



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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**NEWS RELEASE**

FOR RELEASE

August 20, 2014

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$947,036 for the year ended June 30, 2011. The receipts included \$2,300 from charges for service, \$10,416 from operating grants, contributions and restricted interest, \$466,218 from capital grants, contributions and restricted interest, \$12,345 in property tax, \$5,883 from local option sales tax, \$448,318 from project anticipation note proceeds and \$1,556 from other general receipts.

Disbursements for the year ended June 30, 2011 totaled \$798,668, and included \$8,842 for public safety, \$7,872 for public works and \$7,005 for general government. Also, disbursements for business type activities totaled \$772,806.

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/1122-0896-B00F.pdf>.

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**CITY OF PROMISE CITY**

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

**JUNE 30, 2011**

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**City of Promise City**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brenda DeVore	Mayor	Jan 2012
Leonard Jondle	Council Member	Jan 2012
Ella Recoey	Council Member	Jan 2012
Jean Richards	Council Member	Jan 2012
Connie Guffy	Council Member	Jan 2014
Tim Tometich	Council Member	Jan 2014
Mary Haines	Clerk	Indefinite
Verle Norris	Attorney	Indefinite

**City of Promise City**



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Mary Mosiman, CPA  
Auditor of State

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 Promise City, Iowa, as of and for the year ended June 30, 2011, 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 Promise City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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, 2010.

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, 2010, 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 Promise City as of June 30, 2011, and the respective changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 9, 2014 on our consideration of the City of Promise City'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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 24 through 26 are not required parts of the basic financial statements, but are 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 Promise City's basic financial statements. Other supplementary information included in Schedules 1 and 2, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

July 9, 2014

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Promise City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2011 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased \$2,802, due primarily to receipts exceeding disbursements.
- The cash basis net assets of the City's business type activities increased \$145,566, due primarily to loan proceeds and capital grants exceeding cash disbursements.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

### **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. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Assets reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue Funds, such as Road Use Tax and Employee Benefits. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide separate information for the sewer system. The Sewer Fund is considered to be a major fund of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$28,872 to \$31,674, primarily due to an increase in grants. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service	\$ 20
Operating grants, contributions and restricted interest	10,416
General receipts:	
Property tax	12,345
Local option sales tax	5,883
Total receipts	<u>28,664</u>
Disbursements:	
Public safety	8,842
Public works	7,872
Health and social services	300
Culture and recreation	1,108
Community and economic development	735
General government	7,005
Total disbursements	<u>25,862</u>
Change in cash basis net assets	2,802
Cash basis net assets beginning of year	28,872
Cash basis net assets end of year	<u>\$ 31,674</u>

Total business type activities cash basis net assets increased significantly from a year ago, increasing from \$9,921 to \$155,487.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service:	
Sewer	2,280
Capital grants, contributions and restricted interest	466,218
General receipts:	
Interim loan proceeds	448,318
Miscellaneous	1,556
Total receipts	<u>918,372</u>
Disbursements:	
Sewer	<u>772,806</u>
Change in cash basis net assets	145,566
Cash basis net assets beginning of year	9,921
Cash basis net assets end of year	<u>\$ 155,487</u>

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Promise City completed the year, its governmental funds reported a combined fund balance of \$31,674, an increase of \$2,802 over last year's total of \$28,872. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund cash balance increased \$1,366 over the prior year to \$11,242.
- The Special Revenue, Road Use Tax Fund cash balance increased \$1,436 to \$20,432. The increase is a result of receipts exceeding the amount spent on road projects during the year.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance increased \$145,566 to \$155,487, due primarily to the receipt of grants and loans.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on December 6, 2010 and resulted in an increase in budgeted disbursements for business type activities related to sewer capital improvements.

The City's receipts were \$606,631 less than the amended budget. This was primarily due to receiving less intergovernmental receipts than was budgeted and budgeting interim loan proceeds as receipts rather than other financing sources.

