	239,553
\$ 8,396	-	8,396
67,427	-	67,427
10,478	-	10,478
3,553	-	3,553
104,916	44,783	149,699
\$ 194,770	44,783	239,553

Exhibit B

City of Meservey

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	Road Use Tax	Debt Service	
Receipts:				
Property tax	\$ 30,465	-	-	30,465
Other city tax	47,153	-	-	47,153
Licenses and permits	415	-	-	415
Use of money and property	366	-	-	366
Intergovernmental	40,832	25,021	-	65,853
Charges for service	34,256	-	-	34,256
Miscellaneous	74,677	-	-	74,677
Total receipts	<u>228,164</u>	<u>25,021</u>	<u>-</u>	<u>253,185</u>
Disbursements:				
Operating:				
Public safety	43,902	-	-	43,902
Public works	49,621	31,628	-	81,249
Health and social services	1,200	-	-	1,200
Culture and recreation	37,292	-	-	37,292
General government	34,682	-	-	34,682
Debt service	-	-	9,699	9,699
Capital projects	84,814	-	-	84,814
Total disbursements	<u>251,511</u>	<u>31,628</u>	<u>9,699</u>	<u>292,838</u>
Deficiency of receipts under disbursements	<u>(23,347)</u>	<u>(6,607)</u>	<u>(9,699)</u>	<u>(39,653)</u>
Other financing sources (uses):				
Note proceeds	76,000	-	-	76,000
Transfers in	-	-	9,699	9,699
Transfers out	<u>(9,699)</u>	<u>-</u>	<u>-</u>	<u>(9,699)</u>
Total other financing sources (uses)	<u>66,301</u>	<u>-</u>	<u>9,699</u>	<u>76,000</u>
Change in cash balances	42,954	(6,607)	-	36,347
Cash balances beginning of year	153,793	4,630	-	158,423
Cash balances end of year	<u>\$ 196,747</u>	<u>(1,977)</u>	<u>-</u>	<u>194,770</u>
Cash Basis Fund Balances				
Restricted for:				
Sewer	\$ 8,396	-	-	8,396
Fire	67,427	-	-	67,427
Library	10,478	-	-	10,478
Parks	3,553	-	-	3,553
Unassigned	106,893	(1,977)	-	104,916
Total cash basis fund balances	<u>\$ 196,747</u>	<u>(1,977)</u>	<u>-</u>	<u>194,770</u>

See notes to financial statements.

City of Meservey

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

As of and for the year ended June 30, 2017

	<u>Enterprise</u>
	<u>Water</u>
Operating receipts:	
Charges for service	\$ 34,176
Operating disbursements:	
Business type activities	<u>33,112</u>
Excess of operating receipts over operating disbursements	1,064
Non-operating receipts:	
Miscellaneous	<u>1,500</u>
Change in cash balances	2,564
Cash balances beginning of year	<u>42,219</u>
Cash balances end of year	<u>\$ 44,783</u>
Cash Basis Fund Balances	
Unrestricted	<u>\$ 44,783</u>

See notes to financial statements.

City of Meservey

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The City of Meservey is a political subdivision of the State of Iowa located in Cerro Gordo County. It was first incorporated in 1893 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 human services, culture and recreation, and general government services. The City also provides water services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Meservey 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 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: Cerro Gordo County Assessor's Conference Board, Cerro Gordo County Emergency Management Commission and Cerro Gordo 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 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 category. 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 and proprietary funds are aggregated and reported as nonmajor 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 Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water 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, public works, culture and recreation, general government, debt service and capital projects 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.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2018	\$ 10,790	2,521
2019	11,161	2,150
2020	11,544	1,768
2021	2,238	1,374
2022	2,333	1,279
2023-2027	13,159	4,902
2028-2032	16,054	2,007
Total	\$ 67,279	16,001

(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.

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 \$2,213.

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 \$30,342 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 0.000482%, which was a decrease 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 \$3,598, \$8,809 and \$3,755, 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:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
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	100%	

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	\$ 49,090	30,342	14,519

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.

(5) 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>
Special Revenue:		
Debt Service	General	<u>\$ 9,699</u>

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

(6) 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.

