

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

June 25, 2015

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$4,598,615 for the year ended June 30, 2014. The receipts included \$247,984 in property tax, \$222,756 from tax increment financing, \$2,659,265 from charges for service, \$498,228 from operating grants, contributions and restricted interest, \$286,117 from capital grants, contributions and restricted interest, \$132,157 from local option sales tax, \$12,830 from unrestricted interest on investments, \$535,627 from bond proceeds and \$3,651 from other general receipts.

Disbursements for the year ended June 30, 2014 totaled \$4,292,582, and included \$307,825 for debt service, \$203,006 for public works and \$193,366 for public safety. Also, disbursements for business type activities totaled \$2,991,927.

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/1421-0615-B00F.pdf>.

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CITY OF STATE CENTER
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2014

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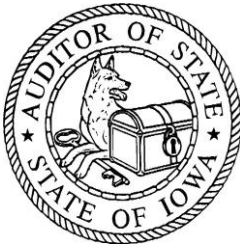
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City of State Center

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Harlan Quick	Mayor	Jan 2014
Steve Lively	Council Member	Jan 2014
Dick Postel	Council Member	Jan 2014
Mike Riemenschneider	Council Member	Jan 2014
Jon Mustaine	Council Member	Jan 2016
Angela Schultz	Council Member	Jan 2016
Lori Martin	City Clerk	Indefinite
Curt Ward	Attorney	Indefinite
(After January 2014)		
Harlan Quick	Mayor	Jan 2018
Jon Mustaine	Council Member	Jan 2016
Angela Schultz	Council Member	Jan 2016
Steve Lively	Council Member	Jan 2018
Mike Riemenschneider	Council Member	Jan 2018
Lee Wilkinson	Council Member	Jan 2018
Lori Martin	City Clerk	Indefinite
Kevin O'Hare	Attorney	Indefinite

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Mary Mosiman, CPA
Auditor of State

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Modified Opinions

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

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2013, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of State Center 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 State Center's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

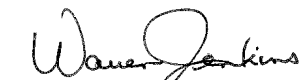
The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial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

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 29 through 31, 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 June 11, 2015 on our consideration of the City of State Center'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 State Center's internal control over financial reporting and compliance. -


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 11, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of State Center 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.

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

2014 FINANCIAL HIGHLIGHTS

- The cash basis net position of the City's governmental activities increased \$651,306, due primarily to transfers for capital projects from the Enterprise, Water and Electric Funds.
- The cash basis net position of the City's business type activities decreased \$345,273, due primarily to a sewer capital project and transfers to the Capital Projects Fund.

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 to the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

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 present 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, 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 water, sewer, electric and storm water systems. 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, 4) the Capital Projects Fund and 5) 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 Enterprise Funds to provide separate information for the Water, Sewer, Electric and Storm Water Funds, of which the Water, Sewer and Electric Funds are considered to be major funds of the City.

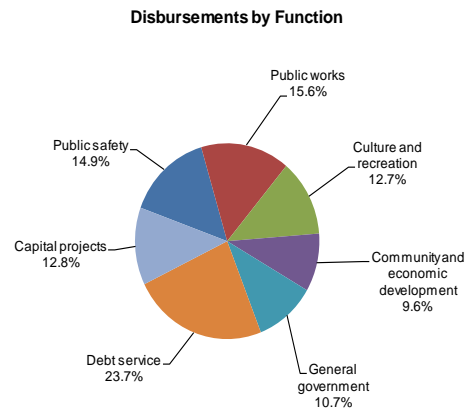
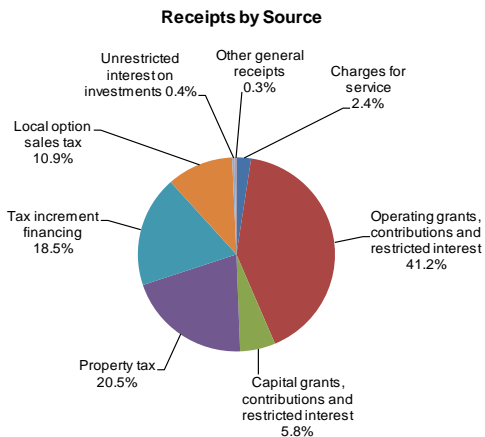
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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 sharply from a year ago, increasing from \$2,061,161 to \$2,712,467. 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

	Year ended June 30, 2014
Receipts:	
Program receipts:	
Charges for service	\$ 28,999
Operating grants, contributions and restricted interest	498,228
Capital grants, contributions and restricted interest	69,635
General receipts:	
Property tax	247,984
Tax increment financing	222,756
Local option sales tax	132,157
Unrestricted interest on investments	5,231
Other general receipts	3,651
Total receipts	<u>1,208,641</u>
Disbursements:	
Public safety	193,366
Public works	203,006
Culture and recreation	165,796
Community and economic development	124,993
General government	139,365
Debt service	307,825
Capital projects	166,304
Total disbursements	<u>1,300,655</u>
Change in cash basis net position before transfers	(92,014)
Transfers, net	<u>743,320</u>
Change in cash basis net position	651,306
Cash basis net position beginning of year	<u>2,061,161</u>
Cash basis net position end of year	<u>\$ 2,712,467</u>



The cash basis net position of the City's governmental funds increased due to transfers from the Enterprise, Water and Electric Funds to the Capital Projects Fund.