Total disbursements were \$306,681 less than the amended budget. However, actual disbursements for the public safety, health and social services, culture and recreation and community and economic development functions were \$2,647, \$300, \$1,108 and \$735, respectively, more than the budget. This was primarily due to the City not amending the budget in sufficient amounts.

## DEBT ADMINISTRATION

At June 30, 2011, the City had \$509,238 of project anticipation notes outstanding at June 30, 2011, compared to \$60,920 at June 30, 2010, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
Sewer revenue project anticipation notes	\$ 509,238	-

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's constitutional debt limit is approximately \$114,000. The City has no outstanding general obligation debt to which this limit would apply.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Promise City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's fiscal year 2012 assessed taxable valuation increased approximately \$38,000 over the fiscal year 2011 level.

The fiscal year 2012 budget contains total receipts of \$43,907 and disbursements of \$43,907. This budget is lower than the original fiscal year 2011 budget which contained total receipts of \$117,594 and disbursements of \$117,594. The fiscal year 2012 budget includes decreased intergovernmental receipts.

The fiscal year 2012 property tax levy is \$8.76904 per \$1,000 of taxable valuation, which is a decrease from the fiscal year 2011 property tax levy of \$10.21856 per \$1,000 of taxable valuation.

These parameters were taken into account when adopting the budget for fiscal year 2012.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Clerk, Deb Eccleston, Promise City, Iowa 52583.

**City of Promise City**

## **Basic Financial Statements**

City of Promise City

Cash Basis Statement of Activities and Net Assets

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 8,842	20	-	-
Public works	7,872	-	10,416	-
Health and social services	300	-	-	-
Culture and recreation	1,108	-	-	-
Community and economic development	735	-	-	-
General government	7,005	-	-	-
Total governmental activities	25,862	20	10,416	-
Business type activities:				
Sewer	772,806	2,280	-	466,218
Total	\$ 798,668	2,300	10,416	466,218

**General Receipts:**

Property and other city tax levied for general purposes

Local option sales tax

Interim loan proceeds

Miscellaneous

Total general receipts

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:

Expendable:

Streets

Capital improvements

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
(8,822)	-	(8,822)
2,544	-	2,544
(300)	-	(300)
(1,108)	-	(1,108)
(735)	-	(735)
(7,005)	-	(7,005)
(15,426)	-	(15,426)
-	(304,308)	(304,308)
(15,426)	(304,308)	(319,734)
12,345	-	12,345
5,883	-	5,883
-	448,318	448,318
-	1,556	1,556
18,228	449,874	468,102
2,802	145,566	148,368
28,872	9,921	38,793
\$ 31,674	155,487	187,161
\$ 20,432	-	20,432
-	151,631	151,631
11,242	3,856	15,098
\$ 31,674	155,487	187,161

**Exhibit B**

## City of Promise City

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

As of and for the year ended June 30, 2011

	Special Revenue			Total
	General	Road Use Tax	Nonmajor Employee Benefits	
Receipts:				
Property tax	\$ 12,251	-	94	12,345
Local option sales tax	5,883	-	-	5,883
Intergovernmental	1,275	9,141	-	10,416
Miscellaneous	20	-	-	20
Total receipts	19,429	9,141	94	28,664
Disbursements:				
Operating:				
Public safety	8,842	-	-	8,842
Public works	167	7,705	-	7,872
Health and social services	300	-	-	300
Culture and recreation	1,108	-	-	1,108
Community and economic development	735	-	-	735
General government	6,911	-	94	7,005
Total disbursements	18,063	7,705	94	25,862
Excess of receipts over disbursements	1,366	1,436	-	2,802
Cash balances beginning of year	9,876	18,996	-	28,872
Cash balances end of year	\$ 11,242	20,432	-	31,674
<b>Cash Basis Fund Balances</b>				
Restricted for streets	\$ -	20,432	-	20,432
Unassigned	11,242	-	-	11,242
Total cash basis fund balances	\$ 11,242	20,432	-	31,674

See notes to financial statements.

