



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE June 28, 2010

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Auditor of State David A. Vaudt today released an audit report on the City of Cincinnati, Iowa.

The City's receipts totaled \$238,355 for the year ended June 30, 2009. The receipts included \$33,535 in property tax, \$120,859 from charges for service, \$50,909 from operating grants, contributions and restricted interest, \$28,303 from local option sales tax, \$4,449 from unrestricted interest on investments and \$300 from other general receipts.

Disbursements for the year totaled \$220,452, and included \$35,078 for public works, \$22,849 for general government and \$16,168 for public safety. Also, disbursements for business type activities totaled \$129,515.

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/index.html>.

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

JUNE 30, 2009

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City of Cincinnati

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Deb Henkle	Mayor	(Resigned May 2009)
Carl Adams (Appointed)	Mayor	Jan 2010
Glenn Besses	Council Member	Jan 2010
Jean Morrison	Council Member	Jan 2010
Debra Tait	Council Member	Jan 2010
Alice McClure	Council Member	Jan 2012
Lisa Owens	Council Member	Jan 2012
Nancy Mikels	Clerk/Treasurer	(Resigned Jun 2009)
David Owens (Appointed)	Clerk/Treasurer	Indefinite
Debra A. George	Attorney	Indefinite

City of Cincinnati



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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 Cincinnati, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Cincinnati's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, 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, 2008.

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, 2008, 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 Cincinnati as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

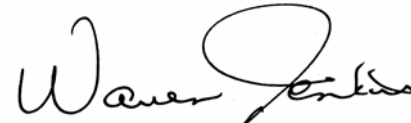
The City of Cincinnati has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated May 26, 2010 on our consideration of the City of Cincinnati's internal control over financial reporting and 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 and should be considered in assessing the results of our audit.

Budgetary comparison information on 22 through 24 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cincinnati's basic financial statements. Other 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. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, 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, 2008, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 26, 2010

Basic Financial Statements

City of Cincinnati

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 16,168	-	16,561
Public works	35,078	655	27,715
Culture and recreation	16,842	4,010	1,785
General government	22,849	100	-
Total governmental type activities	90,937	4,765	46,061
Business type activities:			
Water	54,216	62,354	133
Sewer	75,299	53,740	4,715
Total business type activities	129,515	116,094	4,848
Total	\$ 220,452	120,859	50,909
General Receipts and Transfers:			
Property and other city tax levied for general purposes			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Nonexpendable:			
Cemetery perpetual care			
Expendable:			
Streets			
Local option sales tax			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
393	-	393
(6,708)	-	(6,708)
(11,047)	-	(11,047)
(22,749)	-	(22,749)
(40,111)	-	(40,111)
-	8,271	8,271
-	(16,844)	(16,844)
-	(8,573)	(8,573)
(40,111)	(8,573)	(48,684)
33,535	-	33,535
28,303	-	28,303
996	3,453	4,449
300	-	300
1,581	(1,581)	-
64,715	1,872	66,587
24,604	(6,701)	17,903
163,838	152,335	316,173
\$ 188,442	145,634	334,076

\$ 34,462	-	34,462
19,031	-	19,031
108,264	-	108,264
-	19,983	19,983
24,637	-	24,637
2,048	125,651	127,699
\$ 188,442	145,634	334,076

City of Cincinnati

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

As of and for the year ended June 30, 2009

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Cemetery Improvement Association
Receipts:				
Property tax	\$ 27,896	-	-	-
Local option sales tax	-	-	28,303	-
Licenses and permits	100	-	-	-
Use of money and property	2,011	386	-	-
Intergovernmental	13,561	25,715	-	-
Charges for service	935	-	-	-
Miscellaneous	1,656	-	-	1,083
Total receipts	46,159	26,101	28,303	1,083
Disbursements:				
Operating:				
Public safety	9,203	-	-	-
Public works	209	34,869	-	-
Culture and recreation	15,278	-	-	1,564
General government	19,117	-	-	-
Total disbursements	43,807	34,869	-	1,564
Excess (deficiency) of receipts over (under) disbursements	2,352	(8,768)	28,303	(481)
Other financing sources (uses):				
Operating transfers in	-	2,661	-	-
Operating transfers out	(3,390)	-	-	-
Total other financing sources (uses)	(3,390)	2,661	-	-
Net change in cash balances	(1,038)	(6,107)	28,303	(481)
Cash balances beginning of year	3,086	25,138	79,961	19,616
Cash balances end of year	\$ 2,048	19,031	108,264	19,135
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 2,048	-	-	-
Special revenue funds	-	19,031	108,264	19,135
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 2,048	19,031	108,264	19,135

See notes to financial statements.