The cost of all governmental activities this year was \$1,300,655. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$703,793 because some of the cost was paid by those directly benefited from the programs (\$28,999) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$567,863). The City paid for the remaining "public benefit" portion of governmental activities with tax (some of which could only be used for certain programs) and other receipts, such as interest, sale of capital assets and transfers from Enterprise Funds.

<u>Changes in Cash Basis Net Position of Business Type Activities</u>	
	<u>Year ended June 30, 2014</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 160,694
Electric	2,203,503
Sewer	217,074
Storm water	48,995
Capital grants, contributions and restricted interest	216,482
General receipts:	
Unrestricted interest on investments	7,599
Bond proceeds	535,627
Total receipts	<u>3,389,974</u>
Disbursements:	
Water	156,955
Electric	2,236,751
Sewer	570,246
Storm water	27,975
Total disbursements	<u>2,991,927</u>
Change in cash basis net position before transfers	398,047
Transfers, net	<u>(743,320)</u>
Change in cash basis net position	(345,273)
Cash basis net position beginning of year	<u>2,349,039</u>
Cash basis net position end of year	<u><u>\$ 2,003,766</u></u>

Total business type activities cash basis net position decreased from a year ago, from \$2,349,039 to \$2,003,766. The overall decrease is due to a sewer project and transfers to the Capital Projects Fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of State Center completed the year, its governmental funds reported a combined fund balance of \$2,712,467, an increase of \$651,306 from last year's total of \$2,061,161. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$126,252 over the prior year to \$903,221. This increase is due to transfers from the Special Revenue, Local Option Sales Tax and the Enterprise, Electric Funds.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$40,187 to \$334,550. This increase is due to receiving more tax increment financing receipts than was required to be paid.
- The Debt Service Fund cash balance increased \$5,603 to \$89,840. This increase is primarily attributable to transfers and tax receipts exceeding necessary debt payments.
- The Capital Projects Fund cash balance increased \$479,475 to a deficit balance of \$244,240 at the end of the fiscal year. This increase is due to transfers from the Enterprise, Water and Electric Funds in order to reduce the deficit balance.
- The Permanent, Ira D. Kauffman Charitable Community Trust Fund cash balance decreased \$29,219 to \$1,378,091 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$156,794 to \$81,755. This decrease is primarily due to a transfer of \$150,000 to the Capital Projects Fund.
- The Enterprise, Electric Fund cash balance decreased \$511,981 to \$1,785,839. The decrease is primarily due to a transfer of \$433,208 to the Capital Projects Fund.
- The Enterprise, Sewer Fund cash balance increased \$315,103 to \$35,947. The increase is due to bond and grant proceeds received for work paid in the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget.

The City's receipts were \$63,647 more than budgeted.

Total disbursements were \$562,363 less than budgeted. This is due to disbursements in the business type activities function being lower than budgeted as the sewer project continued into fiscal year 2015.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$2,256,527 in bonds and notes outstanding, compared to \$2,045,900 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2014	2013
General obligation bonds and notes	\$ 1,485,000	1,745,000
Revenue bonds and notes	771,527	300,900
Total	\$ 2,256,527	2,045,900

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 debt is \$1,773,859, including TIF debt of \$288,859, is below its constitutional debt limit of approximately \$2,838,000.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City of State Center’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. The City’s fiscal year 2015 assessed valuation has decreased approximately \$908,000 from the fiscal year 2014 level.

The fiscal year 2015 budget contains total receipts of \$3,660,289 and disbursements of \$3,593,875. This budget is somewhat lower than the fiscal year 2014 budget, which contained total receipts of \$3,735,898 and disbursements of \$4,782,416. The fiscal year 2015 budget includes decreased intergovernmental receipts. The City did not budget for capital projects for fiscal year 2015.

The fiscal year 2015 property tax levy is \$9.75916 per \$1,000 of taxable valuation, a decrease from \$9.83389 per \$1,000 of taxable valuation in fiscal year 2014. The debt service levy decreased from \$.31837 per \$1,000 of taxable valuation in fiscal year 2014 to \$.31503 per \$1,000 of taxable valuation in fiscal year 2015.

These parameters were taken into account when adopting the budget for 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 Lori Martin, City Clerk, P.O. Box 668, State Center, IA 50247-0668.

