

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

November 18, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on the City of Coggon, Iowa.

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$3,165,104 for the year ended June 30, 2018, a 15.8% increase over the prior year. Disbursements for the year ended June 30, 2018 totaled \$3,082,207, a 24.3% increase over the prior year.

The significant increase in receipts and disbursements is due primarily to the City receiving USDA grant monies to fund sewer system improvements.

AUDIT FINDINGS:

Sand reported five findings related to the receipt and disbursement of taxpayer funds. They are found on pages 43 to 49 of this report. The findings address issues such as a lack of segregation of duties, the use of both manual (paper) and electronic systems to track financial activity, a lack of independent review of monthly bank reconciliations and unresolved variances in the reconciliations of utility billings, collections and delinquent accounts. Sand provided the City with recommendations to address each of the findings.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

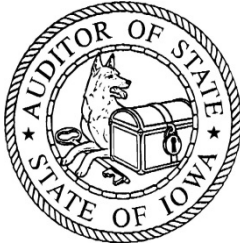
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CITY OF COGGON

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

JUNE 30, 2018

City of Coggon



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

October 10, 2019

Officials of the City of Coggon
Coggon, Iowa

Dear Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Coggon for the year ended June 30, 2018. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Coggon throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of Coggon

Officials

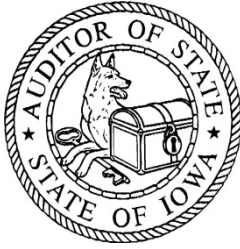
(Before January 2018)

| <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 |
| Brandon Lewis (Appointed Sep 2016) | Council Member | Nov 2017 |
| Cheryl Schott | Council Member | Jan 2020 |
| Richard Zieser | Council Member | Jan 2020 |
| Brenda Quandt | City Clerk/Treasurer | Indefinite |
| Kara Bullerman | Attorney | Indefinite |

(After January 2018)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------|----------------------|---------------------|
| Ray Archibald | Mayor | Jan 2020 |
| Cheryl Schott | Mayor Pro tem | Jan 2020 |
| Richard Zieser | Council Member | Jan 2020 |
| Brandon Lewis | Council Member | Jan 2020 |
| Heather Beeh | Council Member | Jan 2022 |
| JJ Mesch | Council Member | Jan 2022 |
| 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, 2018, 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

In our opinion, 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, 2018, 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.

Emphasis of a Matter

As discussed in Note 5 to the financial statements, the City of Coggon adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

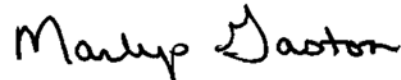
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Coggon's basic financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by Title 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, 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 October 10, 2019 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.



Marlys K. Gaston, CPA
Deputy Auditor of State

October 10, 2019

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, 2018

| | Disbursements | Program Receipts | | |
|---|---------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 88,539 | 1,175 | 21,595 | - |
| Public works | 166,789 | 45,825 | 83,954 | 24,880 |
| Health and social services | 8,345 | - | - | - |
| Culture and recreation | 74,907 | 20 | 19,839 | - |
| General government | 76,644 | 707 | - | - |
| Debt service | 110,025 | - | 3,000 | - |
| Total governmental activities | 525,249 | 47,727 | 128,388 | 24,880 |
| Business type activities: | | | | |
| Water | 67,621 | 76,145 | - | - |
| Sewer | 2,489,337 | 199,321 | 9,571 | 1,105,305 |
| Total business type activities | 2,556,958 | 275,466 | 9,571 | 1,105,305 |
| Total | \$ 3,082,207 | 323,193 | 137,959 | 1,130,185 |
| General Receipts: | | | | |
| Property and other city tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Local option sales tax | | | | |
| 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: | | | | |
| Streets | | | | |
| Fire and rescue | | | | |
| Debt service | | | | |
| Other purposes | | | | |
| 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 |
| (65,769) | - | (65,769) |
| (12,130) | - | (12,130) |
| (8,345) | - | (8,345) |
| (55,048) | - | (55,048) |
| (75,937) | - | (75,937) |
| (107,025) | - | (107,025) |
| (324,254) | - | (324,254) |
| - | 8,524 | 8,524 |
| - | (1,175,140) | (1,175,140) |
| - | (1,166,616) | (1,166,616) |
| (324,254) | (1,166,616) | (1,490,870) |
| 205,285 | - | 205,285 |
| 32,106 | - | 32,106 |
| 87,078 | - | 87,078 |
| 2,508 | - | 2,508 |
| - | 1,246,714 | 1,246,714 |
| 76 | - | 76 |
| 327,053 | 1,246,714 | 1,573,767 |
| 2,799 | 80,098 | 82,897 |
| 219,328 | 449,998 | 669,326 |
| \$ 222,127 | 530,096 | 752,223 |
| \$ 16,428 | - | 16,428 |
| 11,764 | - | 11,764 |
| 11,823 | - | 11,823 |
| 112,217 | - | 112,217 |
| 69,895 | 530,096 | 599,991 |
| \$ 222,127 | 530,096 | 752,223 |

