



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE

November 10, 2015

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$478,711 for the year ended June 30, 2014. The receipts included \$108,539 in property tax, \$195,873 from charges for service, \$134,321 from operating grants, contributions and restricted interest, \$1,325 from capital grants, contributions and restricted interest, \$35,461 from local option sales tax, \$510 from unrestricted interest on investments and \$2,682 from other general receipts.

Disbursements for the year ended June 30, 2014 totaled \$468,894, and included \$112,693 for public works, \$77,752 for culture and recreation and \$55,469 for public safety. Also, disbursements for business type activities totaled \$168,034.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1422-0346-B00F.pdf>.

###

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

JUNE 30, 2014

Table of Contents

| | | <u>Page</u> |
|--|-----------------|-------------|
| Officials | | 3 |
| Independent Auditor’s Report | | 5-6 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-wide Financial Statement: | | |
| Cash Basis Statement of Activities and Net Position | A | 8-9 |
| Governmental Fund Financial Statement: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | B | 10-11 |
| Proprietary Fund Financial Statement: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | C | 12 |
| Notes to Financial Statements | | 13-18 |
| Other Information: | | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds | | 20-21 |
| Notes to Other Information – Budgetary Reporting | | 22 |
| Supplementary Information: | <u>Schedule</u> | |
| Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds | 1 | 24 |
| Schedule of Indebtedness | 2 | 26-27 |
| Note Maturities | 3 | 28 |
| 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 <u>Government Auditing Standards</u> | | 29-30 |
| Schedule of Findings | | 31-39 |
| Staff | | 40 |

City of Churdan

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------------------------|----------------------|---------------------|
| (Before January 2014) | | |
| Joleen Killeen | Mayor | Jan 2014 |
| Ann Meyer | Council Member | Jan 2014 |
| Jason Stauffer | Council Member | Jan 2014 |
| Steve Killeen | Council Member | Jan 2016 |
| Andy Nygaard | Council Member | Jan 2016 |
| Roger Olson | Council Member | Jan 2016 |
| Jina Brinks | City Clerk/Treasurer | Indefinite |
| Michael D. Tungesvik | Attorney | Indefinite |
| (After January 2014) | | |
| Joleen Killeen | Mayor | Jan 2016 |
| Steve Killeen | Council Member | Jan 2016 |
| Andy Nygaard | Council Member | Jan 2016 |
| Roger Olson | Council Member | Jan 2016 |
| Nate Byerly | Council Member | Jan 2018 |
| Jason Stauffer | Council Member | Jan 2018 |
| Jina Brinks | City Clerk/Treasurer | (Resigned Jun 2014) |
| Colleen Mackey (Appointed Jun 2014) | City Clerk/Treasurer | Indefinite |
| Michael D. Tungesvik | Attorney | Indefinite |

City of Churdan



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report

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 Churdan, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2013.

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2013, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Churdan as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Churdan's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.


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

The other information, the budgetary comparison information on pages 20 through 22, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2015 on our consideration of the City of Churdan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Churdan's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 16, 2015

Basic Financial Statements

City of Churdan

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

| | Disbursements | Program Receipts | | |
|---|---------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 55,469 | - | 45,366 | - |
| Public works | 112,693 | - | 29,157 | - |
| Culture and recreation | 77,792 | 540 | 59,798 | - |
| General government | 46,519 | - | - | - |
| Debt service | 8,387 | - | - | - |
| Total governmental activities | 300,860 | 540 | 134,321 | - |
| Business type activities: | | | | |
| Water | 108,022 | 129,409 | - | 1,325 |
| Sewer | 19,238 | 21,736 | - | - |
| Garbage | 40,774 | 44,188 | - | - |
| Total business type activities | 168,034 | 195,333 | - | 1,325 |
| Total | \$ 468,894 | 195,873 | 134,321 | 1,325 |
| General Receipts: | | | | |
| Property and other city tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Local option sales tax | | | | |
| Unrestricted interest on investments | | | | |
| 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 | | | | |
| Debt service | | | | |
| Local option sales tax | | | | |
| Water deposits | | | | |
| 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 |
| (10,103) | - | (10,103) |
| (83,536) | - | (83,536) |
| (17,454) | - | (17,454) |
| (46,519) | - | (46,519) |
| (8,387) | - | (8,387) |
| (165,999) | - | (165,999) |
| - | 22,712 | 22,712 |
| - | 2,498 | 2,498 |
| - | 3,414 | 3,414 |
| - | 28,624 | 28,624 |
| (165,999) | 28,624 | (137,375) |
| 100,105 | - | 100,105 |
| 8,434 | - | 8,434 |
| 35,461 | - | 35,461 |
| 444 | 66 | 510 |
| 2,682 | - | 2,682 |
| 147,126 | 66 | 147,192 |
| (18,873) | 28,690 | 9,817 |
| 219,033 | 72,877 | 291,910 |
| \$ 200,160 | 101,567 | 301,727 |
| \$ 24,073 | - | 24,073 |
| 96 | - | 96 |
| 10,574 | - | 10,574 |
| - | 3,675 | 3,675 |
| 165,417 | 97,892 | 263,309 |
| \$ 200,160 | 101,567 | 301,727 |