Basic Financial Statements

City of State Center

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 193,366	2,079	77,179	-
Public works	203,006	2,575	148,089	7,064
Culture and recreation	165,796	12,626	204,450	-
Community and economic development	124,993	-	43,351	-
General government	139,365	11,719	25,159	-
Debt service	307,825	-	-	-
Capital projects	166,304	-	-	62,571
Total governmental activities	1,300,655	28,999	498,228	69,635
Business type activities:				
Water	156,955	160,694	-	-
Electric	2,236,751	2,203,503	-	-
Sewer	570,246	217,074	-	216,482
Storm water	27,975	48,995	-	-
Total business type activities	2,991,927	2,630,266	-	216,482
Total	\$ 4,292,582	2,659,265	498,228	286,117
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
Sale of capital assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Ira D. Kauffman Charitable Community Trust				
Expendable:				
Urban renewal purposes				
Debt service				
Streets				
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
(114,108)	-	(114,108)
(45,278)	-	(45,278)
51,280	-	51,280
(81,642)	-	(81,642)
(102,487)	-	(102,487)
(307,825)	-	(307,825)
(103,733)	-	(103,733)
(703,793)	-	(703,793)
-	3,739	3,739
-	(33,248)	(33,248)
-	(136,690)	(136,690)
-	21,020	21,020
-	(145,179)	(145,179)
(703,793)	(145,179)	(848,972)
237,537	-	237,537
10,447	-	10,447
222,756	-	222,756
132,157	-	132,157
5,231	7,599	12,830
-	535,627	535,627
3,651	-	3,651
743,320	(743,320)	-
1,355,099	(200,094)	1,155,005
651,306	(345,273)	306,033
2,061,161	2,349,039	4,410,201
\$ 2,712,467	2,003,766	4,716,234
\$ 1,008,423	-	1,008,423
334,550	-	334,550
89,840	4,792	94,632
160,614	-	160,614
661,863	-	661,863
460,059	-	460,059
(2,882)	1,998,974	1,996,092
\$ 2,712,467	2,003,766	4,716,233

City of State Center

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	Urban Renewal	Debt Service	Capital Projects
Tax Increment				
Receipts:				
Property tax	\$ 237,537	-	10,447	-
Tax increment financing	-	222,756	-	-
Other city tax	-	-	-	-
Licenses and permits	6,875	-	-	-
Use of money and property	31,427	-	-	-
Intergovernmental	62,252	-	-	36,571
Charges for service	5,249	-	-	-
Special assessments	-	-	7,064	-
Miscellaneous	235,215	-	-	26,000
Total receipts	578,555	222,756	17,511	62,571
Disbursements:				
Operating:				
Public safety	193,366	-	-	-
Public works	65,375	-	-	-
Culture and recreation	165,796	-	-	-
Community and economic development	-	52,464	-	-
General government	139,365	-	-	-
Debt service	-	-	307,825	-
Capital projects	-	-	-	166,304
Total disbursements	563,902	52,464	307,825	166,304
Excess (deficiency) of receipts over (under) disbursements	14,653	170,292	(290,314)	(103,733)
Other financing sources (uses):				
Sale of capital assets	3,651	-	-	-
Transfers in	107,948	-	297,378	583,208
Transfers out	-	(130,105)	(1,461)	-
Total other financing sources (uses)	111,599	(130,105)	295,917	583,208
Change in cash balances	126,252	40,187	5,603	479,475
Cash balances beginning of year	776,969	294,363	84,237	(723,715)
Cash balances end of year	\$ 903,221	334,550	89,840	(244,240)
Cash Basis Fund Balances				
Nonspendable - Kaufmann Trust	\$ -	-	-	-
Restricted for:				
Urban renewal purposes	-	334,550	-	-
Debt service	-	-	89,840	-
Streets	-	-	-	-
Library	661,863	-	-	-
Other purposes	-	-	-	-
Unassigned	241,358	-	-	(244,240)
Total cash basis fund balances	\$ 903,221	334,550	89,840	(244,240)

See notes to financial statements.

<u>Permanent</u>		
<u>Ira D. Kauffman</u>		
<u>Charitable</u>		
<u>Community</u>		
<u>Trust</u>	<u>Nonmajor</u>	<u>Total</u>
-	-	247,984
-	-	222,756
-	132,157	132,157
-	-	6,875
43,310	41	74,778
-	148,089	246,912
-	-	5,249
-	-	7,064
-	-	261,215
<u>43,310</u>	<u>280,287</u>	<u>1,204,990</u>
-	-	193,366
-	137,631	203,006
-	-	165,796
72,529	-	124,993
-	-	139,365
-	-	307,825
-	-	166,304
<u>72,529</u>	<u>137,631</u>	<u>1,300,655</u>
<u>(29,219)</u>	<u>142,656</u>	<u>(95,665)</u>
-	-	3,651
-	-	988,534
-	(113,648)	(245,214)
-	(113,648)	746,971
<u>(29,219)</u>	<u>29,008</u>	<u>651,306</u>
<u>1,407,310</u>	<u>221,997</u>	<u>2,061,161</u>
<u>1,378,091</u>	<u>251,005</u>	<u>2,712,467</u>
1,008,423	-	1,008,423
-	-	334,550
-	-	89,840
-	160,614	160,614
-	-	661,863
369,668	90,391	460,059
-	-	(2,882)
<u>1,378,091</u>	<u>251,005</u>	<u>2,712,467</u>