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, 2018

| | Special Revenue | | | Total |
|--|-----------------|------------------------------|----------|----------|
| | General | Local Option Sales Tax | Nonmajor | |
| Receipts: | | | | |
| Property tax | \$ 182,586 | - | 54,805 | 237,391 |
| Other city tax | - | 87,078 | - | 87,078 |
| Licenses and permits | 1,853 | - | - | 1,853 |
| Use of money and property | 2,508 | - | - | 2,508 |
| Intergovernmental | 37,626 | - | 86,954 | 124,580 |
| Charges for service | 45,799 | - | - | 45,799 |
| Miscellaneous | 7,244 | - | 21,595 | 28,839 |
| Total receipts | 277,616 | 87,078 | 163,354 | 528,048 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 70,807 | - | 17,732 | 88,539 |
| Public works | 69,525 | 7,604 | 89,660 | 166,789 |
| Health and social services | 8,345 | - | - | 8,345 |
| Culture and recreation | 60,896 | - | 14,011 | 74,907 |
| General government | 69,847 | - | 6,797 | 76,644 |
| Debt service | - | - | 110,025 | 110,025 |
| Total disbursements | 279,420 | 7,604 | 238,225 | 525,249 |
| Excess (deficiency) of receipts over (under) disbursements | (1,804) | 79,474 | (74,871) | 2,799 |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | 88,013 | 88,013 |
| Transfers out | - | (88,013) | - | (88,013) |
| Total other financing sources (uses) | - | (88,013) | 88,013 | - |
| Change in cash balances | (1,804) | (8,539) | 13,142 | 2,799 |
| Cash balances beginning of year | 71,699 | 104,874 | 42,755 | 219,328 |
| Cash balances end of year | \$ 69,895 | 96,335 | 55,897 | 222,127 |
| Cash Basis Fund Balances | | | | |
| Restricted for: | | | | |
| Streets | \$ - | - | 16,428 | 16,428 |
| Fire and rescue | - | - | 11,764 | 11,764 |
| Debt service | - | - | 11,823 | 11,823 |
| Other purposes | - | 96,335 | 15,882 | 112,217 |
| Unassigned | 69,895 | - | - | 69,895 |
| Total cash basis fund balances | \$ 69,895 | 96,335 | 55,897 | 222,127 |

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, 2018

| | Enterprise | | |
|--|------------|-------------|-------------|
| | Water | Sewer | Total |
| Operating receipts: | | | |
| Charges for service | \$ 74,632 | 199,321 | 273,953 |
| Miscellaneous | 1,513 | 9,571 | 11,084 |
| Total operating receipts | 76,145 | 208,892 | 285,037 |
| Operating disbursements: | | | |
| Business type activities | 56,562 | 113,411 | 169,973 |
| Excess of operating receipts over operating disbursements | 19,583 | 95,481 | 115,064 |
| Non-operating receipts (disbursements): | | | |
| Intergovernmental | - | 1,105,305 | 1,105,305 |
| Note proceeds | - | 1,246,714 | 1,246,714 |
| Debt service | (11,059) | (666) | (11,725) |
| Capital projects | - | (2,375,260) | (2,375,260) |
| Net non-operating receipts (disbursements) | (11,059) | (23,907) | (34,966) |
| Excess of receipts over disbursements | 8,524 | 71,574 | 80,098 |
| Transfers in | 18,900 | 18,900 | 37,800 |
| Transfers out | (18,900) | (18,900) | (37,800) |
| Total transfers | - | - | - |
| Change in cash balances | 8,524 | 71,574 | 80,098 |
| Cash balances beginning of year | 18,810 | 431,188 | 449,998 |
| Cash balances end of year | \$ 27,334 | 502,762 | 530,096 |
| Cash Basis Fund Balances | | | |
| Unrestricted | \$ 27,334 | 502,762 | 530,096 |

See notes to financial statements.