City of Churdan

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

As of and for the year ended June 30, 2014

| | General | Special Revenue | |
|---------------------------------|------------|-----------------|-------------------------------------|
| | | Road Use Tax | Local Option Sales and Services Tax |
| Receipts: | | | |
| Property tax | \$ 81,676 | - | - |
| Other city tax | - | - | 35,461 |
| Licenses and permits | 540 | - | - |
| Use of money and property | 1,101 | 74 | - |
| Intergovernmental | 50,460 | 29,157 | - |
| Miscellaneous | 56,655 | - | - |
| Total receipts | 190,432 | 29,231 | 35,461 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 55,469 | - | - |
| Public works | - | 20,834 | 83,935 |
| Culture and recreation | 74,382 | - | - |
| General government | 46,310 | - | - |
| Debt service | - | - | - |
| Total disbursements | 176,161 | 20,834 | 83,935 |
| Change in cash balances | 14,271 | 8,397 | (48,474) |
| Cash balances beginning of year | 136,079 | 15,676 | 59,048 |
| Cash balances end of year | \$ 150,350 | 24,073 | 10,574 |
| Cash Basis Fund Balances | | | |
| Restricted for: | | | |
| Streets | \$ - | 24,073 | - |
| Debt service | - | - | - |
| Local option sales tax | - | - | 10,574 |
| Assigned for: | | | |
| Fire and rescue | 55,634 | - | - |
| Library | 29,233 | - | - |
| Unassigned | 65,483 | - | - |
| Total cash basis fund balances | \$ 150,350 | 24,073 | 10,574 |

See notes to financial statements.

| Nonmajor | Total |
|----------|---------|
| 26,863 | 108,539 |
| - | 35,461 |
| - | 540 |
| - | 1,175 |
| - | 79,617 |
| - | 56,655 |
| 26,863 | 281,987 |

| | |
|--------|----------|
| - | 55,469 |
| 7,924 | 112,693 |
| 3,410 | 77,792 |
| 209 | 46,519 |
| 8,387 | 8,387 |
| 19,930 | 300,860 |
| 6,933 | (18,873) |
| 8,230 | 219,033 |
| 15,163 | 200,160 |

| | |
|--------|---------|
| - | 24,073 |
| 96 | 96 |
| - | 10,574 |
| - | 55,634 |
| - | 29,233 |
| 15,067 | 80,550 |
| 15,163 | 200,160 |

Exhibit C

City of Churdan

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

As of and for the year ended June 30, 2014

| | Enterprise | | | Total |
|--|------------|--------|-------------|----------|
| | Water | Sewer | Solid Waste | |
| Operating receipts: | | | | |
| Charges for service | \$ 129,409 | 21,736 | 44,188 | 195,333 |
| Operating disbursements: | | | | |
| Business type activities | 82,246 | 19,238 | 40,774 | 142,258 |
| Excess of operating receipts over operating disbursements | 47,163 | 2,498 | 3,414 | 53,075 |
| Non-operating receipts (disbursements): | | | | |
| Interest on investments | 51 | - | 15 | 66 |
| Grants | 1,325 | - | - | 1,325 |
| Capital projects | (25,776) | - | - | (25,776) |
| Net non-operating receipts (disbursements) | (24,400) | - | 15 | (24,385) |
| Change in cash balances | 22,763 | 2,498 | 3,429 | 28,690 |
| Cash balances beginning of year | 59,148 | 15,997 | (2,268) | 72,877 |
| Cash balances end of year | \$ 81,911 | 18,495 | 1,161 | 101,567 |
| Cash Basis Fund Balances | | | | |
| Restricted for water deposits | \$ 3,675 | - | - | 3,675 |
| Unrestricted | 78,236 | 18,495 | 1,161 | 97,892 |
| Total cash basis fund balances | \$ 81,911 | 18,495 | 1,161 | 101,567 |

See notes to financial statements.

