

# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

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Mary Mosiman, CPA  
Auditor of State

## NEWS RELEASE

FOR RELEASE

February 10, 2015

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$3,923,343 for the year ended June 30, 2014, a 32.8% increase over the prior year. The receipts included \$637,336 in property tax, \$1,249,202 from charges for service, \$297,951 from operating grants, contributions and restricted interest, \$641,465 from capital grants, contributions and restricted interest, \$159,227 from local option sales tax, \$47,267 from hotel/motel tax, \$4,892 from unrestricted interest on investments, bond proceeds of \$885,514 and \$489 from other general receipts.

Disbursements for the year ended June 30, 2014 totaled \$3,747,256, a 41.1% increase over the prior year, and included \$447,887 for public safety, \$345,996 for general government and \$313,077 for community and economic development. Also, disbursements for business type activities totaled \$2,218,570.

The significant increase in receipts and disbursements is due primarily to bond proceeds and grants received and disbursed for various capital projects.

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/1420-0463-B00F.pdf>.

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**CITY OF COLFAX**

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

**JUNE 30, 2014**

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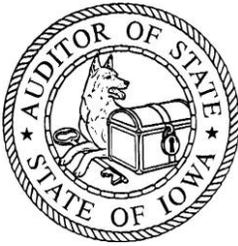
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**City of Colfax**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2014)</b>		
Richard Reed	Mayor	Jan 2016
Steve Theis	Mayor Pro tem	Jan 2016
Karla Jones	Council Member	Jan 2014
Brad Magg	Council Member	Jan 2014
Kathryn Gullion	Council Member	Jan 2016
Bryan Poulter	Council Member	Jan 2016
Kathy Mathews	City Clerk	Indefinite
Larry Opfer	City Treasurer	Indefinite
Ken Walker	Attorney	Indefinite
<b>(After January 2014)</b>		
Richard Reed	Mayor	Jan 2016
Steve Theis	Mayor Pro tem	Jan 2016
Kathryn Gullion	Council Member	Jan 2016
Brian Poulter	Council Member	Jan 2016
Karla Jones	Council Member	Jan 2018
Brad Magg	Council Member	Jan 2018
Kathy Mathews	City Clerk	Indefinite
Larry Opfer	City Treasurer	Indefinite
Ken Walker	Attorney	Indefinite

**City of Colfax**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Colfax's basic financial statements. The financial statements for the nine years ended June 30, 2013 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, 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.

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

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 30 through 32, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2015 on our consideration of the City of Colfax's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Colfax's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 20, 2015

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

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The City of Colfax 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, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2014 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 14.4%, or approximately \$247,000, from fiscal year 2013 to fiscal year 2014. Capital grants, contributions and restricted interest increased approximately \$641,000 while operating grants, contributions and restricted interest decreased approximately \$339,000.
- Disbursements of the City's governmental activities decreased 2.7%, or approximately \$43,000, in fiscal year 2014 from fiscal year 2013. Public safety, community and economic development and debt service function disbursements decreased approximately \$50,000, \$40,000 and \$11,000, respectively. General government function disbursements increased approximately \$61,000.
- The City's total cash basis net position increased 10.2%, or approximately \$176,000, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities increased approximately \$57,000 and the cash basis net position of the business type activities increased approximately \$119,000.

### **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 Position. 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.

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

Supplementary Information provides detailed information about the nonmajor governmental funds and 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 Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position 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 Position 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, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the landfill. 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, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Permanent Fund. 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 Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Landfill Funds, considered to be major funds of the City.

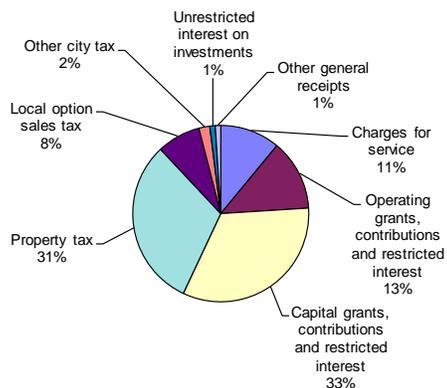
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

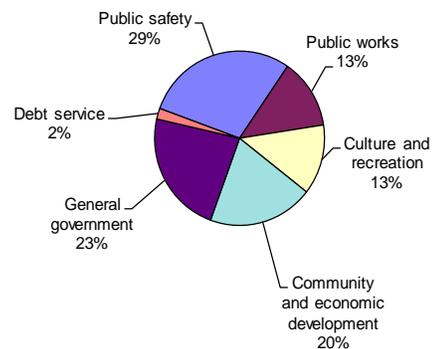
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$268,000 to approximately \$325,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013 Restated
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 214	136
Operating grants, contributions and restricted interest	259	598
Capital grants, contributions and restricted interest	641	-
General receipts:		
Property tax	637	660
Local option sales tax	159	156
Other city tax	48	51
Unrestricted interest on investments	4	5
Other general receipts	1	110
<b>Total receipts</b>	<b>1,963</b>	<b>1,716</b>
<b>Disbursements:</b>		
Public safety	448	498
Public works	200	209
Culture and recreation	193	187
Community and economic development	313	353
General government	346	285
Debt service	29	40
<b>Total disbursements</b>	<b>1,529</b>	<b>1,572</b>
Change in cash basis net position before transfers	434	144
Transfers, net	(377)	-
Change in cash basis net position	57	144
Cash basis net position beginning of year, as restated	268	124
Cash basis net position end of year	<b>\$ 325</b>	<b>268</b>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 14.4%, or approximately \$247,000 over the prior year. The total cost of all programs and services decreased approximately \$43,000, or 2.7%, with no new programs added this year. The increase in receipts was primarily the result of an increase in grant reimbursements received from the State of Iowa.

The City decreased property tax rates for fiscal year 2014 an average of 4.2%. This decrease reduced the City's property tax receipts approximately \$23,000 in fiscal year 2014. Based on increases in the tax rates and total assessed valuation, property tax receipts are budgeted to increase approximately \$36,000 next year.