City of Coggon

Notes to Financial Statements

June 30, 2018

(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 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, 2018, disbursements exceeded the amounts budgeted in the health and social services and business type activities functions. In addition, disbursements in the public safety function exceeded the budget prior to budget amendment.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2018 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, 2018, 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 |
| 2019 | \$ 25,000 | 8,425 | 70,000 | 2,800 | 95,000 | 11,225 |
| 2020 | 30,000 | 7,425 | - | - | 30,000 | 7,425 |
| 2021 | 30,000 | 6,075 | - | - | 30,000 | 6,075 |
| 2022 | 30,000 | 4,725 | - | - | 30,000 | 4,725 |
| 2023 | 35,000 | 3,375 | - | - | 35,000 | 3,375 |
| 2024 | 40,000 | 1,800 | - | - | 40,000 | 1,800 |
| Total | \$ 190,000 | 31,825 | 70,000 | 2,800 | 260,000 | 34,625 |

Bank Loans

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, 2018, the City paid \$6,121 in principal and \$274 in interest on this note. The balance outstanding at June 30, 2018 is \$3,143.

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, 2018, the City paid \$4,847 in principal and \$483 in interest on this note. The balance outstanding at June 30, 2018 is \$6,414.

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, 2018, the City paid \$8,352 in principal and \$1,786 in interest on this note. The balance outstanding at June 30, 2018 is \$32,556.

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, 2018, 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, 2018, the City had drawn down \$2,314,000 on the notes. The note originally matured on June 20, 2018 but the maturity was extended to February 22, 2019.

On February 22, 2018, the City entered into a revenue loan anticipation project note agreement with the Community Savings Bank for up to \$657,000 to be used for the purpose of paying costs of planning, designing and constructing improvements to the sanitary sewer system. At June 30, 2018, the City had drawn down \$657,000 on the notes. The note matures on February 22, 2019.

The above 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 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 2018, 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, 2018 totaled \$11,552.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the City reported a liability of \$109,341 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, the City’s proportion was 0.001641%, which was a decrease of 0.000114% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$15,041, \$21,943 and \$39,857, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 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, 2017) | 2.60% per annum. |
| Rates of salary increase (effective June 30, 2017) | 3.25 to 16.25% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 2017) | 7.00% compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 2017) | 3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation. |

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

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 |
|------------------------|------------------|--|
| Domestic equity | 24.0% | 6.25% |
| International equity | 16.0 | 6.71 |
| Core plus fixed income | 27.0 | 2.25 |
| Public credit | 3.5 | 3.46 |
| Public real assets | 7.0 | 3.27 |
| Cash | 1.0 | (0.31) |
| Private equity | 11.0 | 11.15 |
| Private real assets | 7.5 | 4.18 |
| Private credit | 3.0 | 4.25 |
| Total | 100.0% | |

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. 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 7.00%, 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 (6.00%) or 1% higher (8.00%) than the current rate.

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|--|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability | \$ 180,149 | 109,341 | 49,848 |

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) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and the plan members range from \$700 for single coverage to \$1,014 for family coverage. For the year ended June 30, 2018, the City contributed \$34,355 and plan members eligible for benefits contributed \$10,322 to the plan. At June 30, 2018, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits - Individuals who are employed by the City of Coggon and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2018, the following employees were covered by the benefit terms:

Active employees 3

(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, 2018, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-------------------|---------------|
| Vacation | \$ 500 |
| Compensatory time | 300 |
| Total | <u>\$ 800</u> |

This liability has been computed based on rates of pay in effect at June 30, 2018.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|---------------------------------------|--|-------------------|
| Special Revenue: Employee Benefits | Special Revenue: Local Option Sales Tax | \$ 12,413 |
| Debt Service | Special Revenue: Local Option Sales Tax | 37,800 |
| | Enterprise: Water | 18,900 |
| | Enterprise: Sewer | 18,900 |
| | | <u>75,600</u> |
| Enterprise: Water | Special Revenue: Local Option Sales Tax | 18,900 |
| Sewer | Special Revenue: Local Option Sales Tax | 18,900 |
| | | <u>37,800</u> |
| Total | | <u>\$ 125,813</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.