City of Promise City

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

As of and for the year ended June 30, 2011

	Enterprise Sewer
Operating receipts:	
Charges for service	\$ 2,280
Operating disbursements:	
Business type activities	689
Excess of operating receipts over operating disbursements	1,591
Non-operating receipts (disbursements):	
Grants	466,218
Project anticipation note proceeds	448,318
Capital projects	(762,905)
Debt service	(9,212)
Miscellaneous	1,556
Net non-operating receipts (disbursements)	143,975
Change in cash balances	145,566
Cash balance beginning of year	9,921
Cash balance end of year	\$ 155,487
<b>Cash Basis Fund Balances</b>	
Restricted for capital improvements	\$ 151,631
Unrestricted	3,856
Total cash basis fund balances	\$ 155,487

See notes to financial statements.

City of Promise City

Notes to Financial Statements

June 30, 2011

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

The City of Promise City is a political subdivision of the State of Iowa located in Wayne County. It was first incorporated in 1900 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation and general government services. The City provides sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Promise City 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: Wayne County Emergency Management Commission, Wayne County Assessor's Conference Board, and Wayne County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

The Cash Basis 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.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

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

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, health and social services, culture and recreation and community and economic development functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 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) Project Anticipation Notes**

On February 11, 2009, the City entered into a State Revolving Fund (SRF) sewer revenue loan and disbursement agreement for the issuance of a \$100,000 interest free project anticipation note. The note was issued as an interim measure for engineering costs for a municipal sanitary sewer system and will be repaid from proceeds of a future revenue note and from grant proceeds. The unpaid principal balance at June 30, 2011 is \$100,000 and is due on February 11, 2012.

On March 3, 2010, the City entered into an agreement with Great Western Bank for a project anticipation note for up to \$455,000 with interest at 4.65% per annum. The note was issued as an interim measure to pay construction costs of a municipal sanitary sewer system and will be repaid from proceeds of a future revenue note and from grant proceeds. At June 30, 2011, the City had drawn \$409,238 of the authorized note amount. The note was due on or before March 1, 2012.

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employee's 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 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011 was \$298, equal to the required contribution for the year.

**(5) Risk Management**

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

**(6) Subsequent Event**

On October 27, 2011, the City entered into a U.S. Department of Agriculture – Rural Development \$455,000 taxable sewer revenue note with interest at 2.25% per annum. The note was issued to refund outstanding obligations previously issued to pay the costs of the municipal sanitary sewer system.

**City of Promise City**

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Fund Actual
Receipts:		
Property tax	\$ 12,345	-
Local option sales tax	5,883	-
Use of money and property	-	-
Intergovernmental	10,416	466,218
Charges for service	-	2,280
Miscellaneous	20	1,556
Total receipts	<u>28,664</u>	<u>470,054</u>
Disbursements:		
Public safety	8,842	-
Public works	7,872	-
Health and social services	300	-
Culture and recreation	1,108	-
Community and economic development	735	-
General government	7,005	-
Business type activities	-	772,806
Total disbursements	<u>25,862</u>	<u>772,806</u>
Excess (deficiency) of receipts over (under) disbursements	2,802	(302,752)
Other financing sources, net	-	448,318
Excess of receipts and other financing sources over disbursements	2,802	145,566
Balances beginning of year	28,872	9,921
Balances end of year	<u>\$ 31,674</u>	<u>155,487</u>

See accompanying independent auditor's report.