The cost of all governmental activities this year was approximately \$1.529 million compared to approximately \$1.572 million last year. However, as shown in the Statement of Activities and Net Position on pages 14 and 15, the amount taxpayers ultimately financed for these activities was approximately \$414,000 because some of the cost was paid by those directly benefited from the programs (approximately \$214,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$900,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2014 from approximately \$734,000 to approximately \$1,114,000, principally due to receiving grant proceeds to complete the sewer improvement project.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 367	376
Sewer	520	480
Landfill	148	144
Operating grants, contributions and restricted interest	39	-
Capital grants, contributions and restricted interest	-	94
General receipts:		
Unrestricted interest on investments	1	1
Bond proceeds	885	144
Total receipts	<u>1,960</u>	<u>1,239</u>
Disbursements:		
Water	507	399
Sewer	1,428	571
Landfill	139	114
General obligation sewer improvement anticipation project note redeemed	144	-
Total disbursements	<u>2,218</u>	<u>1,084</u>
Change in cash basis net position before transfers	(258)	155
Transfers, net	377	-
Change in cash basis net position	119	155
Cash basis net position beginning of year	1,455	1,300
Cash basis net position end of year	<u>\$ 1,574</u>	<u>1,455</u>

Total business type activities receipts for the fiscal year were approximately \$1.960 million compared to approximately \$1.239 million last year. This significant increase was due primarily to the receipt of approximately \$885,000 of general obligation sewer improvement bond proceeds. The cash balance increased approximately \$119,000 from the prior year. Total disbursements for the fiscal year increased 104.6% to approximately \$2.218 million, due primarily to disbursements for improvements and the extension of the sewer system.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Colfax completed the year, its governmental funds reported a combined fund balance of \$325,066, an increase of approximately \$57,000 above last year's restated total of \$268,108. 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 decreased \$4,265 from the prior year to (\$30,468). The decrease was due, in part, to an increase in attorney fees for the issuance of debt during fiscal year 2014.
- The Special Revenue, Road Use Tax Fund cash balance increased \$28,180 to \$66,459. This increase was attributable to a slight increase in road use tax receipts from the State of Iowa and a slight decrease in disbursements. The City intends to use this fund to upgrade the condition of City roads.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$6,449 to \$114,152. The decrease was the result of a decrease in the employee benefits property tax levy which resulted in a decrease in property tax receipts. This fund will be used to pay for employee benefits.
- The Community Development Block Grant (CDBG) Fund cash balance decreased \$7,303 to (\$18,466). This fund is used to account for grant reimbursements for the City's various CDBG projects. During the year, the City received \$377,004 of CDBG funds for the sewer project which were transferred to the Enterprise, Sewer Fund during fiscal year 2014.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance decreased \$100,484 to \$870,981, due primarily to an increase in capital projects disbursements for the booster station project.
- The Enterprise, Sewer Fund cash balance increased \$210,619 to \$503,798, due primarily to the receipt of \$885,514 of general obligation sewer improvement bond proceeds and grant reimbursements used to pay sewer project costs.
- The Enterprise, Landfill Fund cash balance increased \$8,994 to \$199,058, due primarily to a slight increase in user charges for service.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 12, 2014 and resulted in an increase in budgeted operating disbursements related to the sewer project and the housing project. These disbursements were financed with grant reimbursements and bond proceeds.

The City's receipts were \$223,451 more than budgeted. This was primarily due to timing differences between when grant reimbursements were received and budgeted.

Total disbursements were \$216,371 less than the amended budget. Actual disbursements for the public safety and community and economic development functions were \$64,060 and \$216,181, respectively, less than the amended budget. This was due, in part, to a decrease in overall operating expenses for the ambulance department. Additionally, the City budgeted for sewer project disbursements which were reimbursed through a grant under the community and economic development function. However, the disbursements were actually paid from the business type activities function. Business type activities function disbursements were \$77,120 more than the amended budget due to the repayment of the \$144,252 sewer anticipation project note.

The City exceeded the amount budgeted in the debt service and business type activities functions for the year ended June 30, 2014.

## DEBT ADMINISTRATION

At June 30, 2014, the City had \$2,173,478 of bonds and other long-term debt outstanding, compared to \$1,595,502 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2014	2013
General obligation notes	\$ 92	116
General obligation bonds	890	-
Revenue bonds	1,179	1,311
Installment purchase agreement	12	25
Anticipation project note	-	144
Total	\$ 2,173	1,596

Debt increased as a result of issuing general obligation sewer improvement bonds for the sewer project.

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 outstanding general obligation and TIF debt of \$1,057,059 is significantly below its constitutional debt limit of approximately \$3,930,785 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

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

The City of Colfax's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates and fees charged for various City activities. One of those factors is the economy. At the end of the fiscal year, unemployment in Jasper County was 5% versus 5.6% a year ago. This compares with the State's unemployment rate of 4.4% and the national rate of 6.1%.

These indicators were taken into account when adopting the budget for fiscal year 2015. Amounts available for appropriation in the operating budget are approximately \$2.264 million, a decrease of 19.6% from the final fiscal year 2014 budget. The decrease is mainly due to a decrease in grant reimbursements as capital projects are winding down. Budgeted disbursements are expected to decrease approximately \$1.408 million as capital projects are winding down. The City has added no major new programs or initiatives to the fiscal year 2015 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$68,000 by the close of fiscal year 2015.