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, 2018

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted | Total |
|---|---------------------------------|--------------------------------|---|-------------|
| Receipts: | | | | |
| Property tax | \$ 237,391 | - | - | 237,391 |
| Other city tax | 87,078 | - | - | 87,078 |
| Licenses and permits | 1,853 | - | - | 1,853 |
| Use of money and property | 2,508 | - | - | 2,508 |
| Intergovernmental | 124,580 | 1,105,305 | - | 1,229,885 |
| Charges for service | 45,799 | 273,953 | - | 319,752 |
| Miscellaneous | 28,839 | 11,084 | 21,595 | 18,328 |
| Total receipts | 528,048 | 1,390,342 | 21,595 | 1,896,795 |
| Disbursements: | | | | |
| Public safety | 88,539 | - | 17,732 | 70,807 |
| Public works | 166,789 | - | - | 166,789 |
| Health and social services | 8,345 | - | - | 8,345 |
| Culture and recreation | 74,907 | - | - | 74,907 |
| General government | 76,644 | - | - | 76,644 |
| Debt service | 110,025 | - | - | 110,025 |
| Capital projects | - | - | - | - |
| Business type activities | - | 2,545,233 | - | 2,545,233 |
| Total disbursements | 525,249 | 2,545,233 | 17,732 | 3,052,750 |
| Excess (deficiency) of receipts over (under) disbursements | 2,799 | (1,154,891) | 3,863 | (1,155,955) |
| Other financing sources, net | - | 1,246,714 | - | 1,246,714 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 2,799 | 91,823 | 3,863 | 90,759 |
| Balances beginning of year | 219,328 | 449,998 | 7,901 | 661,425 |
| Balances end of year | \$ 222,127 | 541,821 | 11,764 | 752,184 |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|------------------|-----------|-------------|
| Original | Final | Total |
| | | Variance |
| 233,603 | 233,603 | 3,788 |
| 85,773 | 85,773 | 1,305 |
| 637 | 637 | 1,216 |
| 3,000 | 3,000 | (492) |
| 1,931,635 | 3,156,635 | (1,926,750) |
| 295,996 | 295,996 | 23,756 |
| 1,000 | 8,663 | 9,665 |
| 2,551,644 | 3,784,307 | (1,887,512) |
| 41,580 | 73,580 | 2,773 |
| 157,815 | 174,435 | 7,646 |
| 8,000 | 8,000 | (345) |
| 70,793 | 101,359 | 26,452 |
| 81,150 | 84,150 | 7,506 |
| 110,025 | 110,025 | - |
| 1,843,000 | 3,036,000 | 3,036,000 |
| 160,488 | 202,488 | (2,342,745) |
| 2,472,851 | 3,790,037 | 737,287 |
| 78,793 | (5,730) | (1,150,225) |
| - | - | 1,246,714 |
| 78,793 | (5,730) | 96,489 |
| 499,286 | 499,286 | 162,139 |
| 578,079 | 493,556 | 258,628 |

City of Coggon

Notes to Other Information – Budgetary Reporting

June 30, 2018

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 \$1,317,186. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2018, disbursements exceeded the amounts budgeted in the health and social services and the business type activities functions. In addition, disbursements in the public safety function exceeded the budget prior to budget amendment.

City of Coggon

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

Iowa Public Employees' Retirement System
For the Last Three Years*

Other Information

| | 2018 | 2017 | 2016 |
|--|------------|-----------|-----------|
| City's proportion of the net pension liability | 0.001641% | 0.001755% | 0.001744% |
| City's proportionate share of the net pension liability | \$ 109,341 | 110,475 | 86,178 |
| City's covered payroll | \$ 122,524 | 125,977 | 119,501 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 89.23% | 87.69% | 72.11% |
| IPERS' net position as a percentage of the total pension liability | 82.21% | 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.

