



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

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Auditor of State

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NEWS RELEASE

FOR RELEASE

July 13, 2016

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

The City's receipts totaled \$955,366 for the year ended June 30, 2015. The receipts included \$119,728 in property tax, \$66,043 from local option sales tax, \$280,971 from charges for service, \$109,874 from operating grants, contributions and restricted interest, \$343,534 from capital grants, contributions and restricted interest, \$3,893 from unrestricted interest on investments, \$5,219 from commercial/industrial tax replacement and \$26,104 from other general receipts.

Disbursements for the year ended June 30, 2015 totaled \$1,364,154, and included \$374,923 for capital projects, \$132,720 for public works and \$97,177 for public safety. Also, disbursements for business type activities totaled \$634,280.

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 <https://auditor.iowa.gov/reports/1521-0075-B00F>.

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

JUNE 30, 2015

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City of Hazleton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gerald VandeVorde	Mayor	Jan 2016
Justin Duffy	Mayor Pro tem	Jan 2018
Josh Hershey	Council Member	(Resigned Dec 2014)
Amy Ekstrand (Elected Mar 2015)	Council Member	Jan 2016
Daniel Gerstenberger	Council Member	Jan 2018
Elizabeth Miller	Council Member	Jan 2018
Milo Albert	Council Member	(Resigned May 2015)
Christopher Hayzlett (Appointed Jun 2015)	Council Member	Nov 2015
Lisa Baych	City Clerk/Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite

City of Hazelton



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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 Hazleton, Iowa, as of and for the year ended June 30, 2015, 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 as of July 1, 2014.

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, 2014, 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 Hazleton as of June 30, 2015, 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 discussed 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.

Emphasis of a Matter

As discussed in Note 4, the City of Hazleton adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. 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 Hazleton's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 26 through 33, 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 17, 2016 on our consideration of the City of Hazleton'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 Hazleton's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 17, 2016

City of Hazleton

Basic Financial Statements

City of Hazleton

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2015

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 97,177	285	24,296	-
Public works	132,720	62,175	85,578	-
Culture and recreation	34,277	-	-	-
Community and economic development	33,119	-	-	-
General government	57,658	4,432	-	-
Capital projects	374,923	-	-	116,945
Total governmental activities	729,874	66,892	109,874	116,945
Business type activities:				
Water	85,617	111,796	-	-
Sewer	548,663	102,283	-	226,589
Total business type activities	634,280	214,079	-	226,589
Total	\$ 1,364,154	280,971	109,874	343,534
General Receipts and Transfers:				
Property tax levied for general purposes				
Local option sales tax				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Miscellaneous				
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 for:				
Streets				
Employee benefits				
Disaster grants				
Capital projects				
Debt service				
Other purposes				
Unassigned				
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
(72,596)	-	(72,596)
15,033	-	15,033
(34,277)	-	(34,277)
(33,119)	-	(33,119)
(53,226)	-	(53,226)
(257,978)	-	(257,978)
(436,163)	-	(436,163)
-	26,179	26,179
-	(219,791)	(219,791)
-	(193,612)	(193,612)
(436,163)	(193,612)	(629,775)
119,728	-	119,728
-	66,043	66,043
5,219	-	5,219
2,071	1,822	3,893
26,104	-	26,104
153,122	67,865	220,987
(283,041)	(125,747)	(408,788)
174,700	936,907	1,111,607
\$ (108,341)	811,160	702,819
\$ 13,154	-	13,154
58,415	-	58,415
66,609	-	66,609
-	455,391	455,391
8,695	3,321	12,016
4,890	-	4,890
(260,104)	352,448	92,344
\$ (108,341)	811,160	702,819

City of Hazleton

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

As of and for the year ended June 30, 2015

	General	Special Revenue Road Use Tax
Receipts:		
Property tax	\$ 119,446	-
Licenses and permits	4,432	-
Use of money and property	4,522	-
Intergovernmental	10,074	85,577
Charges for service	59,725	-
Miscellaneous	4,233	-
Total receipts	<u>202,432</u>	<u>85,577</u>
Disbursements:		
Operating:		
Public safety	56,702	-
Public works	60,269	63,074
Culture and recreation	34,277	-
Community and economic development	33,119	-
General government	53,013	-
Capital projects	-	-
Total disbursements	<u>237,380</u>	<u>63,074</u>
Excess (deficiency) of receipts over (under) disbursements	(34,948)	22,503
Cash balances beginning of year	123,386	(9,349)
Cash balances end of year	<u>\$ 88,438</u>	<u>13,154</u>
Cash Basis Fund Balances		
Restricted for:		
Streets	\$ -	13,154
Employee benefits	-	-
Disaster grants	-	-
Debt service	-	-
Other purposes	-	-
Unassigned	88,438	-
Total cash basis fund balances	<u>\$ 88,438</u>	<u>13,154</u>

See notes to financial statements.

