



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

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**NEWS RELEASE**

FOR RELEASE

May 15, 2017

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$1,029,458 for the year ended June 30, 2016, a 54.5% decrease from the prior year. The receipts included \$242,530 in property tax, \$79,905 from tax increment financing, \$317,856 from charges for service, \$238,785 from operating grants, contributions and restricted interest, \$111,897 from local option sales tax, \$5,558 from unrestricted interest on investments and other general receipts of \$32,927.

Disbursements for the year ended June 30, 2016 totaled \$1,109,340, a 46.3% decrease from the prior year, and included \$210,277 for public works, \$172,203 for debt service and \$171,293 for public safety. Also, disbursements for business type activities totaled \$278,527.

The significant decrease in receipts and disbursements was primarily the result of general obligation note proceeds received and disbursed during fiscal year 2015 for a street project.

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/1621-0814-B00F>.

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

**JUNE 30, 2016**

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**City of Colo**

**Officials**

**(Before January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Wilson	Mayor	Jan 2016
Rod Geisinger	Council Member	Jan 2016
Earl Otto	Council Member	Nov 2015
Paul Conrad	Council Member	Jan 2018
Larry Milleson	Council Member	(Resigned June 2016)
Diane Nichols	Council Member	Jan 2018
Amy Kohlwes	City Clerk/Treasurer	Indefinite
Dario Zaffrano	Attorney	Indefinite

**(After January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Wilson	Mayor	Jan 2020
Paul Conrad	Council Member	Jan 2018
Diane Nichols	Council Member	Jan 2018
Ben Spalding (Appointed Jul 2016)	Council Member	Nov 2017
Rod Geisinger	Council Member	Jan 2020
Earl Otto	Council Member	Jan 2020
Amy Kohlwes	City Clerk/Treasurer	Indefinite
Dario Zaffrano	Attorney	Indefinite

**City of Colo**



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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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Colo, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Colo as of June 30, 2016, 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.

## 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 Colo's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 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, 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 9 through 14 and 34 through 40, 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 March 31, 2017 on our consideration of the City of Colo'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 Colo's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA  
Auditor of State

March 31, 2017

**City of Colo**

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

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The City of Colo 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, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2016 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 63.3%, or approximately \$1,228,000, from fiscal year 2015 to fiscal year 2016. Note proceeds decreased approximately \$1,235,000.
- Disbursements of the City's governmental activities decreased 54.1%, or approximately \$979,000, in fiscal year 2016 from fiscal year 2015. Public works disbursements decreased approximately \$1,027,000 and public safety and culture and recreation disbursements increased \$17,000 and \$15,000, respectively.
- The City's total cash basis net position decreased 5.3%, or approximately \$80,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities decreased approximately \$107,000 and the cash basis net position of the business type activities increased approximately \$27,000.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about 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 presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Solid Waste Funds, considered to be major funds of the City.

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

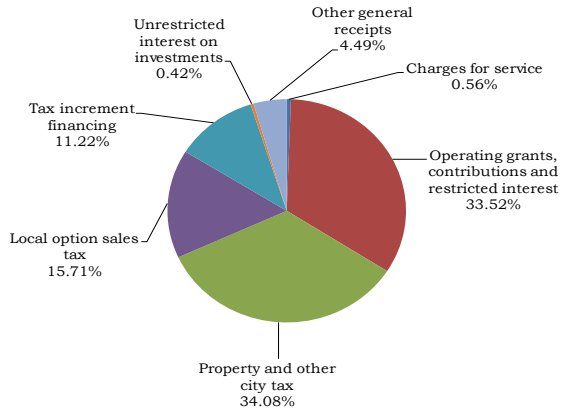
## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$1.205 million to approximately \$1.098 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

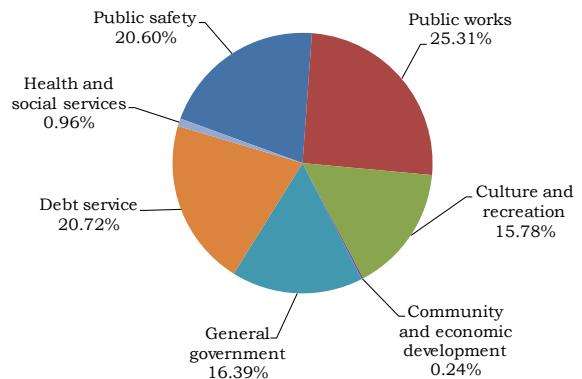
Changes in Cash Basis Net Position of Governmental Activities  
(Expressed in Thousands)