City of Coggon

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Nine Years

Other Information

| | 2018 | 2017 | 2016 | 2015 |
|---|------------|----------|----------|----------|
| Statutorily required contribution | \$ 11,552 | 10,942 | 11,250 | 10,671 |
| Contributions in relation to the statutorily required contribution | (11,552) | (10,942) | (11,250) | (10,671) |
| Contribution deficiency (excess) | \$ - | - | - | - |
| City's covered payroll | \$ 129,358 | 122,524 | 125,977 | 119,501 |
| Contributions as a percentage of covered payroll | 8.93% | 8.93% | 8.93% | 8.93% |

See accompanying independent auditor's report.

| 2014 | 2013 | 2012 | 2011 | 2010 |
|---------|---------|---------|---------|---------|
| 8,934 | 9,607 | 7,975 | 6,198 | 6,011 |
| (8,934) | (9,607) | (7,975) | (6,198) | (6,011) |
| - | - | - | - | - |
| 100,051 | 110,812 | 98,824 | 89,179 | 90,386 |
| 8.93% | 8.67% | 8.07% | 6.95% | 6.65% |

City of Coggon

Notes to Other Information – Pension Liability

Year ended June 30, 2018

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.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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, 2015. 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

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

As of and for the year ended June 30, 2018

| | Special Revenue | | |
|---|-----------------|----------------------|--|
| | Road Use Tax | Employee Benefits | Coggon Fire and Rescue Association |
| Receipts: | | | |
| Property tax | \$ - | 22,699 | - |
| Intergovernmental | 83,954 | - | - |
| Miscellaneous | - | - | 21,595 |
| Total receipts | 83,954 | 22,699 | 21,595 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | - | - | 17,732 |
| Public works | 89,660 | - | - |
| Culture and recreation | - | 14,011 | - |
| General government | - | 6,797 | - |
| Debt service | - | - | - |
| Total disbursements | 89,660 | 20,808 | 17,732 |
| Excess (deficiency) of receipts over (under) disbursements | (5,706) | 1,891 | 3,863 |
| Other financing uses: | | | |
| Transfers in | - | 12,413 | - |
| Change in cash balances | (5,706) | 14,304 | 3,863 |
| Cash balances beginning of year | 22,134 | 1,578 | 7,901 |
| Cash balances end of year | \$ 16,428 | 15,882 | 11,764 |
| Cash Basis Fund Balances | | | |
| Restricted for: | | | |
| Streets | \$ 16,428 | - | - |
| Fire and rescue | - | - | 11,764 |
| Debt service | - | - | - |
| Other purposes | - | 15,882 | - |
| Total cash basis fund balances | \$ 16,428 | 15,882 | 11,764 |

See accompanying independent auditor's report.

| Debt Service | Total |
|-----------------|----------|
| 32,106 | 54,805 |
| 3,000 | 86,954 |
| - | 21,595 |
| 35,106 | 163,354 |
| - | 17,732 |
| - | 89,660 |
| - | 14,011 |
| - | 6,797 |
| 110,025 | 110,025 |
| 110,025 | 238,225 |
| (74,919) | (74,871) |
| 75,600 | 88,013 |
| 681 | 13,142 |
| 11,142 | 42,755 |
| 11,823 | 55,897 |
| - | 16,428 |
| - | 11,764 |
| 11,823 | 11,823 |
| - | 15,882 |
| 11,823 | 55,897 |

City of Coggon
 Schedule of Indebtedness
 Year ended June 30, 2018

| 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 |
| Sewer | Feb 22, 2018 | 2.40 | 657,000 |
| Bank loans: | | | |
| 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 |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 215,000 | - | 25,000 | 190,000 | 9,425 |
| 140,000 | - | 70,000 | 70,000 | 5,600 |
| \$ 355,000 | - | 95,000 | 260,000 | 15,025 |
| 400,181 | - | - | 400,181 | - |
| 1,724,286 | 589,714 | - | 2,314,000 | - |
| - | 657,000 | - | 657,000 | - |
| \$ 2,124,467 | 1,246,714 | - | 3,371,181 | - |
| 9,264 | - | 6,121 | 3,143 | 274 |
| 11,261 | - | 4,847 | 6,414 | 483 |
| 40,908 | - | 8,352 | 32,556 | 1,786 |
| \$ 61,433 | - | 19,320 | 42,113 | 2,543 |