Capital		
Projects	Nonmajor	Total
-	282	119,728
-	-	4,432
-	-	4,522
16,945	-	112,596
-	-	59,725
122,300	19,297	145,830
139,245	19,579	446,833
-	40,475	97,177
-	9,377	132,720
-	-	34,277
-	-	33,119
-	4,645	57,658
374,923	-	374,923
374,923	54,497	729,874
(235,678)	(34,918)	(283,041)
(112,864)	173,527	174,700
(348,542)	138,609	(108,341)
-	-	13,154
-	58,415	58,415
-	66,609	66,609
-	8,695	8,695
-	4,890	4,890
(348,542)	-	(260,104)
(348,542)	138,609	(108,341)

City of Hazelton

City of Hazleton

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

As of and for the year ended June 30, 2015

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 111,229	102,283	213,512
Miscellaneous	567	-	567
Total operating receipts	111,796	102,283	214,079
Operating disbursements:			
Business type activities	85,617	68,756	154,373
Excess of operating receipts over operating disbursements	26,179	33,527	59,706
Non-operating receipts (disbursements):			
Local option sales tax	33,021	33,022	66,043
Interest on investments	678	1,144	1,822
Capital grants	-	226,589	226,589
Capital projects	-	(441,343)	(441,343)
Debt service	-	(38,564)	(38,564)
Net non-operating receipts (disbursements)	33,699	(219,152)	(185,453)
Excess (deficiency) of receipts over (under) disbursements	59,878	(185,625)	(125,747)
Cash balances beginning of year	560,758	376,149	936,907
Cash balances end of year	\$ 620,636	190,524	811,160
Cash Basis Fund Balances			
Restricted for:			
Capital projects	356,371	99,020	455,391
Debt service	-	3,321	3,321
Unrestricted	264,265	88,183	352,448
Total cash basis fund balances	\$ 620,636	190,524	811,160

See notes to financial statements.

City of Hazleton

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

The City of Hazleton is a political subdivision of the State of Iowa located in Sample County. It was first incorporated in 1902 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Hazleton 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 Hazleton (the primary government) 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 following component unit is legally separate from the City, but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate fund.

The Hazleton Fire Association (Association) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting the Hazleton Fire Department. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue 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: Buchanan County Assessor's Conference Board, Buchanan County Emergency Management Commission and Buchanan 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:

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

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

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

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

The City reports the following major governmental funds:

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

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

The Capital Projects Fund is used to account for the receipts and disbursements associated with the construction of the fire station during fiscal years 2014 and 2015 and other capital assets.

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 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 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:

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Bonds Payable

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

Year Ending June 30,	Principal	Interest	Total
2016	\$ 37,000	2,853	39,853
2017	40,000	2,205	42,205
2018	42,000	1,505	43,505
2019	44,000	707	44,707
Total	<u>\$ 163,000</u>	<u>7,270</u>	<u>170,270</u>

Sewer Revenue Bonds

On October 19, 1998, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of sewer revenue bonds of up to \$618,000 with interest at 3.0% per annum. Effective June 1, 2013, the interest rate was reduced to 1.75% per annum. The agreement also requires the City to annually pay a 0.25% 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 constructing improvements and extensions to the sewage treatment facilities.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through December 2018. Annual principal and interest payments on the bonds are expected to require less than 115% of net receipts. The total principal and interest paid and total customer net receipts were \$38,564 and \$33,527, 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 sewer revenue bond sinking accounts within the Enterprise Funds 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 receipts 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 made the required transfers to the sinking accounts and did not maintain net receipts of at least 110% of the amount of principal and interest on the bonds falling due in the same year.

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2015 totaled \$8,462.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability was \$63,485 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.000016%, which was an increase of 0.000227% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$4,752, \$3,492 and \$(24,211), respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31%
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 119,953	63,485	15,820

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) 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 3 active members in the plan.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. 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 \$603 for single coverage and \$1,111 for family coverage. For the year ended June 30, 2015, the City contributed \$13,720 and plan members eligible for benefits contributed \$5,379 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time 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 and comp time payable to employees at June 30, 2015, primarily relating to the General, Water and Sewer Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 4,800
Comp Time	<u>10,600</u>
Total	<u>\$ 15,400</u>

This liability has been computed based on rates of pay in effect at June 30, 2015.