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Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
12,345	11,603	11,603	742
5,883	617	617	5,266
-	55	55	(55)
476,634	100,601	1,088,356	(611,722)
2,280		-	2,280
1,576	4,718	4,718	(3,142)
498,718	117,594	1,105,349	(606,631)
8,842	6,195	6,195	(2,647)
7,872	10,884	10,884	3,012
300		-	(300)
1,108		-	(1,108)
735		-	(735)
7,005	10,638	10,638	3,633
772,806	89,877	1,077,632	304,826
798,668	117,594	1,105,349	306,681
(299,950)	-	-	(299,950)
448,318	-	-	448,318
148,368	-	-	148,368
38,793	(9,244)	94,960	(56,167)
187,161	(9,244)	94,960	92,201

City of Promise City

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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 and the Enterprise Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$987,755. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, health and social services, culture and recreation and community and economic development functions.

**Other Supplementary Information**

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City of Promise City  
Schedule of Indebtedness  
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Project anticipation notes:			
Sewer revenue	Feb 11, 2009	0.00 %	\$ 100,000
Sewer revenue	Mar 3, 2010	4.65	455,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
60,920	39,080	-	100,000	-
-	409,238	-	409,238	9,212
\$ 60,920	448,318	-	509,238	9,212

**Schedule 2**

City of Promise City  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture: Water and Waste Disposal Systems for Rural Communities	10.760	DWS 10-1048	\$ 705,620
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	09-WS-067	57,285
Total			<u>\$ 762,905</u>

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Promise City and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE  
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Mary Mosiman, CPA  
Auditor of State

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 Promise City, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated July 9, 2014. 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, 2010. 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

Management of the City of Promise City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Promise City'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 an opinion on the effectiveness of the City of Promise City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Promise City'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 and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be 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 Promise City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 through II-G-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-H-11 through II-K-11 to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Promise City'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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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 Promise City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Promise City'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 Promise City and other parties to whom the City of Promise City may report and 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 Promise City 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

July 9, 2014

**Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133**

**City of Promise City**



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Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the City of Promise City, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Promise City's major federal program for the year ended June 30, 2011. The City of Promise City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Promise City's management. Our responsibility is to express an opinion on the City of Promise City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Promise City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Promise City's compliance with those requirements.

In our opinion, the City of Promise City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Promise City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Promise City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Promise City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

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 Promise City and other parties to whom the City of Promise City may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

July 9, 2014

City of Promise City  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2011

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

- (a) Qualified opinions were issued on the financial statements which 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.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Promise City did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

**INTERNAL CONTROL DEFICIENCIES:**

II-A-11 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, preparing and distributing.
- (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) Computer system – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff and elected officials. Evidence of review of reconciliations should be documented by the signature or initials of the independent reviewer and the date of the review.

Response – We will have a formal reconciliation of accounts for City Council approval. The review will be documented by the dated signature of reviewer.

Conclusion – Response accepted.

II-B-11 Financial Reporting – During the audit, we identified a material amount of receipts and disbursements coded incorrectly in the financial statements. This was properly adjusted for reporting purposes.

Recommendation – The City should properly record all transactions.

Response – We will properly record all transactions in the future.

Conclusion – Response accepted.

II-C-11 Utility Reconciliations – The following were noted regarding the City's utility:

- (1) Utility billings, collections and delinquent accounts were not reconciled monthly.
- (2) Monthly listings of billings, collections and delinquent accounts were not printed and retained.

City of Promise City

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. An elected official or other independent person should review the reconciliations and monitor delinquent accounts. A listing of billings, collections and delinquent accounts should be printed and retained monthly. The City should develop procedures to support adjustments to utility billings and reconcile postings with deposits.

Response – We will consider this.

Conclusion – Response acknowledged. The City should implement the recommendation.

- II-D-11 Bank Reconciliations - Monthly reconciliations of the Clerk's balances to the bank accounts were not prepared. A list of outstanding checks was not prepared each month.

Recommendation – To improve financial accountability and control, monthly reconciliations of the book and bank balances should be prepared. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month.

Response – We will have a formal reconciliation of accounts for City Council approval. The review will be documented by the dated signature of reviewer.

Conclusion – Response accepted.

- II-E-11 Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Disbursements were not always approved for payment by the City Council.