Exhibit C

City of State Center

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	Electric	Sewer	Nonmajor Storm Water	
Operating receipts:					
Charges for service	\$ 160,694	2,191,173	217,074	48,995	2,617,936
Miscellaneous	-	12,330	-	-	12,330
Total operating receipts	160,694	2,203,503	217,074	48,995	2,630,266
Operating disbursements:					
Business type activities	122,985	1,981,985	82,575	14,609	2,202,154
Excess of operating receipts over operating disbursements	37,709	221,518	134,499	34,386	428,112
Non-operating receipts (disbursements):					
Interest on investments	1,284	6,315	-	-	7,599
Bond proceeds	-	-	535,627	-	535,627
Grant	-	-	216,482	-	216,482
Debt service	(10,505)	-	(70,440)	-	(80,945)
Capital projects	(23,465)	(254,766)	(417,231)	(13,366)	(708,828)
Total non-operating receipts (disbursements)	(32,686)	(248,451)	264,438	(13,366)	(30,065)
Excess (deficiency) of receipts over (under) disbursements	5,023	(26,933)	398,937	21,020	398,047
Transfers in	-	28,002	-	9,078	37,080
Transfers out	(161,817)	(513,050)	(83,834)	(21,699)	(780,400)
Total transfers	(161,817)	(485,048)	(83,834)	(12,621)	(743,320)
Change in cash balances	(156,794)	(511,981)	315,103	8,399	(345,273)
Cash balances beginning of year	238,549	2,297,820	(279,156)	91,826	2,349,039
Cash balances end of year	\$ 81,755	1,785,839	35,947	100,225	2,003,766
Cash Basis Fund Balances					
Restricted for debt service	\$ -	-	4,792	-	4,792
Unrestricted	81,755	1,785,839	31,155	100,225	1,998,974
Total cash basis fund balances	\$ 81,755	1,785,839	35,947	100,225	2,003,766

See notes to financial statements.

City of State Center

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of State Center is a political subdivision of the State of Iowa located in Marshall County. It was first incorporated in 1867 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, electric, sewer and storm water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of State Center 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.

These financial statements present the City of State Center and its blended component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Ira D. Kauffman Charitable Community Trust was incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for the benefit of the City of. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Trust meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Permanent Fund of the City.

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: Marshall County Assessor's Conference Board, Marshall County Emergency Management Commission and Marshall County Joint E911 Service Board.

B. Basis of Presentation

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

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

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 demonstrate 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 and enterprise funds are aggregated and reported as nonmajor governmental or enterprise funds.

The City reports the following major governmental funds:

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

The Special Revenue, Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

The Permanent, Ira D. Kauffman Charitable Community Trust Fund is used to account for contributions and disbursements from the trust which is used for the betterment of the City.

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, Electric Fund accounts for the operation and maintenance of the City's electric system.

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

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating receipts and 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.

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 general government and capital projects functions.

(2) Cash and Pooled Investments

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

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

At June 30, 2014, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 1,662,864	1,926,314	N/A

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City. The Ira D. Kauffman Charitable Community Trust, a blended component unit of the City, does not have a formal policy limiting investment maturities as a means of managing exposure to interest rate risk.

Credit risk – The City's investments in mutual funds are unrated.

Concentration of credit risk – The City and the Ira D. Kauffman Charitable Community Trust place no limits on the amount that may be invested in any one issuer. However, the City’s policy requires the City to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$26,256 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City’s investment in the Iowa Public Agency Investment Trust is unrated.

(3) Bonds Payable

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

Year Ending June 30,	Principal	Interest	Total
2015	\$ 170,000	38,185	208,185
2016	135,000	33,845	168,845
2017	135,000	30,710	165,710
2018	135,000	27,485	162,485
2019	145,000	23,900	168,900
2020-2024	490,000	71,190	561,190
2025-2027	275,000	15,594	290,594
Total	<u>\$ 1,485,000</u>	<u>240,909</u>	<u>1,725,909</u>

Sewer Revenue Bonds

On November 30, 2012, the City entered into a State Revolving Fund (SRF) loan and disbursement agreement with the Iowa Finance Authority for the issuance of up to \$983,000 of sewer revenue 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 384.24A and 384.83 of the Code of Iowa to pay the cost of construction of certain improvements and extensions to the sewer treatment facilities. The City will draw funds from the Iowa Finance Authority upon request to reimburse the City for costs as they are incurred. At June 30, 2014, the City had drawn \$811,527 of the \$983,000 authorized amount. An initiation fee of \$4,915 (.50% of the authorized borrowing for the sewer revenue bonds) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the sewer revenue bonds drawn by the City during the year ended June 30, 2013. A final repayment schedule has not yet been adopted. The bonds are payable solely from sewer customer net receipts. During the current year, annual principal and interest payments on the bonds required less than 53% of net receipts. During the year ended June 30, 2014, the City paid principal of \$40,000 and interest of \$14,690 on the bonds under a preliminary repayment schedule and total customer net receipts were \$134,499.