City of Churdan

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Churdan is a political subdivision of the State of Iowa located in Greene County. It was first incorporated in 1884 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, culture and recreation, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Greene County Assessor's Conference Board, Greene County Emergency Management Commission and Greene County E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

Expendable 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 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.

Special Revenue:

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

The Local Option Sales and Services Tax Fund is used to account for the collection and use of local option sales and services tax.

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.

The Enterprise, Solid Waste Fund accounts operation and maintenance of the City's solid waste disposal 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 positions 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 disbursement 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.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public works and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Note Payable

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

| Year Ending June 30, | Principal | Interest | Total |
|----------------------------|-----------|----------|-------|
| 2015 | \$ 9,159 | 458 | 9,617 |

General Obligation Fire Equipment Note

On March 15, 2005, the City issued a general obligation fire truck note for \$75,000 for the purpose of acquiring a fire truck. This note bears interest at 5% per annum. During the year ended June 30, 2014, the City paid \$7,552 of principal and \$835 of interest. At June 30, 2014, the outstanding principal balance was \$9,159.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2014 was \$6,974, equal to the required contribution for the year.

(5) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2014 were \$11,318.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2014, no liability has been recorded in the City's financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Subsequent Events

In August 2014, the City approved a contract for the construction of a drinking water treatment facilities project for \$706,600. The contract will be paid with water revenue capital loan notes, series 2015 of \$1,120,000 issued in January 2015. These notes are payable solely from net revenues of the water system.

(7) Prospective Accounting Change

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

Other Information

City of Churdan
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2014

| | Governmental Funds Actual | Proprietary Funds Actual | Total |
|---|---------------------------------|--------------------------------|---------|
| Receipts: | | | |
| Property tax | \$ 108,539 | - | 108,539 |
| Other city tax | 35,461 | - | 35,461 |
| Licenses and permits | 540 | - | 540 |
| Use of money and property | 1,175 | 66 | 1,241 |
| Intergovernmental | 79,617 | 1,325 | 80,942 |
| Charges for service | - | 195,333 | 195,333 |
| Miscellaneous | 56,655 | - | 56,655 |
| Total receipts | 281,987 | 196,724 | 478,711 |
| Disbursements: | | | |
| Public safety | 55,469 | - | 55,469 |
| Public works | 112,693 | - | 112,693 |
| Culture and recreation | 77,792 | - | 77,792 |
| General government | 46,519 | - | 46,519 |
| Debt service | 8,387 | - | 8,387 |
| Business type activities | - | 168,034 | 168,034 |
| Total disbursements | 300,860 | 168,034 | 468,894 |
| Excess (deficiency) of receipts over (under) disbursements | (18,873) | 28,690 | 9,817 |
| Balances beginning of year | 219,033 | 72,877 | 291,910 |
| Balances end of year | \$ 200,160 | 101,567 | 301,727 |

See accompanying independent auditor's report.

| Budgeted Amounts Original/Final | Final to Total Variance |
|---------------------------------------|-------------------------------|
| 104,099 | 4,440 |
| 31,574 | 3,887 |
| - | 540 |
| 9,000 | (7,759) |
| 125,000 | (44,058) |
| 182,000 | 13,333 |
| - | 56,655 |
| <u>451,673</u> | <u>27,038</u> |
| 66,700 | 11,231 |
| 82,000 | (30,693) |
| 102,100 | 24,308 |
| 52,500 | 5,981 |
| 8,387 | - |
| 167,000 | (1,034) |
| <u>478,687</u> | <u>9,793</u> |
| (27,014) | 36,831 |
| <u>205,442</u> | <u>86,468</u> |
| <u><u>178,428</u></u> | <u><u>123,299</u></u> |

City of Churdan

Notes to Other Information – Budgetary Reporting

June 30, 2014

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. 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. The City did not amend the budget during the year ended June 30, 2014.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public works and business type activities functions.