Invoices and supporting documentation were not always marked as paid or canceled to prevent possible duplicate payment.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. All invoices and supporting documentation should be marked as paid to help prevent possible duplicate payments. The City Council should review all disbursements for approval.

Response – The City Council will review all disbursements for approval.

Conclusion – Response acknowledged. All disbursements should be supported by invoices or other supporting documentation and marked as paid to help prevent possible duplicate payments.

- II-F-11 Initial Receipts Listing – The City does not prepare an initial listing of receipts. Since a listing is not prepared, an independent person does not compare the listing to deposits to determine all receipts have been properly deposited.

Recommendation – An initial listing should be prepared by the City and an independent person should periodically compare the initial receipt listing to deposits to determine all receipts have been properly deposited.

Response – We will consider this.

Conclusion – Response acknowledged. The City should implement the recommendation.

City of Promise City

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

II-G-11 Uniform Chart of Accounts and Fund Accounting – The City has not implemented the recommended Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee. As a result, certain receipts and disbursements were not properly reported in the Annual Financial Report. Also, the City does not maintain a ledger of fund activity and fund balances on a current basis. This was resolved for audit purposes.

Recommendation – To provide better financial information and control, a chart of accounts, such as the recommended Uniform Chart of Accounts approved 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. The City should maintain fund activity and fund balances on a current basis.

Response – The City Clerk and City Council will work on preparing an accounting policies and procedures manual.

Conclusion – Response acknowledged. The City should also implement the recommended Uniform Chart of Accounts approved by the City Finance Committee.

II-H-11 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.

Response – We will consider implementing an accounting policies and procedures manual.

Conclusion – Response accepted.

II-I-11 Payroll – Timesheets were not prepared and submitted for approval. The City did not have a written personnel policy adopted by the City Council.

Recommendation – All City employees should prepare a timesheet documenting hours worked. Timesheets should be submitted to an appropriate supervisor for approval and should be signed by the employee and the supervisor.

Response – We will consider this.

Conclusion – Response acknowledged. The City should implement the recommendation.

City of Promise City

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

II-J-11 Computer System – During our review of internal control, the existing control activities in the City’s computer system were evaluated to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer system were noted:

The City does not have policies for:

- Requiring the maintenance of password privacy and confidentiality.
- Requiring use of passwords and requiring passwords be changed at least every 60 to 90 days.

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 its computer system. A written disaster recovery plan should be developed. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site.

Response – The City Clerk and City Council will work toward preparing a written disaster recovery plan and adoption of policies and procedures to address city computer usage.

Conclusion – Response accepted.

II-K-11 Credit Card – The City has a credit card for use by employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card 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’s credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to validate the purchase.

Response – The City no longer has any credit card, but the City will adopt a written policy regulating any future use of any City credit cards and who would be authorized to use the credit card and for what purposes.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Promise City

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

**CFDA Number 10.760: Water and Waste Disposal Systems for Rural Communities**

**Agency Number: DWS 10-1048**

**Federal Award Year: 2010**

**U.S. Department of Agriculture**

III-A-11 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-11.

City of Promise City

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety, health and social services, culture and recreation and community and economic development functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We will more carefully monitor budget amendments.

Conclusion – Response accepted.

IV-B-11 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-11 Bond Coverage – The U.S. Department of Agriculture, Rural Development letter of conditions requires the City to provide a fidelity bond or blanket coverage equal to one annual installment for all positions involved in processing receipts and/or disbursements.

The City has not purchased a fidelity bond or blanket coverage in sufficient amounts.

Recommendation – The City should purchase a fidelity bond or blanket coverage in sufficient amounts, as required.

Response – The City will move forward with purchase of fidelity bond insurance in sufficient amounts as required.

Conclusion – Response accepted.

IV-F-11 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not. Minutes of the meetings of the City Council were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The minutes should be signed to authenticate the record as required by Chapter 380.7 of the code of Iowa.