(7) 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.

(8) Deficit Balance

The Capital Projects Fund had a deficit balance of \$348,542 at June 30, 2015. The deficit balance was the result of project costs incurred and the City is investigating alternatives to eliminate the deficit.

Other Information

City of Hazleton
 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, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total
Receipts:				
Property tax	\$ 119,728	-	-	119,728
Other city tax	-	66,043	-	66,043
Licenses and permits	4,432	-	-	4,432
Use of money and property	4,522	1,822	-	6,344
Intergovernmental	112,596	226,589	-	339,185
Charges for service	59,725	213,512	-	273,237
Miscellaneous	145,830	567	19,297	127,100
Total receipts	446,833	508,533	19,297	936,069
Disbursements:				
Public safety	97,177	-	37,861	59,316
Public works	132,720	-	-	132,720
Culture and recreation	34,277	-	-	34,277
Community and economic development	33,119	-	-	33,119
General government	57,658	-	-	57,658
Capital projects	374,923	-	-	374,923
Business type activities	-	639,280	-	639,280
Total disbursements	729,874	639,280	37,861	1,331,293
Excess (deficiency) of receipts over (under) disbursements	(283,041)	(130,747)	(18,564)	(395,224)
Other financing sources, net	-	5,000	-	5,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(283,041)	(125,747)	(18,564)	(390,224)
Balances beginning of year	174,700	936,907	23,454	1,088,153
Balances end of year	\$ (108,341)	811,160	4,890	697,929

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
115,793	115,793	3,935
4,414	4,414	61,629
4,300	4,300	132
8,000	8,000	(1,656)
522,390	522,390	(183,205)
280,150	280,150	(6,913)
66,248	66,248	60,852
1,001,295	1,001,295	(65,226)
59,689	59,689	373
134,691	134,691	1,971
34,310	34,310	33
100,200	100,200	67,081
59,090	59,090	1,432
200,000	375,000	77
659,205	659,205	19,925
1,247,185	1,422,185	90,892
(245,890)	(420,890)	25,666
250,000	250,000	(245,000)
4,110	(170,890)	(219,334)
1,242,203	1,242,203	(154,050)
1,246,313	1,071,313	(373,384)

City of Hazleton

Notes to Other Information – Budgetary Reporting

June 30, 2015

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 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 \$175,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements did not exceed the amounts.

City of Hazleton

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
Last Fiscal Year*
(In Thousands)

Other Information

	<u>2015</u>
City's proportion of the net pension liability	0.000016%
City's proportionate share of the net pension liability	\$ 63
City's covered-employee payroll	\$ 105
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.00%
IPERS net position as a percentage of the total pension liability	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Hazleton

Schedule of City Contributions

Iowa Public Employees' Retirement System
Last Seven Fiscal Years
(In Thousands)

Other Information

	2015	2014	2013	2012
Statutorily required contribution	\$ 8	9	8	9
Contributions in relation to the statutorily required contribution	(8)	(9)	(8)	(9)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 95	105	90	113
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%

See accompanying independent auditor's report.

GASB Statement No. 68 requires ten years of information be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

2011	2010	2009
7	7	6
(7)	(7)	(6)
-	-	-
107	102	98
6.95%	6.65%	6.35%

City of Hazleton

Notes to Other Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs, deputies and protection occupation members.

City of Hazleton

Supplementary Information

City of Hazleton

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

As of and for the year ended June 30, 2015

	Special Revenue		
	Employee Benefits	Disaster Grants	Hazleton Fire Association
Receipts:			
Property tax	\$ 282	-	-
Miscellaneous	-	-	19,297
Total receipts	282	-	19,297
Disbursements:			
Operating:			
Public safety	2,614	-	37,861
Public works	9,377	-	-
General government	4,645	-	-
Total disbursements	16,636	-	37,861
Change in cash balances	(16,354)	-	(18,564)
Cash balances beginning of year	74,769	66,609	23,454
Cash balances end of year	\$ 58,415	66,609	4,890
Cash Basis Fund Balances			
Restricted for:			
Employee benefits	\$ 58,415	-	-
Disaster grants	-	66,609	-
Debt service	-	-	-
Other puposes	-	-	4,890
Total cash basis fund balances	\$ 58,415	66,609	4,890

See accompanying independent auditor's report.