Permanent Cemetery Perpetual Care		
Care	Nonmajor	Total
-	5,639	33,535
-	-	28,303
-	-	100
-	-	2,397
-	-	39,276
1,675	-	2,610
-	5,000	7,739
1,675	10,639	113,960
-	6,965	16,168
-	-	35,078
-	-	16,842
-	3,732	22,849
-	10,697	90,937
1,675	(58)	23,023
-	2,310	4,971
-	-	(3,390)
-	2,310	1,581
1,675	2,252	24,604
32,787	3,250	163,838
34,462	5,502	188,442
-	-	2,048
-	5,502	151,932
34,462	-	34,462
34,462	5,502	188,442

City of Cincinnati

City of Cincinnati

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

As of and for the year ended June 30, 2009

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 62,354	53,740	116,094
Miscellaneous	133	4,715	4,848
Total operating receipts	62,487	58,455	120,942
Operating disbursements:			
Business type activities	54,216	58,969	113,185
Excess (deficiency) of operating receipts over (under) operating disbursements	8,271	(514)	7,757
Non-operating receipts (disbursements):			
Interest on investments	1,421	2,032	3,453
Capital equipment	-	(4,500)	(4,500)
Debt service	-	(11,830)	(11,830)
Net non-operating receipts (disbursements)	1,421	(14,298)	(12,877)
Excess (deficiency) of receipts over (under) disbursements	9,692	(14,812)	(5,120)
Other financing sources (uses):			
Operating transfers in	648	432	1,080
Operating transfers out	(1,331)	(1,330)	(2,661)
Total other financing sources (uses)	(683)	(898)	(1,581)
Net change in cash balances	9,009	(15,710)	(6,701)
Cash balances beginning of year	68,828	83,507	152,335
Cash balances end of year	\$ 77,837	67,797	145,634
Cash Basis Fund Balances			
Reserved for debt service	\$ -	19,983	19,983
Unreserved	77,837	47,814	125,651
Total cash basis fund balances	\$ 77,837	67,797	145,634

See notes to financial statements.

City of Cincinnati

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Cincinnati is a political subdivision of the State of Iowa located in Appanoose County. It was first incorporated in 1876 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Cincinnati 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: Appanoose County Assessor's Conference Board, Appanoose County Emergency Management Commission, Appanoose County Joint E911 Service Board, and Rathbun Area Solid Waste Commission.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets 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 Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets 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 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 road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax and its uses.

The Cemetery Improvement Association fund is used to account for cemetery donations and memorials used to maintain the cemetery.

The Permanent, Cemetery Perpetual Care Fund is used to account for a trust for maintenance of the cemetery.

The City reports the following major proprietary funds:

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

The 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 assets 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.

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 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 insure 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) Long Term Debt

Sewer Revenue Bonds

Annual debt service requirements to maturity for the sewer revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 3,709	5,647	9,356
2011	3,899	5,457	9,356
2012	4,084	5,272	9,356
2013	4,308	5,048	9,356
2014	4,529	4,827	9,356
2015 - 2019	26,362	20,418	46,780
2020 - 2024	33,848	12,932	46,780
2025 - 2028	31,541	5,883	37,424
Total	\$ 112,280	65,484	177,764

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$157,800 of sewer revenue bonds issued in December 1988. The bonds mature annually on July 1 and bear interest at 5.0% per annum, which is also due and payable every July 1. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2028. Annual principal and interest payments on the notes are expected to require more than 100 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$177,764. For the current year, principal and interest paid and total customer net receipts were \$9,356 and \$(514), respectively.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- (a) The bonds will be only redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) The City shall make annual payments of \$9,356, including interest at 5% per year, to Farmers Home Administration in the years 1991 through 2028, inclusive.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level net less than 125% the amount of principal and interest on the bonds falling due in the same year.
- (d) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (e) Additionally monthly transfers to a sewer revenue reserve account shall be made until an amount equal to the principal and interest due in any subsequent year has been accumulated. This account is restricted for the purpose of paying principal and interest payments on the bonds.
- (f) The City shall cause the books and accounts of the sewer utility to be audited annually.
- (g) All users of the System, including the City, shall pay for usage.

The City's net revenues for the year ended June 30, 2009 were less than the required 125% of bond principal and interest falling due during the year.

The City has not complied with the provision in the sewer revenue bond resolution requiring the books and accounts to be audited annually.