The resolution providing for the issuance of the sewer revenue bonds includes 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 a separate sewer revenue bond sinking account within the Enterprise Fund for the purpose of making the bond principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

The City has not established the sinking account for the sewer revenue bonds as required by the bond resolution.

(4) Development Agreement

The City has entered into a development agreement with the State Center Development Association to assist in an urban renewal project. The City agreed to pay the developer a maximum of \$480,000 in exchange for development of commercial property located in the urban renewal area. The semi-annual payments were originally \$20,000 and were subsequently amended to \$21,053 and are to be made on June 1 and December 1, beginning June 1, 2006, and continuing for a total of twelve years, or until such date the maximum of \$480,000 has been paid.

In addition to the payments, the City agreed to rebate to the developer on each December 1 and June 1, beginning December 1, 2007 and continuing through June 1, 2019, the incremental property tax received by the City with respect to the incremental valuation of the property. Rebates are limited to a maximum of \$225,000.

During the year ended June 30, 2014, the City paid the developer \$42,105 for the development of property and \$9,976 in property tax rebates. The outstanding balance of the development agreement at June 30, 2014 was \$288,859.

(5) Internal Loans

The City has loaned a total of \$237,290 to the Special Revenue, Urban Renewal Tax Increment Fund from the Enterprise, Electric and Storm Water Funds for various projects in the urban renewal area. The remaining balance of the internal loans is \$130,493 as of June 30, 2014.

(6) 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 contribution to IPERS for the year ended June 30, 2014 was \$42,700, equal to the required contribution.

(7) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 10 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Coventry Healthcare of Iowa. Retirees under age 65 would pay the same premium for the medical/prescription drug 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 monthly premiums for the City and plan members are \$338 for single coverage, \$754 for employee/spouse coverage, \$686 for employee/child(ren) coverage and \$1,079 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2014, the City contributed \$64,238 and plan members eligible for benefits contributed \$11,928 to the plan.

(8) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and sick leave 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, compensatory time and sick leave 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	\$ 18,700
Compensatory time	6,700
Sick leave	<u>39,800</u>
Total	<u>\$ 65,200</u>

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

(9) 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	\$ 63,347
	Debt Service	1,461
	Enterprise:	
	Electric	43,140
		<u>107,948</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	94,365
	Local Option Sales Tax	50,301
	Enterprise:	
	Water	11,817
	Electric	36,702
	Sewer	82,494
Storm Water	21,699	
		<u>297,378</u>
Capital Projects	Enterprise:	
	Water	150,000
	Electric	433,208
		<u>583,208</u>
Enterprise: Electric	Special Revenue:	
	Urban Renewal Tax Increment	26,662
	Enterprise, Sewer	1,340
		<u>28,002</u>
Enterprise: Storm Water	Special Revenue:	
	Urban Renewal Tax Increment	9,078
Total		<u><u>\$1,025,614</u></u>

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

(10) J. G. Gutekunst Trust

In 1971, the City received land from the J. G. Gutekunst estate. This bequest is to be used as a park and the site of a public library. In addition, the City receives semi-annual distributions of net income from the J. G. Gutekunst Trust. According to the last will and testament of J. G. Gutekunst, the distributions are for the purpose of maintaining and improving the bequeathed property and for improving any public library located on the premises given to the City.

Distributions are credited to the General Fund, Library Account. The Library received \$166,000 from this Trust during the year ended June 30, 2014.

(11) Ira D. Kauffman Charitable Community Trust

According to the provisions of the last will and testament of Ira D. Kauffman, the City received \$81,622 in fiscal year 1997 and \$975,471 in fiscal year 1998. The proceeds were deposited in the Permanent, Ira D. Kauffman Charitable Community Trust Fund and are to be used for a public purpose which will benefit the residents of the City. The balance of this fund at June 30, 2014 totaled \$1,378,091.

(12) 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.

The City assumes liability for claims up to the individual deductible limitations of \$5,000 per single plan or \$10,000 per family plan for the City's health insurance. The employee is responsible for the first 10% of the deductible. The City's reimbursement to employees for the year ended June 30, 2014 for claims against their individual deductibles was \$9,953.

(13) Deficit Balance

The Capital Projects Fund had a deficit balance of \$244,240 at June 30, 2014. The deficit will be eliminated through transfers from other available funds and local option sales tax collections.