## 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 Kathy Mathews, City Clerk, 19 East Howard, Colfax, Iowa 50054.

## **Basic Financial Statements**

City of Colfax

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 447,887	142,881	32,931	-
Public works	199,743	-	209,324	-
Culture and recreation	193,412	32,345	6,680	-
Community and economic development	313,077	-	516	641,465
General government	345,996	38,730	9,354	-
Debt service	28,571	-	-	-
Total governmental activities	1,528,686	213,956	258,805	641,465
Business type activities:				
Water	507,161	366,846	39,146	-
Sewer	1,572,164	520,183	-	-
Landfill	139,245	148,217	-	-
Total business type activities	2,218,570	1,035,246	39,146	-
Total	\$ 3,747,256	1,249,202	297,951	641,465

**General Receipts and Transfers:**

Property and other city tax levied for:  
 General purposes  
 Debt service  
 Tax increment financing  
 Local option sales tax  
 Hotel/motel tax  
 Unrestricted interest on investments  
 Sewer improvement bond proceeds, net of \$5,545 of initiation fees  
 Sewer improvement anticipation project note redeemed  
 Miscellaneous  
 Transfers  
 Total general receipts and transfers  
 Change in cash basis net position  
 Cash basis net position beginning of year, as restated  
 Cash basis net position end of year

**Cash Basis Net Position**

Restricted:  
 Nonexpendable:  
 Cemetery perpetual care  
 Expendable:  
 Streets  
 Employee benefits  
 Debt service  
 Memorial library  
 Other purposes  
 Unrestricted

**Total cash basis net position**

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
(272,075)	-	(272,075)
9,581	-	9,581
(154,387)	-	(154,387)
328,904	-	328,904
(297,912)	-	(297,912)
(28,571)	-	(28,571)
(414,460)	-	(414,460)
-	(101,169)	(101,169)
-	(1,051,981)	(1,051,981)
-	8,972	8,972
-	(1,144,178)	(1,144,178)
(414,460)	(1,144,178)	(1,558,638)
608,282	-	608,282
29,054	-	29,054
22	-	22
159,227	-	159,227
47,267	-	47,267
4,103	789	4,892
-	885,514	885,514
-	-	-
467	-	467
(377,004)	377,004	-
471,418	1,263,307	1,734,725
56,958	119,129	176,087
268,108	1,454,708	1,722,816
\$ 325,066	1,573,837	1,898,903
\$ 69,390	-	69,390
66,459	-	66,459
114,152	-	114,152
-	13,306	13,306
40,495	-	40,495
168,879	-	168,879
(134,309)	1,560,531	1,426,222
\$ 325,066	1,573,837	1,898,903

City of Colfax

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

As of and for the year ended June 30, 2014

	Special Revenue			
	General	Road Use Tax	Employee Benefits	CDBG
Receipts:				
Property tax	\$ 441,509	-	166,773	-
Tax increment financing	-	-	-	-
Other city tax	47,267	-	-	-
Licenses and permits	26,783	-	-	-
Use of money and property	4,015	-	-	-
Intergovernmental	27,642	209,791	-	641,465
Charges for service	155,675	-	-	-
Special assessments	14,191	-	-	-
Miscellaneous	37,310	-	-	516
Total receipts	754,392	209,791	166,773	641,981
Disbursements:				
Operating:				
Public safety	358,126	-	89,761	-
Public works	-	181,611	18,132	-
Culture and recreation	169,227	-	24,185	-
Community and economic development	16,066	-	-	272,280
General government	304,852	-	41,144	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	848,271	181,611	173,222	272,280
Excess (deficiency) of receipts over (under) disbursements	(93,879)	28,180	(6,449)	369,701
Other financing sources (uses):				
Transfers in	89,614	-	-	-
Transfers out	-	-	-	(377,004)
Total other financing sources (uses)	89,614	-	-	(377,004)
Change in cash balances	(4,265)	28,180	(6,449)	(7,303)
Cash balances beginning of year, as restated	(26,203)	38,279	120,601	(11,163)
Cash balances end of year	\$ (30,468)	66,459	114,152	(18,466)
<b>Cash Basis Fund Balances</b>				
Nonspendable - Cemetery perpetual care	\$ -	-	-	-
Restricted for:				
Streets	-	66,459	-	-
Employee benefits	-	-	114,152	-
Other purposes	67,818	-	-	-
Assigned for library	40,495	-	-	-
Unassigned	(138,781)	-	-	(18,466)
Total cash basis fund balances	\$ (30,468)	66,459	114,152	(18,466)

See notes to financial statements.

Nonmajor	Total
29,054	637,336
22	22
159,227	206,494
-	26,783
500	4,515
-	878,898
-	155,675
-	14,191
908	38,734
189,711	1,962,648
-	447,887
-	199,743
-	193,412
24,731	313,077
-	345,996
28,571	28,571
-	-
53,302	1,528,686
136,409	433,962
22	89,636
(89,636)	(466,640)
(89,614)	(377,004)
46,795	56,958
146,594	268,108
193,389	325,066
69,390	69,390
-	66,459
-	114,152
141,556	209,374
-	40,495
(17,557)	(174,804)
193,389	325,066

City of Colfax

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

As of and for the year ended June 30, 2014

	Enterprise			Total
	Water	Sewer	Landfill	
Operating receipts:				
Charges for service	\$ 366,846	520,183	147,863	1,034,892
Miscellaneous	-	-	354	354
Total operating receipts	366,846	520,183	148,217	1,035,246
Operating disbursements:				
Business type activities	313,698	224,997	139,245	677,940
Excess of operating receipts over operating disbursements	53,148	295,186	8,972	357,306
Non-operating receipts (disbursements):				
Intergovernmental	39,146	-	-	39,146
Interest on investments	685	82	22	789
Sewer improvement bond proceeds, net of \$5,545 of initiation fees	-	885,514	-	885,514
Sewer improvement anticipation project note redeemed	-	(144,252)	-	(144,252)
Debt service	(38,873)	(129,998)	-	(168,871)
Capital projects	(154,590)	(1,072,917)	-	(1,227,507)
Net non-operating receipts (disbursements)	(153,632)	(461,571)	22	(615,181)
Excess (deficiency) of receipts over (under) disbursements	(100,484)	(166,385)	8,994	(257,875)
Transfers in	-	377,004	-	377,004
Change in cash balances	(100,484)	210,619	8,994	119,129
Cash balances beginning of year	971,465	293,179	190,064	1,454,708
Cash balances end of year	\$ 870,981	503,798	199,058	1,573,837
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 3,191	10,115	-	13,306
Unrestricted	867,790	493,683	199,058	1,560,531
Total cash basis fund balances	\$ 870,981	503,798	199,058	1,573,837

See notes to financial statements.