Debt Service	Total
-	282
-	19,297
-	19,579
-	40,475
-	9,377
-	4,645
-	54,497
-	(34,918)
8,695	173,527
8,695	138,609
-	58,415
-	66,609
8,695	8,695
-	4,890
8,695	138,609

City of Hazleton
Schedule of Indebtedness
Year ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue bonds:			
Sewer	Oct. 19, 1998	1.75%	* <u>\$ 618,000</u>

* The agreement also requires the City to annually pay a 0.25% 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	Interest Due and Unpaid
198,000	-	35,000	163,000	3,564	-

Schedule 3

City of Hazleton

Bond Maturities

June 30, 2015

Year Ending June 30,	Revenue Bonds				
	Sewer		Sewer		Total
	Issued 10/19/1998	Issued 10/19/1998	Issued 10/19/1998	Issued 10/19/1998	
Interest	Interest	Interest	Interest	Interest	
Rates	Amount	Rates	Amount	Amount	
2016	1.75%	\$ 26,000	1.75%	\$ 11,000	37,000
2017	1.75	28,000	1.75	12,000	40,000
2018	1.75	29,000	1.75	13,000	42,000
2019	1.75	30,000	1.75	14,000	44,000
Total		<u>\$ 113,000</u>		<u>\$ 50,000</u>	<u>163,000</u>

See accompanying independent auditor's report.



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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 Hazleton, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2016. Our report expressed modified 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, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hazleton'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 Hazleton's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hazleton'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 a deficiency we consider to be a significant deficiency.

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 Hazleton's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies 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 deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hazleton'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, 2015 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 Hazleton's Responses to the Findings

The City of Hazleton's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Hazleton'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 Hazleton 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 17, 2016

City of Hazleton

City of Hazleton

Schedule of Findings

Year ended June 30, 2015

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. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas:

- (1) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Investments – detailed record keeping and reconciling earnings.
- (3) Long-term debt – recording and reconciling
- (4) Receipts – collecting, depositing, journalizing and posting.
- (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (6) Disbursements – purchasing, check signing, recording and reconciling.
- (7) Payroll – preparing and distributing.
- (8) Financial reporting – preparing, reconciling and distributing.
- (9) Accounting system – performing all general accounting function and having custody of City assets.
- (10) Information system (computer usage) – performing all general accounting functions a controlling all data input and output.

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

Response – We will utilize resources available to obtain the maximum internal control, including date and initials of financial reviewer. The current policy is being reviewed and this will be added to the policy.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not retained. Also, utility collections were not reconciled to deposits. 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.

City of Hazleton

Schedule of Findings

Year ended June 30, 2015

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

Response – In addition to the current reconciliation being performed, the City will reconcile the utility billing summary and the receivable audit reports and have the Financial Committee date and initial reconciliation and monitor delinquent accounts.

Conclusion – Response accepted.

- (C) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support 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 the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The City will adopt a formal written policy regulating the use of City Credit Cards by resolution.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Hazleton

Schedule of Findings

Year ended June 30, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2015 did not exceed the amounts budgeted in any function.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – There were no business transactions between the City and City officials or employees.
- (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 Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) 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.
- (8) Revenue Bonds – Section 8 of the sewer revenue bond resolution requires sewer rates be established which are sufficient to produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the revenue bond and any other obligations secured by a pledge of the net receipts falling due in the same year. During fiscal year 2015, net receipts in the Enterprise, Sewer Fund were \$33,527 while principal and interest payments were \$38,564. In addition, the City has not made the required monthly transfers to the sinking accounts.

Recommendation – The City should ensure net operating receipts for the Enterprise, Sewer Fund are sufficient to make required debt service payments and comply with the sewer revenue bond resolution. In addition, the City should make the required monthly transfers to the sinking accounts.

Response – The City will ensure future net operating receipts are sufficient to comply with the sewer revenue bond resolution. In addition, the City will make monthly transfers to the sinking accounts.

Conclusion – Response accepted.

City of Hazleton

Schedule of Findings

Year ended June 30, 2015

- (9) Financial Condition – The Capital Projects Fund had a deficit balance of \$348,542 at June 30, 2015.

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

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

Conclusion – Response accepted.

- (10) Annual Urban Renewal Report – The City is not required to file an Annual Urban Renewal R12

- (11) report at this time.

City of Hazleton

Staff

This audit was performed by:

Deb Moser, CPA, Manager
Kelly L. Hilton, Senior Auditor
Kristin Finke, Assistant Auditor
Sidot Shipley, 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