Schedule 3

City of Coggon

Bond Maturities

June 30, 2018

| Year Ending June 30, | General Obligation Bonds | | | | | Total |
|----------------------------|--------------------------|-------------------|---------------------|------------------|----------------|--------|
| | Fire Station | | Street Improvements | | | |
| | Issued May 20, 2009 | | Issued May 20, 2009 | | | |
| | Interest Rates | Amount | Interest Rates | Amount | | |
| 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 | | <u>\$ 190,000</u> | | <u>\$ 70,000</u> | <u>260,000</u> | |

See accompanying independent auditor's report.

City of Coggon
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2018

| 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 | | \$ 2,207,954 |
| 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 | 113,613 |
| U.S. Department of Homeland Security: Iowa Department of Homeland Security and and Emergency Management: Hazard Mitigation Grant | 97.039 | DR-4234-0006-01 | 21,953 |
| Total indirect | | | 135,566 |
| Total | | | \$ 2,343,520 |

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, 2018. 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.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 10, 2019. Our report expressed unmodified 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.

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 a significant deficiency.

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-18 through II-C-18 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 item II-D-18 to be a significant deficiency.

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, 2018 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.

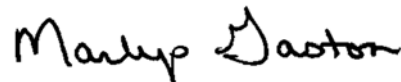
The City of Coggon's Responses to the Findings

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.



Marlys K. Gaston, CPA
Deputy Auditor of State

October 10, 2019



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

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, 2018. 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, 2018.

Report on Internal Control Over Compliance

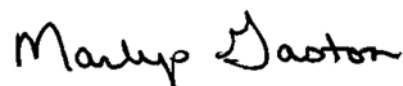
The management of the City of Coggon is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Coggon's internal control over compliance 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-18, 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.



Marlys K. Gaston, CPA
Deputy Auditor of State

October 10, 2019

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

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

- (a) Unmodified 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.
- (b) A significant deficiency 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 200.516.
- (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, 2018

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-18 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 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 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, 2018

Response and Corrective Action Planned – The Mayor and Council are now reviewing more aspects of financial systems. We will work with the Association to improve controls.

Conclusion – Response accepted.

II-B-18 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 attempt to institute only one method of tracking finances going forward.

Response – The Clerk is continuing to work towards using only computer accounting software.

Conclusion – Response accepted.

II-C-18 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 were not consistently reviewed and approved by an independent person throughout the year.

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

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

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

Recommendation – The City should implement procedures to ensure bank reconciliations and bank statements are reviewed on a consistent basis.

Response – Either the Mayor or a Council member will sign off on the actual bank reconciliation. The bank is currently being reviewed and verified against the City Clerk’s monthly report to make sure they balance with each other. All pages of the bank statement and the clerk’s report are being reviewed by two people who initial each page.

Conclusion – Response accepted.

II-D-18 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 – The City has been following recommendations since the last audit. The Mayor has reviewed and signed off on utility reconciliations and delinquent accounts since that time.

Conclusion – Response acknowledged. The City should investigate and resolve variances in the monthly reconciliations.

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

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: 2018
U.S. Department of Agriculture**

III-A-18 Segregation of Duties – The City did not properly segregate invoice
(2018-001) 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, 2018

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-18 Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the health and social services, and the business type activities functions. In addition, disbursements in the public safety function exceeded the budget prior to budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will try to make sure amendments are done prior to expending funds in the future.

Conclusion – Response accepted.

IV-B-18 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-18 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-18 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|--|-------------------------|----------|
| Debra Hinton, Public Works Director, Owner Equipment on Loan | Loan of equipment | \$ 1,525 |
| Brenda Quandt, City Clerk/Treasurer husband is part-owner of Pat’s Electric | Light installation | 150 |

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Public Works Director and City Clerk/Treasurer’s husband do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

IV-E-18 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.

IV-F-18 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

City of Coggon

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

- IV-G-18 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-18 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.

City of Coggon

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Donna F. Kruger, CPA, Manager
Kelly L. Hilton, Senior Auditor
Jason J. Miller, Staff Auditor
Adjoa S. Adanledji, Staff Auditor