City of Colfax

Notes to Financial Statements

June 30, 2014

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

The City of Colfax is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and landfill utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, The City of Colfax 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: Jasper County Assessor's Conference Board, Selective Enforcement Response Team and Safety Coalition of Central Iowa Cities, City and County Planning Board and Central Iowa Committee.

B. Basis of Presentation

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

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

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Employee Benefits Fund is used to account for employee benefits tax levy collections and the payment of employee benefits

The Community Development Block Grant (CDBG) Fund is utilized to account for CDBG grant receipts to be used for related grant disbursements.

The City reports the following major proprietary funds:

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

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

The Enterprise, Landfill Fund accounts for the operation of the City's solid waste disposal system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

D. Governmental Cash Basis Fund Balances

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

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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. Enabling legislation did not result in any restricted net position.

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

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

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to 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) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 21,000	3,823	136,000	23,670	157,000	27,493
2016	21,000	2,912	140,000	20,903	161,000	23,815
2017	10,000	2,000	146,000	18,052	156,000	20,052
2018	10,000	1,600	150,000	15,073	160,000	16,673
2019	10,000	1,200	154,000	12,010	164,000	13,210
2020-2022	20,000	1,200	453,000	16,760	473,000	17,960
Total	\$ 92,000	12,735	1,179,000	106,468	1,271,000	119,203

General Obligation Sewer Improvement Bonds

On October 25, 2013, the City entered into a loan agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources (DNR) for the issuance of up to \$1,109,000 of general obligation sewer improvement bonds with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384 and 76 of the Code of Iowa to pay costs of constructing certain wastewater treatment facilities. The City will draw down funds from the IFA to reimburse the City for costs as they are incurred. At June 30, 2014, \$144,252 of proceeds were constructively received and used to refund the outstanding balance of \$144,252 on the December 21, 2012 general obligation sewer improvement anticipation project note. In addition, the Iowa Finance Authority charged an initiation fee of .50%, or \$5,545, of the authorized borrowing for the general obligation sewer improvement bonds. As of June 30, 2014, \$891,059 has been drawn. A final repayment schedule has not yet been adopted.

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, \$1,000 of general obligation bond principal and \$6,238 of general obligation bond interest was paid from the Enterprise, Sewer Fund during the year ended June 30, 2014.

#### Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$510,000 of water revenue bonds issued in February 2012. Proceeds from the bonds provided financing for the construction of improvements and extensions to the water system. The bonds are payable solely from water customer net receipts and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 72% of net receipts. The total principal and interest remaining to be paid on the bonds is \$273,150. For the current year, principal and interest paid and total customer net receipts were \$38,190 and \$53,148, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,984,000 of sewer revenue bonds issued in March 2003. Proceeds from the bonds provided financing for the construction of improvements and extensions to the sewer system. The bonds are payable solely from sewer customer net receipts and are payable through 2022. Annual principal and interest payments on the bonds are expected to require less than 41% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,012,318. For the current year, principal and interest paid and total customer net receipts were \$120,165 and \$295,186, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Water and sewer user rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the annual installments of principal and interest on the bonds falling due in the same year.

The City has not established separate water and sewer revenue bond sinking accounts as required.

#### Installment Purchase Agreement

On February 24, 2010, the City entered into an installment purchase agreement for \$58,204 to purchase a backhoe. The agreement bears interest of 4.15% per annum and is to be repaid in five annual installments of \$13,159, including interest. During the year ended June 30, 2014, the City paid \$12,115 of principal and \$1,044 of interest on the agreement. The principal balance at June 30, 2014 was \$12,419.

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. 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 contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$52,312, \$49,448 and \$45,992, respectively, equal to the required contributions for each year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City participates in a multi-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 11 active and 1 retired member in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefits are provided through a fully-insured plan with Central States Southeast and Southwest Areas Health and Welfare and Pension Funds. Retirees under age 65 pay the same premium for the medical/prescription drug and dental benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member weekly premiums for the City and plan members are \$309.50 for family coverage. For the year ended June 30, 2014, the City contributed \$133,875 and plan members eligible for benefits contributed \$16,440 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and compensatory time payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 27,000
Sick leave	17,000
Compensatory time	<u>4,000</u>
Total	<u>\$ 48,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 89,614
Debt Service	Special Revenue:	
	Tax Increment Financing	22
Enterprise:	Special Revenue:	
Sewer	CDBG	377,004
Total		<u>\$ 466,640</u>

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

**(8) Risk Management**

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

**(9) Deficit Balances**

The General, the Special Revenue, CDBG and the Debt Service Funds had deficit balances of \$30,468, \$18,466 and \$17,557, respectively, at June 30, 2014. The deficits will be eliminated with future tax collections and grant reimbursements.

**(10) Tax Increment Financing**

In July 2001, the City and Jasper County entered into a 28E agreement to develop the Colfax I-80 Interchange Urban Renewal Project area. The City extended its water and sanitary sewer service to the area. By June 30, 2011, the County had loaned the City \$1,197,501 for the extension costs and \$80,175 to reimburse engineering costs. The County collects and retains the tax increment receipts from the taxable properties located in the area. If the receipts are not sufficient to fully reimburse the County for all the principal and interest paid by the County for this specific purpose upon maturity of the loan, the City will be obligated to repay the unpaid balance plus interest at the rate being paid by the County on its loan. Since the repayment is contingent on future property tax paid in the Urban Renewal Project area, the amounts of the payments, if any, are not readily determinable.