Supplementary Information

Schedule 1

City of Churdan

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

As of and for the year ended June 30, 2014

| | <u>Special Revenue</u> | | |
|---------------------------------|----------------------------|-----------------|---------------|
| | Employee Benefits | Debt Service | Total |
| Receipts: | | | |
| Property tax | \$ 18,429 | 8,434 | 26,863 |
| Disbursements: | | | |
| Operating: | | | |
| Public works | 7,924 | - | 7,924 |
| Culture and recreation | 3,410 | - | 3,410 |
| General government | 209 | - | 209 |
| Debt service | - | 8,387 | 8,387 |
| Total disbursements | <u>11,543</u> | <u>8,387</u> | <u>19,930</u> |
| Change in cash balances | 6,886 | 47 | 6,933 |
| Cash balances beginning of year | <u>8,181</u> | <u>49</u> | <u>8,230</u> |
| Cash balances end of year | <u>\$ 15,067</u> | <u>96</u> | <u>15,163</u> |
| Cash Basis Fund Balances | | | |
| Restricted for debt service | \$ - | 96 | 96 |
| Unassigned | <u>15,067</u> | <u>-</u> | <u>15,067</u> |
| Total cash basis fund balances | <u>\$ 15,067</u> | <u>96</u> | <u>15,163</u> |

See accompanying independent auditor's report.

City of Churdan

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

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|--|------------------|-------------------|--------------------------------|
| General obligation note: Fire truck | Mar 15, 2005 | 5.00% | \$ 75,000 |

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| \$ 16,711 | - | 7,552 | 9,159 | 835 |

Schedule 3

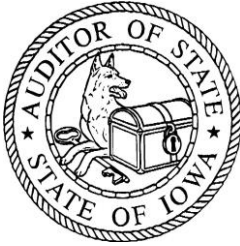
City of Churdan

Note Maturities

Year ended June 30, 2014

| Year Ending June 30, | General Obligation Note | |
|----------------------------|-----------------------------------|-----------------|
| | Fire Truck Issued Mar 15, 2005 | |
| | Interest Rates | Amount |
| 2015 | 5.00% | <u>\$ 9,159</u> |

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in 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 Churdan, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 16, 2015. Our report expressed qualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Churdan'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 Churdan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Churdan's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Churdan'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 (C) 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 (D) through (M) to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


The City of Churdan's Responses to the Findings


The City of Churdan's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Churdan'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 Churdan during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 16, 2015

City of Churdan

Schedule of Findings

Year ended June 30, 2014

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
 - (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (4) Debt – recordkeeping, compliance and debt payment processing.
 - (5) Disbursements – purchasing, invoice processing, check writing and signing, mailing, reconciling and recording.
 - (6) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
 - (7) Utilities – billing, collecting, depositing, posting and maintaining detailed accounts receivable records.
 - (8) Computer systems – performing all general accounting functions, controlling all data input and output and having custody of assets.
 - (9) Financial reporting – preparing and reconciling.

For the Churdan Public Library and Churdan Fire and Rescue, one individual has control over each of the following areas with no independent review:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, recording, depositing and reconciling.
- (3) Disbursements – preparing, signing, recording and reconciling.

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

City of Churdan

Schedule of Findings

Year ended June 30, 2014

Responses

City – We have spent time looking for a potential employee who would be willing to work on a part time basis assisting the town in dividing up the duties of the City Clerk. At this time no one is interested so the Mayor will help with the duties. We have not at this time decided what the Mayor's duties will be but the Mayor will be in the office a couple mornings a week assisting the City Clerk.

Churdan Fire and Rescue – The Churdan EMS bank statements are reviewed each month and signed off by a City Council member at the monthly City Council meeting.

Churdan Public Library – We have appointed one City Council member who works with the library to review the bank statements at each City Council meeting.

Conclusion – Responses accepted.

- (B) Bank Reconciliations – Cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. The "bank statement reconciliation" reports generated from the City's financial accounting system include the City's main checking account but exclude the savings and investment accounts. Also, the "bank statement reconciliation" was not reviewed by an independent person. Also, the "bank statement reconciliation" did not properly reconcile book to bank balances at the end of the year because of reporting errors during the year.

For the Churdan Public Library, bank to book reconciliations did not include the savings account. Also, there is no evidence of independent review of the reconciliation.