(7) Deficit Balance

The Special Revenue, Road Use Tax Fund had a deficit balances of \$1,977 at June 30, 2017. The deficit balance was a result of interfund transfers from the General Fund not completed in fiscal year 2017. The deficit will be eliminated upon the transfer of these funds.

City of Meservey

Other Information

City of Meservey
 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	Total
Receipts:			
Property tax	\$ 30,465	-	30,465
Other city tax	47,153	-	47,153
Licenses and permits	415	-	415
Use of money and property	366	-	366
Intergovernmental	65,853	-	65,853
Charges for service	34,256	34,176	68,432
Miscellaneous	74,677	1,500	76,177
Total receipts	253,185	35,676	288,861
Disbursements:			
Public safety	43,902	-	43,902
Public works	81,249	-	81,249
Health and social services	1,200	-	1,200
Culture and recreation	37,292	-	37,292
General government	34,682	-	34,682
Debt service	9,699	-	9,699
Capital projects	84,814	-	84,814
Business type activities	-	33,112	33,112
Total disbursements	292,838	33,112	325,950
Excess (deficiency) of receipts over (under) disbursements	(39,653)	2,564	(37,089)
Other financing sources, net	76,000	-	76,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	36,347	2,564	38,911
Balances beginning of year	158,423	42,219	200,642
Balances end of year	\$ 194,770	44,783	239,553

See accompanying independent auditor's report.

Budgeted Amounts	Final to Total
Original/Final	Variance
30,195	270
39,286	7,867
390	25
160	206
32,174	33,679
84,500	(16,068)
2,000	74,177
<u>188,705</u>	<u>100,156</u>
20,000	(23,902)
52,500	(28,749)
1,550	350
27,100	(10,192)
31,800	(2,882)
-	(9,699)
-	(84,814)
<u>79,000</u>	<u>45,888</u>
<u>211,950</u>	<u>(114,000)</u>
(23,245)	(13,844)
<u>-</u>	<u>76,000</u>
(23,245)	62,156
<u>129,196</u>	<u>71,446</u>
<u>105,951</u>	<u>133,602</u>

City of Meservey

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. 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 Fund. 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 ended June 30, 2017, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government, debt service and capital projects functions.

City of Meservey

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

Iowa Public Employees' Retirement System
For the Current Fiscal Year*
(In Thousands)

Other Information

	<u>2017</u>
City's proportion of the net pension liability	0.000482%
City's proportionate share of the net pension liability	\$ 30
City's covered-employee payroll	\$ 35
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	85.71%
IPERS' net position as a percentage of the total pension liability	81.82%

* 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.

City of Meservey

Schedule of City Contributions

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

Other Information

	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 2	3
Contributions in relation to the statutorily required contribution	<u>(2)</u>	<u>(3)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
City's covered-employee payroll	\$ 25	35
Contributions as a percentage of covered-employee payroll*	8.93%	8.93%

* Amounts reported do not agree with calculated amounts due to rounding required contributions and covered payroll to nearest thousandth.

Note: GASB Statement No. 68 requires ten years of information be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

City of Meservey

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.

City of Meservey

Supplementary Information

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire department building project	Aug 18, 2016	3.25%	\$ 36,000
Fire department building project	Aug 18, 2016	4.00%	40,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
-	36,000	8,721	27,279	978
-	40,000	-	40,000	-
<u>\$</u>	<u>76,000</u>	<u>8,721</u>	<u>67,279</u>	<u>978</u>

City of Meservey

City of Meservey

Note Maturities

June 30, 2017

Year Ending June 30,	General Obligation Notes					Total
	Fire Department Building Project		Fire Department Building Project			
	Issued Aug 18, 2016		Issued Aug 18, 2016			
	Interest Rates	Amount	Interest Rates	Amount		
2018	3.25%	\$ 8,800	4.00%	\$ 1,990	10,790	
2019	3.25	9,090	4.00	2,071	11,161	
2020	3.25	9,389	4.00	2,155	11,544	
2021			4.00	2,238	2,238	
2022			4.00	2,333	2,333	
2023			4.00	2,427	2,427	
2024			4.00	2,526	2,526	
2025			4.00	2,625	2,625	
2026			4.00	2,735	2,735	
2027			4.00	2,846	2,846	
2028			4.00	2,961	2,961	
2029			4.00	3,080	3,080	
2030			4.00	3,206	3,206	
2031			4.00	3,336	3,336	
2032			4.00	3,471	3,471	
Total		\$ 27,279		40,000	67,279	

See accompanying independent auditor's report.