The City does not pay for use of the sewer system as required by the sewer revenue bond resolution.

Bank Loan

On April 16, 2008, the City entered into a bank loan for \$21,280 to purchase a tractor. The loan bears interest at 6.00% per annum and is to be repaid in monthly installments of \$412, including interest, for a period of 5 years. During the year ended June 30, 2009, \$4,947, including interest of \$1,159, was paid on the loan. The principal balance at June 30, 2009 was \$16,858.

(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 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2009 was \$4,364, equal to the required contribution for the year.

(5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:	Enterprise:	
Road Use Tax	Water	\$ 1,331
	Sewer	1,330
		<u>2,661</u>
Fireman's Fundraiser	General	2,310
Enterprise:		
Water	General	648
Sewer	General	432
Total		<u>\$ 6,051</u>

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

(6) Risk Management

The City is 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 577 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 provided capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current 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 to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2009 were \$6,888.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhaust total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, 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. Members withdrawing within the first six years of a membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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.

Required Supplementary Information

City of Cincinnati

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

Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 33,535	-	33,535
Other city tax	28,303	-	28,303
Licenses and permits	100	-	100
Use of money and property	2,397	3,453	5,850
Intergovernmental	39,276	-	39,276
Charges for service	2,610	116,094	118,704
Special assessments	-	-	-
Miscellaneous	7,739	4,848	12,587
Total receipts	<u>113,960</u>	<u>124,395</u>	<u>238,355</u>
Disbursements:			
Public safety	16,168	-	16,168
Public works	35,078	-	35,078
Culture and recreation	16,842	-	16,842
General government	22,849	-	22,849
Business type activities	-	129,515	129,515
Total disbursements	<u>90,937</u>	<u>129,515</u>	<u>220,452</u>
Excess (deficiency) of receipts over (under) disbursements	23,023	(5,120)	17,903
Other financing sources, net	1,581	(1,581)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	24,604	(6,701)	17,903
Balances beginning of year	<u>163,838</u>	<u>152,335</u>	<u>316,173</u>
Balances end of year	<u>\$ 188,442</u>	<u>145,634</u>	<u>334,076</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
30,503	30,503	3,032
28,662	28,322	(19)
130	130	(30)
4,280	4,280	1,570
34,650	33,200	6,076
123,255	123,734	(5,030)
-	1,041	(1,041)
-	4,562	8,025
<u>221,480</u>	<u>225,772</u>	<u>12,583</u>
18,885	18,885	2,717
54,550	67,524	32,446
19,950	19,170	2,328
35,643	26,503	3,654
136,261	149,780	20,265
<u>265,289</u>	<u>281,862</u>	<u>61,410</u>
(43,809)	(56,090)	73,993
-	-	-
(43,809)	(56,090)	73,993
<u>226,585</u>	<u>293,308</u>	<u>22,865</u>
<u>182,776</u>	<u>237,218</u>	<u>96,858</u>

City of Cincinnati

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

The budgetary comparison is presented as Required Supplementary Information 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 Permanent 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, one budget amendment increased budgeted disbursements by \$16,573. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Cincinnati

City of Cincinnati

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

As of and for the year ended June 30, 2009

	Special Revenue			
	Firemen's Fundraiser	Employee Benefits	Emergency	Total
Receipts:				
Property tax	\$ -	4,853	786	5,639
Miscellaneous	5,000	-	-	5,000
Total receipts	<u>5,000</u>	<u>4,853</u>	<u>786</u>	<u>10,639</u>
Disbursements:				
Operating:				
Public safety	6,965	-	-	6,965
General government	-	3,732	-	3,732
Total disbursements	<u>6,965</u>	<u>3,732</u>	<u>-</u>	<u>10,697</u>
Excess (deficiency) of receipts over (under) disbursements	(1,965)	1,121	786	(58)
Other financing sources:				
Operating transfers in	2,310	-	-	2,310
Net change in cash balances	345	1,121	786	2,252
Cash balances beginning of year	3,250	-	-	3,250
Cash balances end of year	<u>\$ 3,595</u>	<u>1,121</u>	<u>786</u>	<u>5,502</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	<u>\$ 3,595</u>	<u>1,121</u>	<u>786</u>	<u>5,502</u>

See accompanying independent auditor's report.