For Churdan Fire and Rescue, bank to book reconciliations are not completed.

Recommendation – The City, the Public Library and Churdan Fire and Rescue should establish procedures to ensure the general ledger is reconciled to the bank and investment account balances monthly. Variances, if any, should be reviewed and resolved timely. Bank reconciliations should be reviewed by an independent person and the reviews should be documented by the signature or initials of the reviewer and the date of the review.

Responses

City – The City Clerk will prepare the monthly bank reconciliation and it will be reviewed by a City Council member each month.

Churdan Public Library – We have appointed one City Council member who works with the library to review the bank statements at each City Council meeting.

Churdan Fire and Rescue – The Churdan EMS bank statements are reviewed each month and signed off by a City Council member at the monthly City Council meeting.

Conclusion – Responses accepted.

City of Churdan

Schedule of Findings

Year ended June 30, 2014

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Delinquent accounts were not monitored and a delinquent account listing was not prepared. In addition, the City does not have written procedures pertaining to write-offs of delinquent utility accounts or late fee assessments. Also, adjustments to accounts were not approved or supported.

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 deposit. The City Council or other independent person designated by the City Council should review the reconciliation and monitor delinquent accounts. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review. The City should establish formal written procedures for writing off delinquent accounts and assessing late fees. Additionally, all write-offs or adjustments should be supported and approved by the City Council.

Response – A formal written procedure is being written for delinquent accounts regarding water/sewer billing. Because we are installing all electronic reading water meters, we do not feel at this time we need to be writing off any billings. If in the future, all write-offs will be at the discretion of the City Council.

Conclusion – Response accepted.

- (D) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City's records.

Recommendation – The City should ensure future Annual Financial Reports agree with the City's records.

Response – We are planning to have an accountant ensure the accuracy of the Annual Financial Report.

Conclusion – Response accepted.

- (E) Monthly City Clerk's Reports - Monthly reports presented to the City Council for approval consisted of a summary of disbursements by program. However, the reports did not contain receipts and the beginning and ending fund balances for each fund. Also, the transactions and resulting balances for the Public Library and Churdan Fire and Rescue were not included in the monthly reports.

Recommendation – Receipts and the beginning and ending fund balances for each fund should be included in the monthly reports presented to the City Council for approval. For better accountability, financial and budgetary control, the financial activity and balances of all City accounts, including the Public Library and Churdan Fire and Rescue, should be included in the City's accounting records and reported to the City Council on a monthly basis.

City of Churdan

Schedule of Findings

Year ended June 30, 2014

Response – Before every meeting, the City Council members review the receipts and disbursements for the previous month and one City Council member initials them to indicate approval. Invoices approved at the City Council meeting are also initialed to document approval of the invoices. The Public Library and Fire and Rescue receipts and bank balances are presented at every City Council meeting.

We are in the process of entering all data into a new software accounting system so at this point the Public Library and Fire and Rescue are not entered into the City's accounting records.

Conclusion – Response acknowledged. Total receipts and disbursements by fund and beginning and ending fund balances should be included in the monthly reports presented to the City Council for approval.

Also, the financial activity and balances of all City accounts, including the Public Library and Churdan Fire and Rescue, should be included in the City's accounting records.

- (F) Chart of Accounts and Accounting System – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments recommended by the City Finance Committee on September 25, 2002 and does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. As a result, certain receipts and disbursements were recorded in incorrect funds and time periods in the City's accounting records. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

Recommendation – To provide better financial information and control, a chart of accounts, such as the Uniform Chart of Accounts recommended by the City Finance Committee, should be followed by the City. The City should record receipts and disbursements to the proper accounts on a consistent basis.

Response – We have installed new accounting software and the City Clerk is entering all billing and payments from May 2015 going forward.

Conclusion – Response accepted.

- (G) Payroll – Timesheets were not available to support hours worked.

Recommendation – Timesheets should be completed and retained to support hours worked. Timesheets should be signed by the employee and their supervisor. Review should be documented by the signature or initials of the reviewer and the date of the review.

Response – A 3 ring binder has been made up for each employee of the City with timesheets and leave request forms. At the City Council meeting each month a City Council member signs off on each timesheet. These timesheets are kept in the 3 ring binder.

Conclusion – Response accepted.