(14) Construction Commitment

The City entered into contracts for the West Main, Home Oil and sanitary sewer projects totaling approximately \$661,000. As of June 30, 2014, approximately \$536,000 had been paid on the contracts. The remaining balance of approximately \$125,000 will be paid as work on the projects progress.

(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 State Center

Other Information

City of State Center
 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	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 247,984	-	-
Tax increment financing	222,756	-	-
Other city tax	132,157	-	-
Licenses and permits	6,875	-	-
Use of money and property	74,778	7,599	43,310
Intergovernmental	246,912	-	-
Charges for service	5,249	2,617,936	-
Special assessments	7,064	-	-
Miscellaneous	261,215	12,330	-
Total receipts	1,204,990	2,637,865	43,310
Disbursements:			
Public safety	193,366	-	-
Public works	203,006	-	-
Culture and recreation	165,796	-	-
Community and economic development	124,993	-	72,529
General government	139,365	-	-
Debt service	307,825	-	-
Capital projects	166,304	-	-
Business type activities	-	2,991,927	-
Total disbursements	1,300,655	2,991,927	72,529
Excess (deficiency) of receipts over (under) disbursements	(95,665)	(354,062)	(29,219)
Other financing sources (uses)	746,971	8,789	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	651,306	(345,273)	(29,219)
Balances beginning of year	2,061,161	2,349,039	1,407,310
Balances end of year	\$ 2,712,467	2,003,766	1,378,091

See accompanying independent auditor's report.

Total	Budgeted Amounts Original/Final	Final to Net Variance
247,984	245,337	2,647
222,756	222,945	(189)
132,157	131,475	682
6,875	2,595	4,280
39,067	4,350	34,717
246,912	321,376	(74,464)
2,623,185	2,518,820	104,365
7,064	17,000	(9,936)
273,545	272,000	1,545
<u>3,799,545</u>	<u>3,735,898</u>	<u>63,647</u>
193,366	205,021	11,655
203,006	213,496	10,490
165,796	266,090	100,294
52,464	54,945	2,481
139,365	138,937	(428)
307,825	307,825	-
166,304	-	(166,304)
2,991,927	3,596,102	604,175
<u>4,220,053</u>	<u>4,782,416</u>	<u>562,363</u>
(420,508)	(1,046,518)	626,010
755,760	808,000	(52,240)
335,252	(238,518)	573,770
3,002,890	5,370,970	(2,368,080)
<u>3,338,142</u>	<u>5,132,452</u>	<u>(1,794,310)</u>

City of State Center

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 except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects 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 ended June 30, 2014, disbursements exceeded the amounts budgeted in the general government and capital projects functions.

Supplementary Information

Schedule 1

City of State Center

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			Total
	Road Use Tax	Local Option Sales Tax	Housing Rehabilitation Program	
Receipts:				
Other city tax	\$ -	132,157	-	132,157
Use of money and property	-	-	41	41
Intergovernmental	148,089	-	-	148,089
Total receipts	148,089	132,157	41	280,287
Disbursements:				
Operating:				
Public works	137,631	-	-	137,631
Excess of receipts over disbursements	10,458	132,157	41	142,656
Other financing uses:				
Transfers out	-	(113,648)	-	(113,648)
Change in cash balances	10,458	18,509	41	29,008
Cash balances beginning of year	150,156	44,702	27,139	221,997
Cash balances end of year	\$ 160,614	63,211	27,180	251,005
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ 160,614	-	-	160,614
Other purposes	-	63,211	27,180	90,391
Total cash basis fund balances	\$ 160,614	63,211	27,180	251,005

See accompanying independent auditor's report.

City of State Center

City of State Center
Schedule of Indebtedness
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	May 1, 1999	4.00-5.00%	\$ 1,000,000
General obligation bonds:			
Corporate purpose	May 1, 2008	2.60-4.20%	\$ 960,000
Corporate purpose	May 17, 2012	1.10-2.85	1,200,000
Total			
Revenue notes:			
Water	Oct 15, 2004	3.05-5.05%	\$ 85,000
Sewer	Oct 15, 2004	3.05-5.00	115,000
Total			
Revenue bonds:			
Sewer	Nov 30, 2012	1.75% *	\$ 983,000

* The agreement also requires the City 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
90,000	-	90,000	-	4,500
505,000	-	95,000	410,000	19,695
1,150,000	-	75,000	1,075,000	23,630
\$ 1,655,000	-	170,000	1,485,000	43,325
10,000	-	10,000	-	505
15,000	-	15,000	-	750
\$ 25,000	-	25,000	-	1,255
275,900	535,627	40,000	771,527	14,690