In January 2013, the City and Jeff Light (the developer) entered into a development agreement to construct a Subway restaurant. The City will pay up to \$75,000 of incremental property tax to the developer beginning on the date the incremental property tax becomes available. The City has certified the agreement to the County Auditor. The obligation is not a general obligation of the City, but the debt is subject to the constitutional debt limitation of the City. As of June 30, 2014, the City has not made any payments to the developer.

**(11) Landfill Closure and Postclosure Care**

The City has entered into an agreement with several other municipalities, as allowed under Chapter 28E of the Code of Iowa, to provide for economical and environmentally responsible disposal of solid waste and establish permanent environmental responsibility for the Newton Sanitary Landfill (Landfill). State and federal laws and regulations require the Landfill to place a final cover on the site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. To date, 33% of the Landfill has been filled and the estimated total liability for such is \$5,824,000, based on 2014 cost estimates. Actual costs may be higher due to inflation, technology changes and changes in regulations.

The Code of Iowa requires the Landfill to maintain separate closure and postclosure care accounts to accumulate resources for the payment of these costs. To date, \$939,722 has been accumulated. Since the estimated closure and postclosure costs have not been fully funded, the Landfill is required to demonstrate financial assurance for the unfunded costs. The Landfill has adopted the local government financial test assurance mechanism and has met the requirement issued by the Iowa Department of Natural Resources. The unfunded liability will be funded over the estimated remaining life of the Landfill. In the event it is not adequately funded, the 28E agreement makes the City of Colfax responsible for 4.86% or approximately \$237,000 based on the June 30, 2014 information. The City's proportionate share is updated annually in accordance with the agreement.

**(12) Construction Commitments**

Construction commitments at June 30, 2014 totaled \$289,373, which will be paid as work on the projects progress. These projects will be funded through bond proceeds, grants and local funds on hand.

**(13) Economic Development Loan**

In 2004, the City loaned \$150,000 to a local manufacturing company with funds received from the Iowa Department of Economic Development, now the Iowa Economic Development Authority (IEDA). The loan was forgivable to the extent of \$75,000 and the Company fulfilled the requirement for loan forgiveness. Repayments totaling \$21,250 were received through 2007 on the \$75,000 balance. Any repayments were to be used by the City for similar projects. In 2009, a new company acquired the assets of the original company and received a \$25,000 loan and a \$25,000 forgivable loan from IEDA. In addition, the City loaned \$20,000 which was to be repaid, beginning March 1, 2011, with annual payments of \$2,000. To date, no payments have been received.

The City has requested repayment of the \$53,750 remaining balance, plus interest, from the owners of the original company. To date, no payments have been received.

**(14) Accounting Change/Restatement**

Beginning net position for government activities and the beginning fund balances for the General Fund, the Special Revenue, Hotel/Motel Tax and Tenant Memorial Funds and the Fiduciary, Library Memorial and Tenant Memorial Funds were restated to report the funds in accordance with GASB Statement No. 54. The balance beginning of year for the Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances was also restated. The effect of fund type reclassifications is as follows:

	Funds						Budgetary Cash Balance
	Governmental Activities	General	Special Revenue Tenant Memorial	Hotel/Motel Tax	Fiduciary		
Balances June 30, 2013, as previously reported	\$ 157,930	(126,772)	-	58,975	110,178	157,930	
Change in fund type classification per implementation of GASB Statement No. 54	110,178	100,569	68,584	(58,975)	(110,178)	110,178	
Balances July 1, 2013, as restated	\$ 268,108	(26,203)	68,584	-	-	268,108	

**(15) Prospective Accounting Change**

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

**City of Colfax**

## **Other Information**

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

Other Information

Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total
<b>Receipts:</b>			
Property tax	\$ 637,336	-	637,336
Tax increment financing	22	-	22
Other city tax	206,494	-	206,494
Licenses and permits	26,783	-	26,783
Use of money and property	4,515	789	5,304
Intergovernmental	878,898	39,146	918,044
Charges for service	155,675	1,034,892	1,190,567
Special assessments	14,191	-	14,191
Miscellaneous	38,734	354	39,088
Total receipts	1,962,648	1,075,181	3,037,829
<b>Disbursements:</b>			
Public safety	447,887	-	447,887
Public works	199,743	-	199,743
Health and social services	-	-	-
Culture and recreation	193,412	-	193,412
Community and economic development	313,077	-	313,077
General government	345,996	-	345,996
Debt service	28,571	-	28,571
Business type activities	-	2,218,570	2,218,570
Total disbursements	1,528,686	2,218,570	3,747,256
Excess (deficiency) of receipts over (under) disbursements	433,962	(1,143,389)	(709,427)
Other financing sources, net	(377,004)	1,262,518	885,514
Excess of receipts and other financing sources over disbursements and other financing uses	56,958	119,129	176,087
Balances beginning of year, as restated	268,108	1,454,708	1,722,816
Balances end of year	\$ 325,066	1,573,837	1,898,903

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
618,049	618,049	19,287
-	-	22
230,829	230,829	(24,335)
20,000	20,000	6,783
3,000	3,000	2,304
196,742	714,000	204,044
1,168,000	1,193,500	(2,933)
15,000	15,000	(809)
20,000	20,000	19,088
2,271,620	2,814,378	223,451
490,947	511,947	64,060
215,203	215,203	15,460
12,000	12,000	12,000
196,911	201,411	7,999
12,000	529,258	216,181
292,358	352,358	6,362
-	-	(28,571)
941,450	2,141,450	(77,120)
2,160,869	3,963,627	216,371
110,751	(1,149,249)	439,822
-	1,200,000	(314,486)
110,751	50,751	125,336
1,404,604	1,404,604	318,212
1,515,355	1,455,355	443,548

City of Colfax

Notes to Other Information – Budgetary Reporting

June 30, 2014

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, 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 \$1,802,758. The budget amendment is reflected in the final budgeted amounts.