City of Cincinnati
Schedule of Indebtedness
Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Farmer's Home Administration revenue bonds:			
Sewer	Dec 15, 1988	5.00%	\$ 157,800
Bank loan:			
Tractor	Apr 16, 2008	6.00%	\$ 21,280

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
115,753	-	3,473	112,280	5,883
20,646	-	3,788	16,858	1,159

Schedule 3

City of Cincinnati

Bond Maturities

June 30, 2009

Year Ending June 30,	Sewer Revenue Bonds	
	Issued Dec 15, 1988	
	Interest Rates	Amount
2010	5.00%	\$ 3,709
2011	5.00	3,899
2012	5.00	4,084
2013	5.00	4,308
2014	5.00	4,529
2015	5.00	4,761
2016	5.00	4,993
2017	5.00	5,262
2018	5.00	5,531
2019	5.00	5,815
2020	5.00	6,104
2021	5.00	6,426
2022	5.00	6,755
2023	5.00	7,102
2024	5.00	7,461
2025	5.00	7,848
2026	5.00	8,251
2027	5.00	8,674
2028	5.00	6,768
Total		<u>\$ 112,280</u>

See accompanying independent auditor's report.



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

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited 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 Cincinnati, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 26, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Cincinnati's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Cincinnati's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cincinnati's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Cincinnati's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Cincinnati's financial statements that is more than inconsequential will not be prevented or detected by the City of Cincinnati's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Cincinnati's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (B) and (C) are material weaknesses.

Compliance and Other Matters

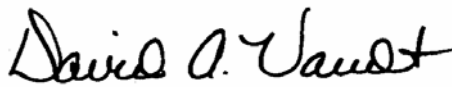
As part of obtaining reasonable assurance about whether the City of Cincinnati's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and 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 that 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, 2009 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.

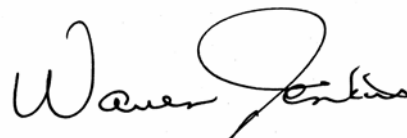
The City of Cincinnati's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Cincinnati's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Cincinnati and other parties to whom the City of Cincinnati may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cincinnati 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 26, 2010

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT 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. For the City, one individual has control over each of the following areas:

- (1) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (2) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (3) Payroll – recordkeeping, preparation and distribution.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (6) Cash – handling, reconciling and recording.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Information system (computer usage) – performing all general accounting functions and controlling all data and output.

For the Firemen’s Fundraising account, one individual has control over each of the following areas:

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

For the Cemetery Improvement Association account, one individual has control over each of the following areas:

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

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, Fire Department and Cemetery Improvement Association should review their control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review procedures to see if the Mayor or Council can perform any of these duties or provide additional oversight through review of reports, reconciliations and transactions for the City, Firemen’s Fundraising and Cemetery Improvement Association accounts.

Conclusion – Response accepted.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

(B) Utilities – The following were noted regarding the City’s utilities:

- Utility billings, collections and delinquent accounts were not reconciled throughout the year.
- A delinquent accounts listing was not prepared and maintained.
- The City’s shut-off policy and procedures are not strictly enforced.
- \$178 of write-offs of accounts deemed uncollectible were not approved by the City Council.
- Paid utility stubs or other receipt records did not always indicate the date or amount paid. Accordingly, we were unable to determine whether penalties were properly applied throughout the year.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or other independent person should review the reconciliations and monitor delinquencies. Established shut-off policies and procedures should be followed. Write-offs of uncollectible accounts should be approved by the City Council prior to write off. All paid utility stubs or receipt records should indicate the actual date and amount paid.

Response – A delinquent list by month has been prepared and is being used. A shut-off procedure is in place by ordinance and is currently being enforced. Delinquent accounts will be assessed by Council approval. There will be no write-offs unless by Council approval. The new utility system has a date that the bill was paid.

Conclusion – Response acknowledged. The City should also establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period.

(C) Financial Reporting – During the audit, we identified a material amount of receipts recorded to incorrect funds in the City’s accounting records and material activity related to the Cemetery Improvement Association omitted from the accounting records. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Recommendation – The City should implement procedures to ensure all receipts and Cemetery Improvement Association activity are properly recorded in the City’s financial statements.

Response – A new accounting system is now in place and codes are established where receipts should be charged. In addition, the City will establish procedures to ensure the Cemetery Improvement Association activity is properly recorded in the City’s records. The Cemetery Association plans to become a separate legal entity.

Conclusion – Response accepted.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

- (D) Information System – The following weaknesses in the City’s information system were noted:

The City does not have written policies for:

- (1) Requiring the use of a user name or password.
- (2) Requiring the maintenance of password privacy and confidentiality.
- (3) Requiring passwords be changed at least every 60 to 90 days.
- (4) Requiring password history be maintained to prevent employees from using the same password.
- (5) Usage of the internet.