Schedule 3

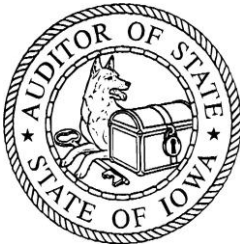
City of State Center

Bond Maturities

June 30, 2014

General Obligation Bonds					
Year Ending June 30,	Corporate Purpose Issued May 1, 2008		Corporate Purpose Issued May 17, 2012		Total
	Interest Rates	Amount	Interest Rates	Amount	
2015	3.70%	\$ 95,000	1.10%	\$ 75,000	170,000
2016	3.85	60,000	1.10	75,000	135,000
2017	4.00	60,000	1.10	75,000	135,000
2018	4.10	60,000	1.50	75,000	135,000
2019	4.15	65,000	1.50	80,000	145,000
2020	4.20	70,000	2.00	80,000	150,000
2021		-	2.00	80,000	80,000
2022		-	2.30	85,000	85,000
2023		-	2.30	85,000	85,000
2024		-	2.60	90,000	90,000
2025		-	2.60	90,000	90,000
2026		-	2.85	90,000	90,000
2027		-	2.85	95,000	95,000
Total		<u>\$ 410,000</u>		<u>\$1,075,000</u>	<u>1,485,000</u>

See accompanying independent auditor's report.



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

To the Honorable Mayor and
Members of the City Council:

We have audited 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 State Center, 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 June 11, 2015. Our report expressed qualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2013.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of the 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 State Center's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (C) through (G) to be significant deficiencies.

Compliance and Other Matters

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

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


The City of State Center's Responses to the Findings


The City of State Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of State Center's responses 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 State Center 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

June 11, 2015

City of State Center
 Schedule of Findings
 Year ended June 30, 2014

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over the following areas:

	Applicable Offices
(1) Receipts – collecting, depositing, journalizing, posting and reconciling.	City, Library, Rose Garden and Fire Department
(2) Disbursements – check writing, signing, posting and reconciling.	City, Library, Rose Garden and Fire Department
(3) Payroll – check writing, signing and distributing.	City and Library
(4) Investments – custody and accounting.	City and Library
(5) Bank account reconciliations and control over petty cash.	City, Library, Rose Garden and Fire Department
(6) Accounting procedures manual.	Library, Rose Garden and Fire Department

In addition, an independent person does not enter payroll and utility rates and the review and approval of rates is not documented.

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. Utility and payroll rates should be reviewed and approved by an independent person.

Responses –

City – The Deputy Clerk enters Utility Rates which are verified by the City Clerk. We will also have those rates verified by an independent person. The payroll rates are entered by the City Clerk and verified by the Deputy Clerk. We will also have the payroll rates verified by an independent person. We will have an independent person randomly review our receipts, disbursements, payroll, bank account reconciliations and investments. The City has hired an independent person to review and verify monthly reports.

Library – The Library will have the Board review and sign off on receipts, disbursements, payroll and investments during the monthly Board Meeting.

Rose Garden – We will have the City Clerk randomly review our receipts, disbursements, payroll, bank account reconciliations and investments.

City of State Center

Schedule of Findings

Year ended June 30, 2014

Fire Department – All Fire Department receipts are collected by the Fire Chief, Assistant Chiefs, or any department member. The Treasurer then makes a deposit which is reported at two monthly meetings. Thank you's and receipts for donations are then passed to another department member for processing. Disbursements are approved by the Fire Chief and given to the Treasurer for payment and delivery. Bank account reconciliations are done by the Fire Chief and Assistant Chief, not the Treasurer. Petty cash is reported monthly by the Treasurer to all department members present at two different monthly meetings. Standard accounting practices are used for all receipts and disbursements. The Treasurer keeps track with an Excel spreadsheet. The Fire Chief and Assistant Chief input all transactions into a QuickBooks program for a double check of all accounting and reconciliation.

Conclusions –

City – Response acknowledged. Approval of rates should be documented by the signature or initials of the reviewer and the date of the review.

Library – Response accepted.

Rose Garden – Response accepted.

Fire Department – Response acknowledged. To provide better control over receipts, receipts should be collected by a minimal number of people. Also, bank reconciliations should be performed by someone who does not handle cash receipts or disbursements. Additionally, bank reconciliations should be printed from the software, reconciled to the bank statements and independently reviewed. The independent reviewer should document the review by signing or initialing and dating the monthly reconciliations.

- (B) Fire Department and First Responders Receipts – The Fire Department and First Responders do not issue prenumbered receipts for collections.

Recommendation – Prenumbered receipts should be issued for all collections.

Response – The Fire Department and First Responders will use prenumbered receipts.

Conclusion – Response accepted.

- (C) Information Systems – The City does not have written policies for password privacy, usage of the internet and a disaster recovery plan.

In addition, the City does not require backup tapes to be stored off site.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer-based systems. Back up tapes should be stored off site.

Response – The City will put written policies in place for password privacy as well as finding offsite storage for our backups.

Conclusion – Response accepted.