City of Churdan

Schedule of Findings

Year ended June 30, 2014

- (H) Disbursements – Invoices or other supporting documentation were not always available to support disbursements. Certain invoices were not marked as paid to help prevent a possible duplicate payment. One disbursement was not posted correctly to the financial system. Additionally, the City has not established a travel policy which includes the approved mileage reimbursement rate.

For the Public Library and Churdan Fire and Rescue, certain invoices were not made available.

Recommendation – Invoices or other supporting documentation should be obtained and retained to support all disbursements. All invoices should be marked or stamped paid with the date of payment to aid in preventing possible duplicate payment. Procedures should be implemented to include an independent review to ensure disbursements are posted properly. Additionally, the City should establish an employee travel policy which includes the approved mileage reimbursement rate.

Response – At each City Council meeting all paid invoices are approved by a City Council member and signed off. Bills to be paid are reviewed by the City Council and a motion is made for the bills to be paid. At the City Council meeting on August 10, 2015 the City Council will approve a resolution establishing a mileage reimbursement rate policy for all departments. For the Churdan Fire and Rescue, receipts are retained which supports the disbursements.

Conclusion – Response acknowledged. The City, the Public Library and Churdan Fire and Rescue should ensure all invoices are marked paid and retained.

- (I) Credit and Charge Cards – The City has not adopted a formal policy to regulate the use of credit and charge cards and to establish procedures for the proper accounting of charges. Additionally, supporting documentation, such as receipts for fuel purchases, was not available to support credit card charges and to track which vehicle was fueled.

Recommendation – The City should adopt a formal written policy regulating the use of City credit and charge cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges. These cards should only be used for City business and be signed only by authorized individuals. All charges should be scrutinized.

Response – The Fire and Rescue has a credit card for gas. The driver must sign and turn in the invoice to the person responsible for paying the Fire and Rescue bill. The City maintenance person has the authority to charge for supplies at a few stores and each month the City Council reviews the invoices and makes a motion to pay the bills.

Conclusion – Response acknowledged. The City should adopt a formal policy regulating the use of credit and charge cards. Supporting documentation, such as receipts, should be retained to support the charges.

City of Churdan

Schedule of Findings

Year ended June 30, 2014

- (J) Compensated Absences – A detailed record of vacation and sick leave earned and used by each employee is not maintained and the City does not have a vacation and sick leave policy.

Recommendation – A detailed record of employee vacation and sick leave should be maintained to account for the proper accumulation and use of this time. A written policy should be implemented regarding vacation and sick leave.

Response – The City has implemented a vacation and sick leave policy which is included in the employee handbook. We are using a leave request form which will be kept in each employee file.

Conclusion – Response accepted.

- (K) Computer System – The City does not have written policies over general computer usage and security and does not have a written disaster recovery plan. Back up of the financial system is not stored in a secure off site location.

Recommendation – The City should develop a computer usage and security policy to improve the City's control over its computer system and should develop a written disaster recovery plan. Back up of the financial system should be stored in a secure off site location.

Response – The new software has been installed and once the City Clerk inputs all billings and payments this will be backed up by the software company and kept at their facility off site.

Conclusion – Response acknowledged. The City should also develop a comprehensive computer usage and security policy and a written disaster recovery plan.

- (L) Restrictive Endorsement – A restrictive endorsement was not placed on checks upon receipt.

Recommendation – A restrictive endorsement should be placed on all checks when received to help provide protection in case of theft or loss.

Response – A stamp for deposit only is now stamped on all checks as they are received in the office.

Conclusion – Response accepted.

- (M) Utilities – Utility rates used for billings were not established by ordinance as required by Chapter 384.84 of the Code of Iowa.

Recommendation – The City should establish utility rates by ordinance as required by Chapter 384.84 of the Code of Iowa.

Response – An ordinance will be approved by the City Council for the water, sewer and garbage rates on Monday, August 10, 2015.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Churdan

Schedule of Findings

Year ended June 30, 2014

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public works and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation." Also, the City did not retain the proof of publication required by Chapter 384.16(3) of the Code of Iowa.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Proofs of publication should be retained as required by Chapter 384.16(3) of the Code of Iowa.

Response - The City Clerk will retain the proof of publication each year going forward. Also the City Council will be closely watching the budget so we do not exceed the budget by function in the future.

Conclusion - Response accepted.