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

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based financial systems. Also, a written disaster recovery plan should be developed and tested periodically.

Response – The City will work as time allows to implement a policy requiring passwords to enter the system and will also keep a log of passwords used and interval at which passwords will be changed.

Conclusion – Response acknowledge. The City should also develop a written policy to address internet usage and should develop and test a written disaster recovery plan.

- (E) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- (4) Ensure city accounts are appropriately utilized.

Response – The City will check with the Iowa League of Cities for an example of this manual and will try to prepare a manual for the City as time allows.

Conclusion – Response accepted.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

- (F) Outstanding Check Lists – Outstanding check lists were not maintained and retained to support monthly reconciliations of bank and book balances.

Recommendation – The City should prepare and retain outstanding check lists to support monthly reconciliations.

Response – This is currently being done on the bank statements.

Conclusion – Response accepted.

- (G) Disbursements – Invoices and other supporting documentation were not always available to support disbursements.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

Response – The City keeps a file of all receipts and invoices for materials or services received.

Conclusion – Response accepted.

- (H) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The City will as time allows write up a formal policy for credit card purchases, including procedures and limits, and present the policy for Council approval.

Conclusion – Response accepted.

- (I) Firemen's Fundraiser Account – Monthly reconciliations of book and bank balances, including investments, were not prepared. A list of outstanding checks was not always prepared for each month and retained.

Prenumbered receipts were not issued for all collections.

Copies of all invoices and other disbursement support, canceled checks, bank statements and meeting minutes were not retained.

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved timely. A listing of outstanding checks should be prepared each month and retained. An independent review of the reconciliation should be performed periodically.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

All records, including invoices, bank statements, cancelled checks and meeting minutes, should be maintained and retained.

Response – The Fire Department will work to become a legally separate entity. Until they become legally separate, we will work to get the records from the Fire Department incorporated into our monthly reports.

Conclusion – Response accepted.

- (J) Cemetery Improvement Association Account – Prenumbered receipts were not issued for all collections and a record of donations and memorials was not maintained to support collections. In addition, \$58 in sales tax was paid on items purchased through this account.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money and a record of donations and memorials should be retained to support receipts. The City is exempt from sales tax and, accordingly, the City should establish procedures to ensure sales tax is not paid on future purchases.

Response – The City will ensure prenumbered receipts are issued for all Cemetery Association account collections and will maintain a record of donations and memorials. The City will also ensure sales tax is not paid on future purchases.

Conclusion – Response accepted.

- (K) Community Center – The City allows the use of the Cincinnati Community Center (Community Center) for private functions. Per discussion with City personnel, upon Council approval, groups may use the Community Center one day for free and are charged \$50 per day thereafter. The City has no formal written policy establishing guidelines for use of the Community Center, including free use of the facility, the requirement for Council approval and the requirement to maintain appropriate records to track use of the facility and related payments.

Recommendation – The City should establish formal written guidelines for use of the Community Center.

Response – The City will as time allows make a resolution concerning the free use of the Community Center.

Conclusion – Response acknowledged. The City should also establish formal guidelines addressing rental fees for use of the Community Center, including circumstances for allowing free use versus a rental charge, and should establish policies requiring the maintenance of appropriate records to track use of the facility.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

- (L) Expense Allocation – The City has no formal policy detailing how certain expenses should be allocated. The City allocates utility costs to the General, the Special Revenue, Road Use Tax and the Enterprise, Sewer Funds, but does not allocate utility costs to the Enterprise, Water Fund. In addition, fuel costs are allocated to the General and the Special Revenue, Road Use Tax Funds, but fuel costs are not allocated to the Enterprise, Sewer or Water Funds.

By not allocating costs to certain funds, the City could be in violation of the sewer revenue bond net earnings covenants which require the sewer fund provide revenues sufficient to pay operating costs since all operating costs may not be properly posted to that fund. In addition, the City could be in violation of Chapter 312.6 of the Code of Iowa if more costs are allocated to the Special Revenue, Road Use Tax Fund than pertain to that fund.

Recommendation – The City should review current methods of allocating utility and fuel expenses and should establish a written policy providing guidelines for proper and consistent allocation of these costs.

Response – The City will, in the future, allocate some utility costs to the Water Fund and the City is currently charging fuel cost to the General, Road Use Tax, Water, and Sewer Funds.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Rick Henkle, husband of Mayor Deb Henkle, rents hay ground.	Hay ground rental	\$ 123

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transactions do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the minutes but were not.