**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**



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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 Meservey, 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. Our report expressed modified 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 of July 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Meservey'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 Meservey's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Meservey'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, 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 Meservey's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items A through E to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Meservey'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 the accompanying Schedule of Findings.

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 Meservey's Responses to the Findings

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

City of Meservey
Schedule of Findings
Year ended June 30, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) 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) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (3) Receipts – collecting, depositing and recording.
- (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (5) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
- (8) Journal entries – preparing and recording.

For the Meservey Volunteer Fire Department account, one individual has control over each of the following areas:

- (1) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Investments – recordkeeping, custody of investments and reconciling earnings.
- (3) Receipts – collecting, depositing and recording.
- (4) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (5) Long-term debt – recording, reconciling and performing cash functions.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

For the Meservey Library account, one individual has control over each of the following areas:

- (1) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Receipts – collecting, depositing and recording.
- (3) Disbursements – invoice processing, check writing, mailing, reconciling and recording.

For the Meservey Parks and Restoration and Quasquicentennial accounts, one individual has control over each of the following areas:

- (1) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Receipts – collecting, depositing and recording.
- (3) Disbursements – invoice processing, check writing, mailing, reconciling and recording.

Cause – The City, Volunteer Fire Department, Library, Parks and Restoration, and Quasquicentennial have 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 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 external city accounts should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Responses

City – The City will design accounting and bookkeeping policies, procedures, and processes that ensure segregated duties between employees. Some procedures, where possible and appropriate, will also include an external review or control. Specific attention will be given to monetary transactions. We will focus on procedures that include regular, systematic external reviews of monetary transactions by other City employees and elected officials.

Volunteer Fire Department – We plan on turning over the external bank accounts and investments to the City and will follow procedures established by the City Council.

Library – We plan on turning over the external bank accounts and investments to the City and will follow procedures established by the City Council.

Parks and Restoration and Quasquicentennial – We plan on turning over the external bank accounts and investments to the City and will follow procedures established by the City Council.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

Conclusion – Response accepted.

(B) Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by reconciling bank to book balances.

Condition – Bank reconciliations were not prepared for individual bank accounts for the month ending June 30, 2017. In addition, a complete reconciliation, including accounts from the Volunteer Fire Department, Library, Parks and Restoration, and Quasiquicentennial, was not prepared. Also, the bank reconciliations did not include evidence of an independent review.

Cause – Policies have not been established and procedures have not been implemented to require preparation of a complete bank reconciliation of all accounts and investments or to require the bank reconciliations be reviewed by an independent person.

Effect – Lack of performing and maintaining bank reconciliations and lack of review by an independent person could result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. Procedures should be established to ensure all financial reports reconcile and include all City activity. An independent person should review the City bank reconciliations and document the review by signing or initialing and dating the monthly bank reconciliations.

Responses – The City will establish procedures and processes that provide the City Council with reconciled bank and investment account balances. These reports will be reviewed by an independent person, monthly.

Conclusion – Response accepted.

(C) 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 not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Cause – Policies have not been established and procedures have not been implemented to maintain delinquent account listings, reconcile utility billings, collections and delinquent account balances and to reconcile utility collections to deposits.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

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 – 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 delinquents. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – Processes and procedures will be designed and implemented that reconcile utility billings, collections, deposits, and delinquencies on a monthly basis. The process will include a review by Council designated independent review.

Conclusion – Response accepted.

(D) 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 an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – A material amount of receipts were incorrectly recorded in the City's financial records according to the Uniform Chart of Accounts. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Cause – City policies do not require and procedures have not been established to require independent review of financial records to ensure the City's financial records are accurate.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the City financial records were necessary.

Recommendation – The City should ensure all receipts are recorded to the proper receipt code in the financial records according to the recommended Uniform Chart of Accounts for the Iowa City Governments.

Response – The City will code all receipts in accordance with the Uniform Chart of Accounts.