City of State Center
Schedule of Findings
Year ended June 30, 2014

- (D) Investments – Although the City maintained a spreadsheet prepared from investment statements to document the Kauffman and Gutekunst mutual fund investments on a fair market value and cost basis, the reported investments did not agree with the cost basis support.

Recommendation – The Kauffman and Gutekunst investments should be recorded on a cost basis for proper reporting.

Response – The City will maintain investments on a cost basis from now on.

Conclusion – Response accepted.

- (E) Clothing Allowances – Clothing allowances are paid to City employees. The reimbursements were not paid through payroll and, accordingly, the proper tax withholdings were not applied to the reimbursements.

Recommendation – The City should ensure clothing allowances are processed through payroll and proper tax withholdings are made on the reimbursements.

Response – The City will consult the IRS on this matter and will provide reimbursement to the employee in a proper manner.

Conclusion – Response accepted.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reviewed by an independent person.

Recommendation – Procedures should be established to have an independent person or a Council member review the reconciliation and monitor delinquent accounts each month. The review of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review.

Response – The City has hired an independent person to review and verify monthly reports, including the utility reconciliation.

Conclusion – Response accepted.

- (G) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. Approvals should be documented by signing or initialing and dating the journal entries.

Response – The City hired an independent person to review bank reconciliations and cash adjustment journal entries.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of State Center

Schedule of Findings

Year ended June 30, 2014

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the general government and capital projects 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 sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Budget amendments will be made in the future before disbursements are made.

Conclusion – Response accepted.

- (2) Questionable Disbursements –A disbursement 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 was noted. The disbursement is detailed as follows:

Paid to	Purpose	Amount
Cherry Darling Cakes	Cakes for retirement party	\$ 60

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 this disbursement 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 – The City will create a written policy.

Conclusion – Response acknowledged. The City should also determine and document the public purpose served by this disbursement.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jeff Robinson, City employee, owner of JR Lawn Services	Mowing	\$ 690

City of State Center

Schedule of Findings

Year ended June 30, 2014

In accordance with Chapter 362.5(8) of the Code of Iowa, the transaction does not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the fiscal year.

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

Although minutes of City Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes as required.

Response – Minutes will be published as required.

Conclusion – Response accepted.

- (7) Deposits and Investments – Except the City has not adopted a written investment policy in accordance with Chapter 12B.10B of the Code of Iowa, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.

Recommendation – The City Council should adopt an investment policy as required.

Response – The City Council will adopt an investment policy in accordance with Chapter 12B.10B of the Code of Iowa.

Conclusion – Response accepted.

- (8) Revenue Bonds – The sewer revenue bond provisions require sufficient monthly transfers be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due. The City has not established the required sinking account as required by the sewer revenue bond provisions.

Recommendation – The City should establish the required sinking account and make sufficient monthly transfers to the sinking account for the purpose of making the bond principal and interest payments when due.

Response – The City will establish the required sinking account.

Conclusion – Response accepted.

City of State Center

Schedule of Findings

Year ended June 30, 2014

- (9) Annual Urban Renewal Report – The Annual Urban Renewal Report was not properly approved and certified to the Iowa Department of Management on or before December 1.

Recommendation – The City should ensure the Annual Urban Renewal Report is certified on or before December 1.

Response – The Annual Urban Renewal Report will be filed in a timely fashion.

Conclusion – Response accepted.

- (10) Annual Financial Report – The City did not complete and file its Annual Financial Report by December 1 as required by Chapter 384.22 of the Code of Iowa.

Recommendation – The City should publish and file the Annual Financial Report as required by Chapter 384.22 of the Code of Iowa.

Response – The Annual Financial Report will be published as required.

Conclusion – Response accepted.

- (11) Financial Condition – The Capital Projects Fund had a deficit balance of \$244,240 at June 30, 2014.

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

Response – The deficit will be investigated and eliminated through transfers from other available funds and local option sales tax collections.

Conclusion – Response accepted.

- (12) Financial Reporting – During the audit, we identified material amounts of receipts and disbursements for a sewer project recorded in the Capital Projects Fund instead of the Enterprise, Sewer Fund. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

Recommendation – The City should implement procedures to ensure receipts and disbursements are properly recorded in the City's financial records and in the Annual Financial Report.

Response – From now on, the City will set up proprietary capital projects under the specific proprietary fund.

Conclusion – Response accepted.

City of State Center

Schedule of Findings

Year ended June 30, 2014

- (13) Public Notice – The City published notice accepting bids on a Home Oil Project. The notice was published the day following the deadline for submitting bids. Multiple bids were received and the contract was awarded to the lowest bidder.

Recommendation – The City should ensure public notice is published not less than four days and not more than forty-five days before the date for filing bids as required by Chapter 26.3 of the Code of Iowa.

Response – Public notices will be published timely for bidding of all projects.


Conclusion – Response accepted.

City of State Center

Staff

This audit was performed by:

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Miranda A. Shipman, Staff Auditor
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