- (2) Questionable Disbursements - Certain 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. These disbursements are detailed as follows:

| Paid To | Purpose | Amount |
|----------------------|--------------------|--------|
| Access Systems | Late Charge | \$ 26 |
| Green County Sheriff | Canine donations | 200 |
| Paton Churdan School | Post prom donation | 100 |
| Jane's Floral Shop | Bereavement plant | 20 |

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 Council 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 - Going forward we will document the disbursement and also determine if it is in the best interest of the City Council to approve the payment. The City Council has to take in consideration the citizen's money they are spending and if the citizens would want their money spent for this 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 Churdan

Schedule of Findings

Year ended June 30, 2014

- (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> |
|---|------------------------------------|---------------|
| Jason Stauffer, City Council Member, Water testing | Water tests | \$ 880 |

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Jason Stauffer does not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees was not maintained for the year ended June 30, 2014 as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should comply with Chapter 64 of the Code of Iowa and obtain and periodically review its surety bond coverage.

Response – We met with our insurance agent and instructed him the City needed bond coverage and the amount was \$50,000.

Conclusion – Response accepted.

- (6) City Council Minutes – Certain disbursements were not approved by the City Council prior to payment. The City does not have a written disbursement approval policy allowing certain items to be paid prior to City Council approval.

Also, certain minutes of City Council meetings were not signed in accordance with Chapter 380.7 of the Code of Iowa. In addition, although minutes of City Council proceedings were published, they did not include a summary of all receipts received in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to payment with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval. The minutes should be signed and published as required by the Code of Iowa.

Response – The City Clerk and the Mayor will make sure all council meetings are signed. At a future City Council meeting there will be a disbursement policy approved allowing certain items to be paid prior to the City Council approval. Even though at this time we do not have a policy in place, a list of all disbursements paid prior to the meeting is provided for City Council review and approval.

Conclusion – Response accepted.

- (7) Deposits and Investments - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The City Attorney has been asked to adopt a written investment policy for the City.

Conclusion – Response accepted.

City of Churdan

Schedule of Findings

Year ended June 30, 2014

- (8) Employee Benefits - The Special Revenue, Employee Benefits Fund paid employee retirement benefits other than IPERS which is contrary to rules adopted in 545-4.1 of the Iowa Administrative Code.

Recommendation – The City should review this matter with the City Attorney and take appropriate corrective action including reimbursing the Special Revenue, Employee Benefits Fund from the General Fund. Also, the City should ensure property tax is levied and expended for employee benefits only in accordance with Chapter 384.15 of the Code of Iowa and rules adopted by the City Finance Committee.

Response – With the new accounting system these annuities are posted to the General Fund.

Conclusion – Response acknowledged. The City should also reimburse the Special Revenue, Employee Benefits Fund from the General Fund for prior payments.

- (9) Records of Accounts – The Public Library and Churdan Fire and Rescue maintain their financial accounting records separate from the City Clerk’s records. The transactions and the resulting balances were not reported to the City Council each month and the transactions were not recorded in the City Clerk’s records. 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.”

Recommendation – The financial transactions and balances of the Public Library and Churdan Fire and Rescue should be included in the City Clerk’s monthly financial reports. Internal control could be strengthened and operating efficiency could be increased by integrating the Public Library and Churdan Fire and Rescue receipts and disbursements with the City’s accounting records in the City Clerk’s office.

Response – We are in the process of entering all financial information into a new software system. Our City Clerk is now entering July and appears to be having problems when it comes to the bank balance and our balances at the end of each month. Once she has completed September we will enter the Public Library and the Fire and Rescue which will then be included in our financial reports.

Conclusion – Response accepted.

- (10) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City, the Public Library and Churdan Fire and Rescue do not retain electronic images of the back of cancelled checks.

Recommendation – The City, the Public Library and Churdan Fire and Rescue should retain an image of both the front and back of each cancelled check as required.

Response – The City, Churdan Public Library and Churdan Fire and Rescue now receive all cancelled checks, front and back, each month and are kept in a three ring binder at each location.

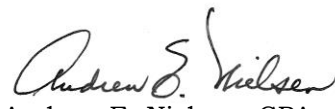
Conclusion – Response accepted.

City of Churdan

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Janet K. Mortvedt, CPA, Senior Auditor II
Ashley J. Moser, Staff Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State