Conclusion – Response accepted.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

(E) Monthly City Clerk's Report

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management to effectively perform their fiduciary responsibilities related to City financial management.

Condition – A monthly City Clerk's report including receipts, disbursements, transfers and balances for each fund and a comparison of total disbursements to the certified budget by function is not prepared and provided to the City Council monthly.

Cause – Policies have not been established and procedures have not been implemented which require the City Clerk to provide the City Council with the required financial information.

Effect – The City Council may not have effective control over budgeted disbursements and the ability to amend the budget on a timely basis. In addition, City Council may not be aware of monthly financial activity, including deficit fund balances.

Recommendation – The City Clerk should prepare a monthly City Clerk's report which includes receipts, disbursements, transfers and balances for each fund and comparisons of total disbursements by function to the certified budget.

Response – The City Clerk will design and implement processes and procedures to provide a monthly report of receipts, disbursements, transfers, and balances for each fund and a comparison of total disbursements to the budget by function to the City Council.

Conclusion – Response accepted.

(F) 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 supporting documentation or evidence of independent review for journal entries tested.

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

Effect – Lack of supporting documentation and 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.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

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 – The City will implement procedures to ensure all journal entries are supported and reviewed by an independent person. The evidence of the review will be documented by the reviewer’s signature and date.

Conclusion – Response accepted.

(G) Disbursements

Criteria – An effective internal control system provides for internal controls related to ensuring all disbursements are properly supported.

Condition – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for five transactions tested could not be located. In addition, the Volunteer Fire Department did not have proper supporting documentation for two of ten transactions tested.

Cause – The City and the Volunteer Fire Department have not implemented policies and procedures requiring supporting documentation for all disbursements prior to signing of checks.

Effect – Lack of proper supporting documentation can result in unauthorized or improper disbursements and improperly recorded transactions.

Recommendation – The City and the Volunteer Fire Department should establish policies and procedures to require proper support for all disbursements. Disbursements should not be approved unless adequate supporting documentation is available.

Response – Procedures for receiving and processing invoices need to be updated by the City. Special attention will be given to the scanning of all invoices as they arrive, before the Library or other departments can review them. The Volunteer Fire Department invoice process will be modified to ensure the City Clerk’s office has established an appropriate record, determined coding and authorization is obtained before they are paid.

Conclusion – Response accepted.

(H) Timesheets

Criteria – An effective internal control system provides for internal controls related to preparation of timesheets by all employees. Timesheets support all hours worked. Supervisory review of timesheets can help ensure the accuracy of recorded hours worked and taken as leave.

Condition – Timesheets were not prepared for three employees tested and there is no evidence of the approval of timesheets by supervisory personnel for six employees.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

Cause – Policies have not been established and procedures have not been implemented to require timesheets be prepared by employees, reviewed and approved by supervisory personnel.

Effect – The lack of a documented timesheet and a supervisory review process increases the probability staff errors in recording of hours or leave will go undetected.

Recommendation – Timesheets should be submitted to an appropriate supervisor for approval prior to the preparation of payroll. The supervisor approval should be documented by the signature of the reviewer and the date of the review.

Response – A policy will be developed which ensures each employee will sign and date their timesheet and that a supervisor will sign each timesheet. It would be the City's intent to have the City Clerk review all timesheets and the Mayor to review the City Clerk's timesheet.

Conclusion – Response accepted.

(I) Debit Card

Criteria – Internal controls over safeguarding assets constitutes a process, effected by an entity's governing body, management and other personnel designated to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

Condition – The City has a debit card available for use by City employees. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

Cause – Officials have been unaware of the repercussions of allowing the use of debit cards.

Effect – Allowing the use of debit cards could result in unauthorized transactions and the opportunity for misappropriations.

Recommendation – The City Council should prohibit the use of debit cards for City purchases.

Response – The City Council will pass a resolution prohibiting the use of debit cards for City purchases and will dispose of all existing debit cards.

Conclusion – Response accepted.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

(J) Accounting Policies and Procedures Manual

Criteria – Accounting policies and procedures manuals provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- (4) Improve the efficiency and understanding of steps to perform for running monthly financial reports and retrieving management information.

Condition – The City does not have an accounting policies and procedures manual.