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

## **Supplementary Information**

City of Colfax

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

As of and for the year ended June 30, 2014

	Special Revenue			
	Local Option Sales Tax	Urban Renewal Tax Increment	Tenant Memorial	Flood
Receipts:				
Property tax	\$ -	-	-	-
Tax increment financing	-	22	-	-
Other city tax	159,227	-	-	-
Use of money and property	88	-	412	-
Miscellaneous	-	-	-	-
Total receipts	159,315	22	412	-
Disbursements:				
Operating:				
Community and economic development	24,731	-	-	-
Debt service	-	-	-	-
Total disbursements	24,731	-	-	-
Excess of receipts over disbursements	134,584	22	412	-
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(89,614)	(22)	-	-
Total other financing sources (uses)	(89,614)	(22)	-	-
Change in cash balances	44,970	-	412	-
Cash balances beginning of year, as restated	26,844	-	68,584	746
Cash balances end of year	\$ 71,814	-	68,996	746
<b>Cash Basis Fund Balances</b>				
Nonspendable - Cemetery perpetual care	\$ -	-	-	-
Restricted for other purposes	71,814	-	68,996	746
Unassigned	-	-	-	-
Total cash basis fund balances	\$ 71,814	-	68,996	746

See accompanying independent auditor's report.

Debt Service	Permanent		Total
	Cemetery Perpetual Care		
29,054	-		29,054
-	-		22
-	-		159,227
-	-		500
-	908		908
29,054	908		189,711
-	-		24,731
28,571	-		28,571
28,571	-		53,302
483	908		136,409
22	-		22
-	-		(89,636)
22	-		(89,614)
505	908		46,795
(18,062)	68,482		146,594
(17,557)	69,390		193,389
-	69,390		69,390
-	-		141,556
(17,557)	-		(17,557)
(17,557)	69,390		193,389

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Sewer improvements	Oct 1, 2004	4.50%	\$ 100,000
Water and sewer improvements	Oct 24, 2006	4.65	110,000
Street improvements	Sept 1, 2010	4.00	100,000
Total			
General obligation bonds:			
Sewer improvement	Oct 25, 2013	1.75% *	\$ 1,109,000
Revenue bonds:			
Water revenue	Feb 24, 2012	3.00% *	\$ 510,000
Sewer revenue	Mar 25, 2003	1.75 *	1,984,000
Total			
Installment purchase agreement:			
Equipment	Feb 24, 2010	4.15%	\$ 58,204
Anticipation project note:			
Sewer improvement	Dec 21, 2012	0.00%	\$ 232,500

\* The City is also required to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
2,716	-	2,716	-	60
33,000	-	11,000	22,000	1,553
80,000	-	10,000	70,000	3,242
<u>\$ 115,716</u>	<u>-</u>	<u>23,716</u>	<u>92,000</u>	<u>4,855</u>
-	891,059	1,000	890,059	6,238
273,000	-	30,000	243,000	8,190
1,038,000	-	102,000	936,000	18,165
<u>\$ 1,311,000</u>	<u>-</u>	<u>132,000</u>	<u>1,179,000</u>	<u>26,355</u>
24,534	-	12,115	12,419	1,044
144,252	-	144,252	-	-

**City of Colfax**

City of Colfax  
Bond and Note Maturities  
June 30, 2014

General Obligation Notes						
Year Ending June 30,	Water and Sewer Improvements			Street Improvements		Total
	Issued Oct 24, 2006			Issued Sept 1, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	
2015	4.65%	\$ 11,000	4.00%	\$ 10,000		21,000
2016	4.65	11,000	4.00	10,000		21,000
2017		-	4.00	10,000		10,000
2018		-	4.00	10,000		10,000
2019		-	4.00	10,000		10,000
2020		-	4.00	10,000		10,000
2021		-	4.00	10,000		10,000
Total		<u>\$ 22,000</u>		<u>\$ 70,000</u>		<u>92,000</u>

Revenue Bonds						
Year Ending June 30,	Water			Sewer		Total
	Issued Feb 24, 2012			Issued March 25, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	
2015	3.00%	\$ 31,000	1.75%	\$ 105,000		136,000
2016	3.00	32,000	1.75	108,000		140,000
2017	3.00	34,000	1.75	112,000		146,000
2018	3.00	35,000	1.75	115,000		150,000
2019	3.00	36,000	1.75	118,000		154,000
2020	3.00	37,000	1.75	122,000		159,000
2021	3.00	38,000	1.75	126,000		164,000
2022		-	1.75	130,000		130,000
		<u>\$ 243,000</u>		<u>\$ 936,000</u>		<u>1,179,000</u>

See accompanying independent auditor's report.

City of Colfax

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Ten Years

	2014	2013	2012	2011
<b>Receipts:</b>				
Property tax	\$ 637,336	660,068	715,037	679,221
Tax increment financing	22	-	-	-
Other city tax	206,494	206,891	224,624	249,343
Licenses and permits	26,783	17,489	24,784	10,350
Use of money and property	4,515	4,097	4,350	6,933
Intergovernmental	878,898	598,222	300,116	238,912
Charges for service	155,675	135,926	156,178	120,678
Special assessments	14,191	-	-	-
Miscellaneous	38,734	92,336	78,319	105,097
<b>Total</b>	<b>\$ 1,962,648</b>	<b>1,715,029</b>	<b>1,503,408</b>	<b>1,410,534</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 447,887	497,721	435,717	450,330
Public works	199,743	209,222	184,579	302,819
Health and social services	-	-	-	4,217
Culture and recreation	193,412	186,941	238,896	172,112
Community and economic development	313,077	352,847	107,916	130,449
General government	345,996	285,338	240,012	235,094
Debt service	28,571	40,290	185,010	198,018
<b>Total</b>	<b>\$ 1,528,686</b>	<b>1,572,359</b>	<b>1,392,130</b>	<b>1,493,039</b>

See accompanying independent auditor's report.