	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 4	15
Operating grants, contributions and restricted interest	239	193
General receipts:		
Property and other city tax	243	211
Local option sales tax	112	113
Tax increment financing	80	150
Unrestricted interest on investments	3	6
Note proceeds	-	1,235
Other general receipts	32	18
Total receipts	<u>713</u>	<u>1,941</u>
Disbursements:		
Operating:		
Public safety	171	154
Public works	210	1,237
Health and social services	8	8
Culture and recreation	131	116
Community and economic development	2	2
General government	136	142
Debt service	172	150
Total disbursements	<u>830</u>	<u>1,809</u>
Change in cash basis net position before transfers	(117)	132
Transfers, net	10	10
Change in cash basis net position	<u>(107)</u>	<u>142</u>
Cash basis net position beginning of year	1,205	1,063
Cash basis net position end of year	<u>\$ 1,098</u>	<u>1,205</u>

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities decreased 63.3%, or approximately \$1,228,000. The total cost of all programs and services decreased approximately \$979,000, or 54.1%. The significant decrease in receipts and disbursements was primarily the result of general obligation note proceeds received and disbursed during fiscal year 2015 for a street project. No such proceeds or disbursements occurring in fiscal year 2016.

The cost of all governmental activities this year was approximately \$830,000 compared to approximately \$1.809 million last year. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$588,000 because some of the cost was paid by those directly benefited from the programs (approximately \$4,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$239,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$470,000 million of tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 139	148
Sewer	96	97
Solid waste	78	76
General receipts:		
Unrestricted interest on investments	2	1
Total receipts	<u>315</u>	<u>322</u>
Disbursements:		
Water	137	137
Sewer	58	43
Solid waste	83	75
Total disbursements	<u>278</u>	<u>255</u>
Change in cash basis net position before transfers	37	67
Transfers, net	<u>(10)</u>	<u>(10)</u>
Change in cash basis net position	27	57
Cash basis net position beginning of year	316	259
Cash basis net position end of year	<u>\$ 343</u>	<u>316</u>

Total business type activities receipts for the fiscal year were approximately \$315,000 compared to approximately \$322,000 last year. Total disbursements for the fiscal year increased 9.0% to approximately \$278,000. The increase in disbursements was due primarily to the increase in operating disbursements for sewer and solid waste in fiscal year 2016. The cash balance increased approximately \$27,000 over the prior year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Colo completed the year, its governmental funds reported a combined fund balance of \$1,098,319, a decrease of approximately \$107,000 from last year's total of \$1,205,292. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$12,199 from the prior year to \$1,097,607. Public works disbursements decreased approximately \$1,031,000 during the year due to the use of note proceeds for street improvements in fiscal year 2015.
- The Special Revenue, Road Use Tax Fund cash balance increased \$10,037 to \$14,364. Road use tax receipts increased approximately \$17,000, or 18.8%, over the prior year while disbursements remained consistent when compared to the prior year.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$92,097 to a negative cash balance of \$(46,548). The decrease is due to the City making required debt principal and interest payments without adequate TIF resources.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$242 to \$26,330.
- The Debt Service Fund cash balance decreased \$201 to \$2,158.

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

- The Enterprise, Water Fund cash balance decreased \$3,204 to \$196,607. Receipts and disbursements remained consistent when compared to the prior year.
- The Enterprise, Sewer Fund cash balance increased \$34,677 to \$142,053, due primarily to a reduction in capital outlay disbursements and lower scheduled debt service payments in fiscal year 2016.
- The Enterprise, Solid Waste Fund cash balance decreased \$4,382 to \$3,955, primarily due to an increase in solid waste operating disbursements in fiscal year 2016.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on June 6, 2016, and resulted in an increase in operating disbursements.

The City's receipts were \$106,238 more than budgeted. This was primarily due to the City receiving more in intergovernmental receipts than anticipated.