Response – Mayor and City Council Members will sign meeting minutes going forward as recommended.

Conclusion – Response accepted.

City of Promise City

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

IV-G-11 Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Also, a resolution naming official depositories could not be located.

Recommendation – The City should adopt a written investment policy as required by Chapter 12B.10B of the Code of Iowa. The City Council should also approve a depository resolution in amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

Response – The City Council will adopt a written investment policy as required by Chapter 12B.10B of the Code of Iowa. The City Council will approve a resolution naming official depositories.

Conclusion – Response accepted.

IV-H-11 City Code of Ordinances – The City Code of Ordinances has not been recodified within the past five years.

Recommendation – Chapter 380.8 of the Code of Iowa requires cities to compile a code of ordinances containing all ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances and ordinances for vacating streets and alleys, at least once every five years. The City should review this for compliance.

Response – The City will consider this.

Conclusion – Response acknowledged. The City should review this for compliance.

IV-I-11 Annual Financial Report – The City did not complete or file the Annual Financial Report (AFR) with the Auditor of State by December 1 for the fiscal year ended June 30, 2011 as required by Chapter 384.22 of the Code of Iowa. The City's AFR was submitted January 19, 2012. The fund balances reported in the City's AFR do not agree with the City's accounting records as of June 30, 2011. Some of the City's proprietary fund activity was reported in the governmental funds. Also, the balance of local option sales tax receipts held in the General Fund was not reported separately as a Special Revenue Fund, as required.

Recommendation – The City should complete and file the Annual Financial Report as required by Chapter 384.22 of the Code of Iowa. The reported fund balances should agree to the City's accounting records. Also, the balance of local option sales tax receipts should reported separately in a Special Revenue Fund.

Response – The City will file the Annual Financial Report in a timely manner. The City will establish a separation of funds for reporting purposes.

Conclusion – Response accepted.

IV-J-11 Employee Benefits – The City accounts for the proceeds of the employee benefits property tax levy in the General Fund rather than establishing a Special Revenue Fund as required by Chapter 384.6 of the Code of Iowa. This was corrected for financial reporting purposes.

City of Promise City

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Recommendation – The City should establish a Special Revenue, Employee Benefits Fund to account for the employee benefits levy as required by Chapter 384.6 of the Code of Iowa.

Response – The City will establish a Special Revenue, Employee Benefits Fund as required by Chapter 384.6 of the Code of Iowa.

Conclusion – Response accepted.

- IV-K-11 Local Option Sales Tax – Local option sales tax (LOST) receipts were not expended in accordance with the provisions established in the LOST ballot. Receipts are to be used for payment of the bonds for the County Jail, the E911 Center, Sheriff's Office construction or any other jail related expenses (50%) and also deposited into the City's General Fund for any other lawful purpose of the City (50%). The City remitted \$2,632 more in LOST revenues to Wayne County than required.

Recommendation – The City Council should ensure local option sales tax collections are spent in accordance with the LOST ballot.

Response – The City Council will ensure LOST funds are spent properly.

Conclusion – Response accepted.

- IV-L-11 USDA Project Reserves – The U.S. Department of Agriculture, Rural Development letter of conditions issued September 25, 2009 requires the City to establish a debt service reserve account and an asset management reserve account. The debt service reserve account requires a monthly deposit of \$159 and the asset management reserve account requires a monthly deposit of \$154. The City has not established these accounts or made the required transfers.

Recommendation – The City should establish a debt service reserve account and an asset management reserve account as required. The City should make the required transfers of funds to the accounts.

Response – The City has established a debt service reserve account and an asset management reserve account at Great Western Bank, Corydon, Iowa branch as required by USDA. These accounts were established in fiscal year 2012.

Conclusion – Response accepted.

City of Promise City

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Tracey L. Gerrish, Staff Auditor  
Tyler J. Guffy, Staff Auditor  
Elizabeth A. Shaw, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State