2010	2009	2008	2007	2006	2005
633,148	661,194	627,494	583,887	529,100	557,068
26,699	23,036	17,140	17,426	16,114	17,510
238,398	236,577	229,257	213,583	338,289	181,448
12,898	9,198	12,363	22,075	19,277	15,622
12,514	19,999	22,702	22,415	14,512	5,579
237,890	256,998	418,635	256,279	207,885	196,590
130,646	119,656	144,787	108,484	140,273	197,131
10,731	46,797	-	-	-	-
64,615	81,213	24,970	73,784	93,437	119,495
<u>1,367,539</u>	<u>1,454,668</u>	<u>1,497,348</u>	<u>1,297,933</u>	<u>1,358,887</u>	<u>1,290,443</u>
612,848	486,489	408,237	384,234	376,397	512,601
213,773	335,071	503,078	246,762	326,697	284,064
5,900	-	-	-	-	6,182
229,619	256,398	186,962	174,050	180,711	167,381
31,126	43,916	83,565	3,001	3,000	3,001
175,296	180,088	177,694	200,153	272,783	284,583
194,521	201,880	242,514	188,570	172,458	122,653
<u>1,463,083</u>	<u>1,503,842</u>	<u>1,602,050</u>	<u>1,196,770</u>	<u>1,332,046</u>	<u>1,380,465</u>

**Schedule 5**

## City of Colfax

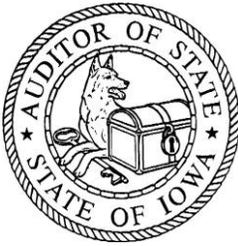
## Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	09-HSG-083	\$ 88,247
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	10-DTR-009	172,461
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	12-WS-009	<u>377,004</u>
			637,712
U.S. Department of Homeland Security:			
Iowa Department of Homeland Security and Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4126-DR1A	<u>39,146</u>
Total			<u>\$ 676,858</u>

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Colfax and is presented on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. 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  
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 20, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Colfax's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Colfax's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Colfax's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Colfax's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-14 through II-C-14 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-D-14 and II-E-14 to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Colfax'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, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### The City of Colfax's Responses to the Findings

The City of Colfax's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Colfax's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

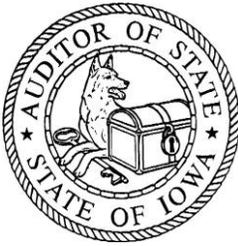
  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 20, 2015

**Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by OMB Circular A-133**

**City of Colfax**



**OFFICE OF AUDITOR OF STATE  
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Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Colfax, 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 Colfax's major federal program for the year ended June 30, 2014. The City of Colfax's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Colfax's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and 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 Colfax'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Colfax's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Colfax complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of the City of Colfax is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Colfax's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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 Colfax'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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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 the accompanying Schedule of Findings and Questioned Costs as item III-A-14 to be a material weakness.

The City of Colfax's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City of Colfax's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 20, 2015

City of Colfax

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

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

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a 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 unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are 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 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Colfax did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

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

**INTERNAL CONTROL DEFICIENCIES:**

II-A-14 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 of two employees has control over each of the following areas:

- (1) Cash – reconciling bank accounts, cash disbursement functions and recording cash.
- (2) Petty cash/change fund – handling petty cash, collecting and depositing.
- (3) Receipts – opening mail, collecting and depositing.
- (4) Utilities – utility billing, collecting, depositing, posting to customer accounts and maintaining accounts receivable records.
- (5) Disbursements – purchasing, invoice processing, preparing checks, mailing, recording and having access to credit cards.
- (6) Payroll – recordkeeping, preparing, posting and distributing.
- (7) Journal entries – journal entries are not reviewed and approved by an independent person.
- (8) Accounting system – performing all general accounting functions and having custody of City assets.

In addition, an initial listing of mail receipts is not prepared by the mail opener and the petty cash/change fund is not verified by surprise counts.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response –

- (1) The City Clerk prints computer generated documentation every month for the Mayor and Council. The Mayor will begin reviewing all general ledger and accounts payable journals monthly.
- (2) The Utility Billing Clerk balances the cash drawer daily and the City Clerk does random checks on this drawer as well. All deposits are reviewed by the City Clerk upon posting to the general ledger.
- (3) The Utility Billing Clerk is now implementing the process of documenting the daily mail receipts along with the posting of the receipts.
- (4) The Utility Billing Clerk is now doing a monthly reconciliation of the utility billing system and the City Clerk is reviewing/signing off on the reconciliations.

City of Colfax

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- (5) The Mayor reviews invoices before signing, the City Council signs off on all checks issued and a resolution allows for some early payments to be issued. A credit card policy is being developed and will be presented to the City Council. All employees are more careful to turn in receipts for their purchases/charges.
- (6) Employees sign off on their own timecards before timecards are approved by the Department Supervisor. The City Clerk, Public Works Director, Utility Billing Clerk and Police Chief timecards are approved by the Mayor. The checks are generated by the City Clerk and reviewed by the Mayor before signing. Payroll checks are hand delivered by Department Supervisors or mailed by the City Clerk.
- (7) The Mayor will be reviewing all journal entries monthly.
- (8) Two signatures are required on all checks and all bank accounts have required signatures to complete entry deposit or remove funds. The additional comment is now implemented by the Utility Billing Clerk and the City Clerk is doing random petty cash counts.

Conclusion – Response acknowledged. In addition, the City Clerk and Mayor should document their reviews by initialing invoices and reconciliations.

II-B-14 Financial Reporting – We identified revenue bond payments posted to the Enterprise, Sewer Fund rather than the Enterprise, Water Fund, transfers to the General Fund were posted as intergovernmental receipts rather than transfers in and FEMA reimbursements were posted to the Enterprise, Water Fund as charges for service rather than intergovernmental receipts. Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

Recommendation – The City should implement procedures to ensure all transactions are properly recorded in the City's financial statements.

Response – The City Clerk will continue to strive for accuracy in her journal entries and continue to review journals on a weekly basis.

Conclusion – Response accepted.