Cause – Officials have been unaware of the need for an accounting policies and procedures manual.

Effect – Lack of an accounting policies and procedures manual could result in the City's lack of ability to continue operating effectively and efficiently in the event there is accounting staff turnover.

Recommendation – An accounting policies and procedures manual should be developed for the City.

Response – We have begun and will continue to develop a policy and procedures manual for accounting practices. This will include the goal of having sufficient detail that someone unfamiliar with City practices can use the manual to effectively accomplish accounting tasks.

Conclusion – Response accepted.

(K) Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the City's computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and helps ensure compliance with applicable laws and regulations.

Condition – The City does not have written policies for:

- Requiring password changes every 60 to 90 days to maintain password privacy and confidentiality.
- Requiring password history to be maintained to prevent employees from reusing the same password.
- Restricting access to the computer system through the use of unique user IDs.
- Requiring password length to be at least 8 characters.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

- Requiring computers to have a log-off function when not in use.
- Requiring a computer lockout function if passwords are incorrectly entered more than three times.
- Personal use of computer equipment.

Additionally, the City does not have a written disaster recovery plan.

Cause – Management has not required written policies for the above computer based controls or back-up procedures.

Effect – Lack of written policies for the computer based system could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer system. A written disaster recovery plan should be developed and back-ups should be performed.

Response – Written policies which govern passwords, user IDs, and computer data security will be established and followed. A computer system disaster recovery plan will be developed. A backup and restore plan of computer data and software will be developed.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government, debt service and capital projects 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 – The City will amend the budget in the future, prior to exceeding, to ensure the City is in compliance with Chapter 384.20 of the Code of Iowa.

Conclusion – Response accepted.

- (2) Questionable Disbursements – We noted certain disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefit to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Fareway	Food and alcohol purchased for Fire Department meeting	\$ 344
Pam Gobeli	Food purchased for Fire Department meeting	30
McCubbin Trophy	Plaques for volunteer firefighters	22

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – The City will review policies and procedures to establish whether these types of purchases serve a public purpose.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows.

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Krista Dickman, wife of City Council Member Joey Dickman	Mowing	\$ 720

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Krista Dickman do not appear to represent a conflict of interest since the total transactions during the year were less than \$2,500.

- (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 – The following conditions related to City Council meeting minutes were noted:
- Chapter 21.3 of the Code of Iowa requires the minutes show information sufficient to indicate the vote of each member present. The City Council meeting minutes do not indicate the vote of each member present.
 - Certain disbursements were not approved by the City Council prior to disbursement as required by Chapter 372.13(6) of the Code of Iowa. The City does not have a written disbursement approval policy allowing certain items to be paid prior to City Council approval.
 - In addition Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for three meetings tested were not published within fifteen days and one publication was not retained at the City, as a result we were unable to determine if the publication was within fifteen days.

Recommendation – The City should comply with the Code of Iowa and document information sufficient to indicate the vote of each member present. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by the Code of Iowa. In addition, the City should publish minutes within fifteen days of the meeting, as required.

Response – The City will indicate in the minutes the vote of each member present, approve all claims prior to payment and publish minutes in accordance with Chapter 372.13(6) of the Code of Iowa.

Conclusion – Response accepted.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

- (7) Deposits and Investments – An investment register was not maintained for each investment. In addition, the City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

A resolution naming official depositories has been approved by the City. However, maximum deposit amounts for each bank were not included in the depository resolution.

Recommendation – An investment register which includes the cost, description, date purchased, interest rate, maturity date and identifying number for each investment should be maintained. In addition, the City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

Response – The city will maintain an investment register for city investments. The City will also adopt a written investment policy and a depository resolution including amounts sufficient to cover anticipated balances.

Conclusion – Response accepted.

- (8) 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 of receipts, all accounts due to the City, and all expenditures...”. The City’s Annual Financial report included receipts, disbursements and fund balances which did not agree with City records. In addition, the AFR was not filed by December 1, as required.

Recommendation – The City should implement procedures to ensure the Annual Financial Report materially agrees with the City’s records and the AFR is filed timely.

Response –The City will develop procedures to ensure the Annual Financial Reports will agree with City Records and filed timely.