Even with the budget amendments, total disbursements were \$20,975 more than the amended budget. Actual disbursements for the culture and recreation, community and economic development and business type activities functions were \$12,148, \$643 and \$77,549, respectively, less than amended budgeted. This was primarily due to the City purchasing fewer supplies than originally planned and delaying equipment purchases.

The City's disbursements exceeded the amounts budgeted in the public safety, public works, general government and debt service functions at June 30, 2016, primarily due to the City not budgeting for fire department disbursements, additional professional fees for public works, higher salaries than originally budgeted in the general government function and more principal and interest paid from the debt service function than originally budgeted.

## DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$1,746,000 of notes outstanding, compared to \$1,868,000 last year, as shown below.

Outstanding Debt at Year-End Expressed in Thousands		
	June 30,	
	2016	2015
General obligation capital loan notes	\$ 1,275,000	1,390,000
Revenue notes	471,000	478,000
Total	\$ 1,746,000	1,868,000

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 of \$1,275,000 is below its constitutional debt limit of approximately \$1.9 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

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

The City of Colo's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget. The City had a valuation decrease of \$5,125,974 for fiscal year 2017.

Amounts levied in fiscal year 2017 for property tax totaled \$206,630, a decrease of \$35,900 from fiscal year 2016.

Fiscal year 2017 budgeted disbursements are approximately \$109,000 more than the fiscal year 2016 budgeted disbursements.

If these estimates are realized, the City's budgetary operating balance is expected to decrease by the close of fiscal year 2017.

## 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 Amy Kohlwes, City Clerk, 101 Main Street, Colo, Iowa 50056.



## **Basic Financial Statements**

City of Colo

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>			
<b>Primary Government:</b>			
Governmental activities:			
Public safety	\$ 171,293	-	67,571
Public works	210,277	-	108,255
Health and social services	8,133	-	-
Culture and recreation	131,262	2,719	62,959
Community and economic development	1,500	-	-
General government	136,145	1,490	-
Debt service	172,203	-	-
Total governmental activities	830,813	4,209	238,785
Business type activities:			
Water	137,254	138,976	-
Sewer	58,028	95,808	-
Solid waste	83,245	78,863	-
Total business type activities	278,527	313,647	-
<b>Total Primary Government</b>	<b>\$ 1,109,340</b>	<b>317,856</b>	<b>238,785</b>
<b>Component Unit:</b>			
Colo Volunteer Firefighters Association	\$ 3,254		16,574
<b>General Receipts and Transfers:</b>			
Property and other city tax levied for general purposes			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
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			
<b>Cash Basis Net Position</b>			
Restricted:			
Streets			
Debt service			
Cemetary			
Library			
Recreation			
Other purposes			
Unrestricted			
<b>Total cash basis net position</b>			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Governmental Activities	Business Type Activities	Total	Colo Volunteer Firefighters Association
(103,722)	-	(103,722)	
(102,022)	-	(102,022)	
(8,133)	-	(8,133)	
(65,584)	-	(65,584)	
(1,500)	-	(1,500)	
(134,655)	-	(134,655)	
(172,203)	-	(172,203)	
(587,819)	-	(587,819)	
-	1,722	1,722	
-	37,780	37,780	
-	(4,382)	(4,382)	
-	35,120	35,120	
(587,819)	35,120	(552,699)	
			13,320
242,530	-	242,530	-
79,905	-	79,905	-
111,897	-	111,897	-
3,585	1,973	5,558	-
32,927	-	32,927	-
10,002	(10,002)	-	-
480,846	(8,029)	472,817	-
(106,973)	27,091	(79,882)	13,320
1,205,292	315,524	1,520,816	-
\$ 1,098,319	342,615	1,440,934	13,320
\$ 14,364	-	14,364	-
2,158	37,870	40,028	-
335,620	-	335,620	-
287,879	-	287,879	-
20,278	-	20,278	-
30,738	-	30,738	13,200
407,282	304,745	712,027	-
\$ 1,098,319	342,615	1,440,934	13,200