Although minutes of Council proceedings were published, they were not always published within fifteen days and did not include total disbursements from each fund or a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Publications of the lists of bills allowed included bills paid from the General and the Special Revenue, Road Use Tax Funds only. Claims paid from all other City funds were excluded from the publication. The publication of claims also excluded amounts paid from the separately maintained Firemen’s Fundraiser and Cemetery Improvement Association accounts.

Transfers between funds were not approved in the Council minutes.

The City did not publish annual gross salaries as required by an Attorney General’s opinion dated April 12, 1978.

The City went into closed session on June 8, 2009 and July 13, 2009. The minutes record did not document the reason for the closed sessions by reference to a specific Code of Iowa exemption as required by Chapter 21.5 of the Code of Iowa. In addition, the purpose for the June 8, 2009 closed session, “to discuss Resolution #09-08 regarding salaries and wages for FY09/10,” is not one of the allowable reasons listed in Chapter 21.5 of the Code of Iowa for closing a meeting.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

On March 3, 2009, the Council approved a mowing contract for the 2009 mowing season. The agenda for this meeting did not provide notice of awarding of this contract as required by Chapter 21.4 of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa. The City should ensure the minutes, list of claims, summary of receipts, total disbursements by fund and annual individual gross salaries are published as required. Also, all transfers between funds should be approved by the Council.

Response – The City will comply with this recommendation in the future.

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.

The interest rate on one certificate of deposit did not meet the minimum rate of interest set by the State Rate Setting Committee.

A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Also, during the year ended June 30, 2009, \$386 of interest income from investments made from the Special Revenue, Road Use Tax Fund were credited to that fund. In accordance with Chapter 12C.7 of the Code of Iowa, this interest should be recorded in the General Fund.

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

The City should seek reimbursement of the additional interest due on this certificate of deposit and should ensure investments receive at least the minimum rate of interest set by the State Rate Setting Committee.

The Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

The City should determine the amount of interest income credited and accumulated in the Special Revenue, Road Use Tax Fund and transfer that amount to the General Fund. In the future, interest received from invested road use tax monies should be recorded in the General Fund.

Response – The bank has been called about the CD referenced and asked to adjust the rate and apply back interest. The City will as time allows make resolution to name financial institutions to make deposits to, including maximum amounts. The City will also ensure that interest earned on road use tax funds is deposited to the General Fund.

Conclusion – Response acknowledged. The City should also adopt a written investment policy as required by Chapter 12B.10B of the Code of Iowa and should determine the amount of interest income credited to the Special Revenue, Road Use Tax Fund and transfer that amount to the General Fund.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

(8) Revenue Bonds – The following instances of non-compliance with the sewer revenue bond requirements were noted:

- The City’s sewer revenue bond resolution, Section 14, requires “the rates or charges to consumers of services of the System shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the System and for the payment of principal and interest on the Bonds and Parity Bonds as the same fall due.... Net revenues shall be maintained at a level not less than 125% of principal and interest falling due in the same year.” The City’s fiscal year 2009 net sewer operating deficit of \$(514) is less than 125% of the \$9,356 of sewer revenue bond principal and interest due during fiscal year 2009.
- Section 14 of the sewer revenue bond resolution requires all users of the system, including the City, be charged for that use. All city departments are not charged for sewer usage.
- The City has not complied with the sewer revenue bond provision, Section 16(d), which states the City will cause the books and accounts to be audited annually.

Recommendation – The City should consult bond counsel to determine the disposition of these matters. The City should establish procedures to ensure all City departments are charged for sewer usage and an annual audit of the City’s sewer books and accounts is made, as required.

Response – The City is working on a rate survey with Iowa Rural Water Association to reevaluate the City’s water and sewer rates to ensure compliance with revenue bond covenants.

Conclusion – Response acknowledge. The City should also ensure all City departments pay for sewer usage and should ensure the City’s sewer utility is audited annually as required.

(9) Road Use Tax – Chapter 312.6 of the Code of Iowa limits the use of road use tax receipts for “any purpose relating to the construction, maintenance, and supervision of the public streets.” During the year, the City purchased the following items from the Special Revenue, Road Use Tax Fund which do not appear to be appropriate disbursements from this fund:

<u>Purpose</u>	<u>Amount</u>
Holiday lights	\$ 125
Hang holiday lights	50
Remove holiday lights	50
Publishing costs	96
Landfill costs for cleanup day	718
Supplies for cleanup day	81
Bridge planks for retention wall	100
Total	<u>\$ 1,220</u>

Recommendation – The Special Revenue, Road Use Tax Fund should be reimbursed from appropriate funds and the City should establish procedures to ensure disbursements from the Special Revenue, Road Use Tax Fund are only for purposes allowed by Chapter 312.6 of the Code of Iowa.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

Response – The City will more closely monitor what expenditures are charged to the Road Use Tax Fund.