Conclusion – Response accepted.

- (9) Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance of \$1,977, at June 30, 2017.

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

Response – The Road Use Tax Fund did not have appropriate transfers from the General Fund to support their disbursements. These transfers will be made to eliminate the deficit.

Conclusion – Response accepted.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

- (10) Separately Maintained Records – The Fire Department, Library, Park and Restoration and Quasquicentennial maintain separate accounting records for certain operations. These transactions and resulting balances were not included in the City’s accounting records, annual budget, monthly financial reports or Annual Financial Reports.

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

Response – The City will include, in the City’s accounting records, all balances and activity from external accounts starting at the end of the current fiscal year.

Conclusion – Response accepted.

- (11) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office, but may be reimbursed for actual expenses incurred.”

During the fiscal year, the Mayor was compensated \$1,344 for performing the duties of a water employee and performing other miscellaneous services for the City. This compensation violates Chapter 372.13(8) of the Code of Iowa which prohibits the Mayor from receiving compensation as a City employee while serving as Mayor.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$1,344 improperly paid to the Mayor.

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

Conclusion – Response accepted.

- (12) 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, City Volunteer Fire Department, City Library, City Park and Restoration and City Quasquicentennial do not receive an image of the back of each cancelled check for their bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

Response – The City will contact the bank to obtain and retain images of both the front and back of cancelled checks for all bank accounts.

Conclusion – Response accepted.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

- (13) Water Rate Surcharge – Chapter 384.84 of the Code of Iowa allows the City to establish, impose, adjust, and provide for the collection of rates and charges to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the city utility. Rates must be established by ordinance of the City Council. The City Council approved a monthly water surcharge for major water tower repairs and maintenance by resolution, not by ordinance, as required.

Recommendation – The City should comply with Chapter 384.84 of the Code of Iowa when authorizing utility rates and charges and should seek legal counsel to determine the disposition of the unauthorized surcharge.

Response – In March 2018, the City passed an ordinance to establish water rates and is no longer collecting charges relating to the water surcharge resolution.

Conclusion – Response accepted.

- (14) Bank Loan Agreement – Chapter 384.24A(4) of the Code of Iowa states, in part, “The governing body may authorize a loan agreement which is payable from the general fund if the loan agreement would not cause the total of scheduled annual payments of principal or interest or both principal and interest due from the general fund in any single future fiscal year with respect to all loan agreements in force on the date of the authorization to exceed ten percent of the last certified general fund budget amount.”

On August 18, 2016, the City entered into two bank loans totaling \$76,000 for an addition to the Fire Department building. Future principal and interest payments for the loans total \$13,311, which is greater than ten percent of the last certified general fund budget amount.

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

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

Conclusion – Response accepted.

- (15) Taxable Fringe Benefits – Certain City disbursements for clothing considered adaptable to general use as ordinary clothing were not included in wages for employees in accordance with Internal Revenue Service (IRS) guidelines.

Recommendation – The City should properly include taxable fringe benefits in reported employee wages in accordance with IRS guidelines.

Response – The City will review procedures for including clothing disbursements in wages of employees.

Conclusion – Response accepted.

City of Meservey

Schedule of Findings

Year ended June 30, 2017

- (16) Utility Sales Tax – Chapter 423.2(2) of the Code of Iowa states, in part, a tax of six percent is imposed upon the sales price of the sale or furnishing of water, including the sales price from such sales by any municipal corporation to the public in its proprietary capacity when sold at retail in the state to consumers or users.

Sales tax and local option sales tax is not collected for the total water bill to the consumers. The City is only collecting sales tax on the first 1,000 gallons of water consumption.

Recommendation – The City should collect sales tax and local option sales tax in accordance with Chapter 423.2(2) of the Code of Iowa.

Response – The City will collect sales tax and local option sales tax on the total water bill in accordance with Chapter 423.2(2) of the Code of Iowa.

Conclusion – Response accepted.

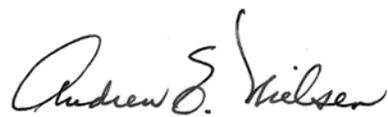
- (17) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Meservey

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Jamie T. Reuter, Senior Auditor II
Adam R. McCleish, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State