City of Colo

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

As of and for the year ended June 30, 2016

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 192,528	-	-
Tax increment financing	-	-	79,905
Other city tax	5,086	-	-
Licenses and permits	1,490	-	-
Use of money and property	11,096	-	-
Intergovernmental	113,691	108,255	-
Charges for service	2,719	-	-
Miscellaneous	42,255	-	-
Total receipts	368,865	108,255	79,905
Disbursements:			
Operating:			
Public safety	171,102	-	-
Public works	104,517	98,218	-
Health and social services	8,133	-	-
Culture and recreation	129,938	-	-
Community and economic development	1,500	-	21,957
General government	122,881	-	-
Debt service	-	-	-
Total disbursements	538,071	98,218	21,957
Excess (deficiency) of receipts over (under) disbursements	(169,206)	10,037	57,948
Other financing sources (uses):			
Transfers in	157,007	-	-
Transfers out	-	-	(150,045)
Total other financing sources (uses)	157,007	-	(150,045)
Change in cash balances	(12,199)	10,037	(92,097)
Cash balances beginning of year	1,109,806	4,327	45,549
Cash balances end of year	\$ 1,097,607	14,364	(46,548)
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Streets	\$ -	14,364	-
Debt service	-	-	-
Cemetary	335,620	-	-
Library	287,879	-	-
Recreation	20,278	-	-
Other purposes	-	-	-
Unassigned	453,830	-	(46,548)
Total cash basis fund balances	\$ 1,097,607	14,364	(46,548)

See notes to financial statements.

Local Option Sales Tax	Debt Service	Nonmajor - Employee Benefits	Total
-	-	44,916	237,444
-	-	-	79,905
111,897	-	-	116,983
-	-	-	1,490
-	-	-	11,096
-	-	-	221,946
-	-	-	2,719
-	-	-	42,255
111,897	-	44,916	713,838
-	-	191	171,293
-	-	7,542	210,277
-	-	-	8,133
-	-	1,324	131,262
-	-	-	23,457
-	-	13,264	136,145
-	150,246	-	150,246
-	150,246	22,321	830,813
111,897	(150,246)	22,595	(116,975)
-	150,045	-	307,052
(112,139)	-	(34,866)	(297,050)
(112,139)	150,045	(34,866)	10,002
(242)	(201)	(12,271)	(106,973)
26,572	2,359	16,679	1,205,292
26,330	2,158	4,408	1,098,319
-	-	-	14,364
-	2,158	-	2,158
-	-	-	335,620
-	-	-	287,879
-	-	-	20,278
26,330	-	4,408	30,738
-	-	-	407,282
26,330	2,158	4,408	1,098,319

**City of Colo**

City of Colo

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

As of and for the year ended June 30, 2016

	Enterprise			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 138,581	95,808	78,863	313,252
Operating disbursements:				
Business type activities	108,131	58,028	83,245	249,404
Excess (deficiency) of operating receipts over (under) operating disbursements	30,450	37,780	(4,382)	63,848
Non-operating receipts (disbursements):				
Interest on investments	75	1,898	-	1,973
Miscellaneous	395	-	-	395
Debt service	(29,123)	-	-	(29,123)
Net nonoperating receipts (disbursements)	(28,653)	1,898	-	(26,755)
Excess (deficiency) of receipts over (under) disbursements	1,797	39,678	(4,382)	37,093
Transfers out	(5,001)	(5,001)	-	(10,002)
Change in cash balances	(3,204)	34,677	(4,382)	27,091
Cash balances beginning of year	199,811	107,376	8,337	315,524
Cash balances end of year	\$ 196,607	142,053	3,955	342,615
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 37,870	-	-	37,870
Unrestricted	158,737	142,053	3,955	304,745
Total cash basis fund balances	\$ 196,607	142,053	3,955	342,615

See notes to financial statements.

City of Colo

Notes to Financial Statements

June 30, 2016

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

The City of Colo is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Colo 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 Colo (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational of financial relationship with the City.

Discretely Presented Component Unit

The Colo Volunteer Firefighters Association (Association) has been incorporated under the Iowa Nonprofit Corporation Act to protect human life and property through fighting fires and providing community education in fire prevention and first aid/safety practices. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Association are substantially for the direct benefit of the City of Colo Fire Department.

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: Story County Assessor's Conference Board, Story County Emergency Management Commission and Story County Joint E-911 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.

Special Revenue:

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

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

The Local Option Sales Tax Fund is utilized to account for the receipts from the tax authorized by referendum and used for community betterment and property tax relief.

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 City reports the following major proprietary funds:

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

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

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's solid waste collection program.