Conclusion – Response acknowledged. The City should also reimburse the Special Revenue, Road Use Tax Fund for inappropriate charges made to that fund.

- (10) Separately Maintained Records – The volunteer fire department and Cemetery Improvement Association maintain bank accounts for fundraiser and donation activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports. However, the transactions and the resulting balances are included in these financial statements.

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

Response – City will work with the Fire Department and Cemetery Improvement Association to get this information included in the City’s books.

Conclusion – Response accepted.

- (11) Public Works Department – Chapter 23A of the Code of Iowa discusses noncompetition by government. Specifically, Chapter 23A.2 states, in part, “A state agency or political subdivision shall not, unless specifically authorized by statute, rule, ordinance, or regulation:

- (a) Engage in the manufacturing, processing, sale, offering for sale, rental, leasing, delivery, dispensing, distributing, or advertising of goods or services to the public which are also offered by private enterprise unless such goods or services are for use or consumption exclusively by the state agency or political subdivision.
- (b) Offer or provide goods or services to the public for or through another state agency or political subdivision, by intergovernmental agreement or otherwise, in violation of this chapter.”

The City’s public works department provides mowing, garden tilling and driveway blading services, using City equipment, to private individuals for a \$10 fee paid to the City. This may violate the noncompetition provisions of Chapter 23A of the Code of Iowa. The City has no policies governing the private use of City property.

Recommendation – The City should consult legal counsel to determine the disposition of this matter. The City should establish policies governing the use of City equipment.

Response – The City has stopped providing these services.

Conclusion – Response accepted.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

- (12) Special Revenue Levies – Chapter 384.8 of the Code of Iowa provides a City may establish an Emergency Fund and transfers may be made from the Emergency Fund to the General Fund. The City credited the emergency tax levy to the General Fund rather than establishing a separate fund.

The City also levied property tax for employee benefits, as allowed by Chapter 384.6 of the Code of Iowa, and recorded the property tax collections in the General Fund rather than establishing a separate fund as required.

These funds and financial transactions and the resulting balances are properly included in these financial statements.

Recommendation – The City should establish separate special revenue funds for these special tax levies as required.

Response – The City has set up separate accounts for the emergency and employee benefit levies.

Conclusion – Response accepted.

- (13) Waived Compensation – On June 22, 2009, the Council approved a motion to waive Council pay for the meeting held on that date. This appears to violate Chapter 372.13(8) of the Code of Iowa, which states, "By ordinance, the council shall prescribe the compensation of the mayor, council members and other elected city officers".

Recommendation – The City should ensure Council pay is in accordance with the established City ordinance.

Response – City will pay Council as set by ordinance.

Conclusion – Response accepted.

- (14) City Cemetery – Chapter 523I.102(37) defines a "perpetual care cemetery" as including "any cemetery that represents in any other manner that the cemetery provides perpetual, permanent, or guaranteed care."

City ordinance #227, Section 2(c) defines perpetual care to mean "an amount of money put on interest with only interest to be used." City ordinance #243 providing for charges for the services provided by the cemetery provides "one half of the purchase price (of a burial plot) shall be placed in a Perpetual Care Fund" and the charge for grave openings "is to be put into Perpetual Care." Based on this information, it appears the City's cemetery is represented to be a perpetual care cemetery. However, the cemetery is not registered with the State Insurance Commissioner as a Perpetual Care Cemetery and has not filed an annual report with the State Insurance Commissioner at the end of each fiscal year as required by Chapter 523I.813 of the Code of Iowa.

In addition, the City has not maintained sufficient records to separately identify the principal balance of the cemetery perpetual care fund, which may not be spent, from the interest earnings which may be spent.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

Recommendation – The City should contact the State Insurance Commissioner to determine the disposition of this matter. In addition, the City should separately identify the balance in the Permanent, Cemetery Perpetual Care Fund as interest or principal to ensure only the interest is spent for care and maintenance as required by City ordinance.

Response – City will begin in the future sending appropriate reports to the Insurance Commission.

Conclusion – Response acknowledged. The City should also separately identify the balance in the Permanent, Cemetery Perpetual Care Fund as interest or principal and establish procedures to ensure only the interest is spent for care and maintenance of the cemetery.