II-C-14 Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts are not reconciled monthly. A reconciliation is designed to ensure the proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts each month. The City Council or a Council-designated independent person should review the reconciliation and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – The Utility Billing Clerk has been instructed to prepare a daily list of payments received in the mail. She is also preparing a monthly reconciliation of utility billings, including maintenance of delinquent/shut off accounts. The

City of Colfax

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Public Works Director and Water Superintendent are reviewing the utility billing register each month when printed before the billing is generated. The City Clerk will sign off on monthly reconciliation.

Conclusion – Response accepted.

II-D-14 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:

- (1) The City does not have a written disaster recovery plan which addresses the following items:
  - a. Identification of critical applications.
  - b. Identification of staff responsibilities.
  - c. Identification of steps for recovery of any operating systems for City operations.
  - d. Identification of computer equipment needed for temporary processing.
  - e. Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
  - f. A requirement to keep a copy of the disaster recovery plan off site.
  - g. A requirement to keep system backups current and off site.
  - h. An inventory of all hardware and components (e.g.: make, model numbers, serial numbers, etc.).
  - i. An inventory of all software applications (e.g.: operating system and software applications, release versions and vendor names).
  - j. A requirement copies of all user documentation and policy and procedures manuals be located off site.
  - k. A requirement extra stocks of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.
  - l. Requirements outlining the frequency and guidelines for testing the disaster recovery plan to identify issues and document the results of testing.

City of Colfax

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- (2) The City does not have a written password policy which requires the following:
- a. Password privacy and confidentiality.
  - b. Passwords to be at least 8 characters in length.
  - c. Passwords to be changed at least every 60 to 90 days.

Recommendation – A written disaster recovery plan should be developed by the City and tested annually. The City should also develop a written password policy.

Response – The City Clerk is working on a written disaster recovery plan and is hoping to talk with a couple of other Jasper County communities which have the same software system and sign an agreement to share in the event of a disaster in one of our cities. In addition, the City will develop a written password policy.

Conclusion – Response accepted.

- II-E-14 Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal written 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 Clerk is preparing a written policy pertaining to our credit cards for presentation to the City Council.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Colfax

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

**CFDA Number 14.228: Community Development Block Grants/State's Program  
and Non-Entitlement Grants in Hawaii  
Pass-through Agency Number: 09-HSG-083, 10-DTR-009, 12-WS-009  
Federal Award Year: 2009, 2010, 2012  
U.S. Department of Housing and Urban Development  
Passed through the Iowa Economic Development Authority**

III-A-14 (2014-001) Monitoring – The City entered into an agreement with Simmering-Cory, Inc. to administer the Community Development Block Grant (CDBG) program. The agreement states Simmering-Cory, Inc. will assist with completion of certain services outlined in the contract and perform professional services associated with the implementation, management and administration of the CDBG projects.

Simmering-Cory, Inc. monitored the CDBG projects to ensure compliance with the requirements of Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. However, since the City was the primary recipient of the CDBG program funds, the City retained responsibility to ensure these requirements were met. The City did not maintain documentation indicating program requirements were met.

Recommendation – The City should receive and maintain documentation to ensure all applicable compliance requirements have been met.

Response – The City Clerk has spoken with Simmering-Cory and we have agreed to keep better communication during the projects. We also will meet at various times to review our document files.

Conclusion – Response accepted.

City of Colfax

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

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

IV-A-14 Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the debt service and business type activities functions. In addition, disbursements exceeded the amounts budgeted prior to the budget amendment in the community and economic development and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City Clerk will try to be more diligent in doing amendments before spending funds.

Conclusion – Response accepted.

IV-B-14 Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Shugar’s	Candy	\$ 3
Georgioz	Pizza	31
Crystal Clear	Bottled water	10

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

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

Response – All departments will be more cautious with expenditures. The candy giveaway in City Hall has been discontinued, the bottled water will be placed in the lobby for residents and visitors and miscellaneous items such as the food used as payment to those who volunteer at City functions will be discontinued.

Conclusion – Response accepted.

IV-C-14 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Colfax

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

IV-D-14 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bryan Poulter, Council Member, Pool Chemical Manager	Compensation for managing the City pool chemicals	\$ 2,500

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Council Member Poulter do not appear to represent a conflict of interest since the disbursements did not exceed \$2,500 during the fiscal year.

IV-E-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-14 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-G-14 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-14 Revenue Bonds – The City has not established an Enterprise, Water Revenue Bond Sinking account as required. However, funds sufficient to cover principal and interest are held in a Certificate of Deposit (CD) for the Enterprise, Water Fund.

The City has not established an Enterprise, Sewer Revenue Bond Sinking account as required. Although transfers to the sewer savings account were made, the transfers were not sufficient to cover principal and interest due.

Recommendation – The City should establish the required sinking accounts and make the necessary transfers as required by the water and sewer revenue bond resolutions.

Response – The City Clerk shall contact the computer software company for assistance with setting up of water and sewer sinking accounts.

Conclusion – Response accepted.

IV-I-14 Payment of General Obligation Bonds – Certain general obligation bond principal and interest were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer funds from the Enterprise, Sewer Fund to the Debt Service Fund for future funding contributions. The bonds should then be paid from the Debt Service Fund.

City of Colfax

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Response – The City Clerk will implement this process.

Conclusion – Response accepted.

- IV-J-14 Employee Clothing Allowance – Per City policy, employees are provided an annual clothing allowance, regardless of whether a specific type of clothing is required to perform their duties. The clothing allowance was not identified as a taxable benefit and, as a result, the proper tax withholdings were not applied to the reimbursements.

Recommendation – Employee clothing allowances should be included in the employee's taxable income.

Response – The City Clerk will implement this process.

Conclusion – Response accepted.

- IV-K-14 Financial Condition – The General, the Special Revenue, CDBG and the Debt Service Funds had deficit balances of \$30,468, \$18,466 and \$17,557, respectively, at June 30, 2014.

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

Response – The City Clerk will review these deficit balances and strive to bring them to positive balances.

Conclusion – Response accepted.

City of Colfax

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager  
Jenny M. Podrebarac, Senior Auditor II  
David A. Cook, 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