- (15) Volunteer Fire Pay – During the year ended June 30, 2009, the City transferred \$2,310 from the General Fund to the Special Revenue, Firemen’s Fundraiser Fund to cover salaries for the volunteer firemen. As a result, the amounts paid to the firemen were not processed through the City’s payroll and were not subject to proper state and federal withholdings. In addition, the firemen’s annual gross salaries were not published as required.

Recommendation – The City’s volunteer firemen should be paid directly from the City’s General Fund. The payments should be processed through City payroll to ensure the proper state and federal taxes are withheld. The firemen’s annual gross salaries should be published as required.

Response – City will start paying volunteer firemen from payroll.

Conclusion – Response accepted.

- (16) Part Time Help – Chapter 372.13(4) of the Code of Iowa states, in part, “Except as otherwise provided by state or city law, the council may appoint city officers and employees, and prescribe their powers, duties, compensation, and terms.” The City public works employee hires part time help to assist with mowing, snow removal and various other jobs. While the City Council approves the part time hourly wage, the Council does not specifically appoint the part time employees, as required. In addition, compensation for part time help is not recorded through the City’s payroll and no taxes are withheld from their compensation.

Recommendation – The City Council should approve the hiring of all City employees, as required. In addition, the City should report compensation for part time help as payroll. IRS form SS-8 for “Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding” should be submitted by the City or employee if determination of independent contractor status is desired. In the absence of an IRS determination pursuant to IRS form SS-8, the City should withhold tax, as required.

Response – Council will begin hiring temporary help.

Conclusion – Response accepted.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

- (17) 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 did not include the separately maintained firemen’s fundraiser activities for the year as required by Chapter 384.22 of the Code of Iowa and reported fund balances do not materially agree with City records.

Recommendation – The Annual Financial Report should be amended to correct material errors and the amounts reported should be supported by the City’s records.

Response – The report was amended.

Conclusion – Response accepted.

- (18) 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 and Cemetery Improvement Association retain electronic images of the front of cancelled checks, but not the back of cancelled checks. The Volunteer Fire Department does not properly retain electronic images of cancelled checks for the separate firemen’s fundraising account.

Recommendation – The City, Cemetery Improvement Association and Volunteer Fire Department should retain an image of both the front and back of each cancelled check as required.

Response – City will work with the bank to correct this.

Conclusion – Response accepted.

- (19) City of Mystic – The City’s public works employee is employed full-time by the City of Cincinnati. This individual works after hours to assist the City of Mystic with water and wastewater testing and reporting. The City of Mystic pays the individual \$150 per week for these services. However, this individual is an employee of the City of Cincinnati and the City of Cincinnati pays the training and licensing costs for this individual to be eligible to perform water and wastewater testing and to prepare and certify reports.

Recommendation – The City should consider a 28E agreement with the City of Mystic to share the City of Cincinnati’s public works employee who is certified to perform the necessary water and wastewater testing, including sharing the cost of training and licensing.

Response – The City will consider this.

Conclusion – Response accepted.

City of Cincinnati

Schedule of Findings

Year ended June 30, 2009

(20) Other Information Required by the Farmers Home Administration Sewer Bond Resolution

Insurer	Description	Amount	Expiration Date
Iowa Communities Assurance Pool	Property	\$ 1,000,000	Feb. 15, 2010
	General liability	1,000,000	Feb. 15, 2010
	Auto liability	1,000,000	Feb. 15, 2010
	Auto liability	1,000,000	Feb. 15, 2010
	Wrongful acts official liability	1,000,000	Feb. 15, 2010
	Law enforcement liability	1,000,000	Feb. 15, 2010
	Auto physical damage	Actual Cost	Feb. 15, 2010
	Iowa Municipalities Workers Compensation Association	Workers' Compensation	1,000,000

Statistical Information

Description	Amount
Sewer customers served at June 30, 2009	184
Sewer rates in effect at June 30, 2009:	
First 3,000 gallons or less per month	\$ 18.00
All over 3,000 gallons, per month , per 1,000 gallons	6.00

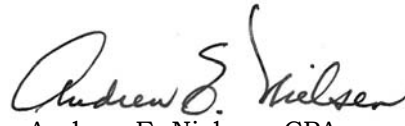
(21) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Cincinnati

Staff

This audit was performed by:

Marlys K. Gaston CPA, Manager
Brett M. Zeller, Staff Auditor
Jennifer M. Kopp, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State