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:

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. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, public works, general government and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 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 Statement No. 72.

**(3) Notes Payable**

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

Year Ending June 30,	General Obligation Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 115,000	31,005	9,086	20,037	124,086	51,042
2018	120,000	28,690	9,472	19,651	129,472	48,341
2019	120,000	27,190	9,874	19,249	129,874	46,439
2020	120,000	24,970	10,294	18,829	130,294	43,799
2021	125,000	22,750	10,731	18,392	135,731	41,142
2022-2026	675,000	61,625	60,899	84,716	735,899	146,341
2027-2031	-	-	74,987	60,628	74,987	60,628
2032-2036	-	-	92,335	53,280	92,335	53,280
2037-2041	-	-	113,697	31,918	113,697	31,918
2042-2044	-	-	79,273	6,886	79,273	6,886
Total	\$ 1,275,000	196,230	470,648	333,586	1,745,648	529,816

Revenue Note

The City has pledged future water customer receipts, net of specified operating disbursements, to repay a \$550,000 water revenue note issued in September 2004. Proceeds from the note provided financing for the improvement and extensions to the water distribution system and refunding the City's outstanding \$750,000 water loan note. The note is payable solely from water customer net receipts and is payable through 2044. Annual principal and interest payments on the note are expected to require less than of 96% net receipts. The total principal and interest remaining to be paid on the note is \$804,234. For the current year, principal and interest paid and total customer net receipts were \$29,123 and \$30,450, respectively.

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

- a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making principal and interest payments when due.
- c) Additional monthly transfers shall be made to a water reserve account until a maximum balance of \$29,123 has been accumulated.
- d) An improvement account shall be established and maintained with a minimum amount to be determined between the City and the Lender.
- e) User rates shall be established and charged to customers of the Utility, including the City, at a level sufficient to pay the expenses and operation and maintenance of the utility and to leave a balance of net receipts at a level not less than 120% of the amount of principal and interest on all notes falling due in the next succeeding fiscal year.

At June 30, 2016, the City had not established the required sinking and improvement accounts, the City did not have net operating receipts of 120% of the principal and interest payment and the City does not pay for water usage, as required.

#### General Obligation Notes

In December 2009, the City issued \$790,000 of general obligation capital loan notes for improvements to the City's storm sewer system and for refunding other City indebtedness. The notes bear interest at rates ranging from 1.0% to 3.2% per annum and mature in annual amounts with the final maturity due in the year ending June 30, 2017.

In July 2014, the City issued \$1,250,000 of general obligation capital loan notes for a street improvement project. The notes bear interest at rates ranging from 1.0% to 3.0% per annum and mature in annual amounts with the final maturity due in the year ending June 20, 2026.

#### **(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](http://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 2016, 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, 2016 totaled \$13,866.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City’s reported a liability of \$123,967 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 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, 2015, the City’s proportion was 0.002509%, which was a decrease of 0.000210% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$10,454, \$23,834 and \$28,865, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 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.
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 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
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

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 of 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	\$ 217,043	123,967	45,403

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](http://www.ipers.org).

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation 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 and sick leave payable to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 6,000
Sick leave	14,000
Total	<u>\$ 20,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 112,139
	Employee Benefit	34,866
	Enterprise:	
	Water	5,001
	Sewer	5,001
		<u>157,007</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	150,045
Total		<u>\$ 307,052</u>

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

## **(7) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

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

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$14,587.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.



The City also carries commercial insurance purchased from other insurers for coverage associated with workmen's compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Deficit Balance**

At June 30, 2016, the Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of \$46,548. The deficit balance will be eliminated with future TIF receipts.

**City of Colo**

## **Other Information**

City of Colo

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, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 237,444	-	237,444
Tax increment financing	79,905	-	79,905
Other city tax	116,983	-	116,983
Licenses and permits	1,490	-	1,490
Use of money and property	11,096	1,973	13,069
Intergovernmental	221,946	-	221,946
Charges for service	2,719	313,252	315,971
Miscellaneous	42,255	395	42,650
Total receipts	713,838	315,620	1,029,458
Disbursements:			
Public safety	171,293	-	171,293
Public works	210,277	-	210,277
Health and social services	8,133	-	8,133
Culture and recreation	131,262	-	131,262
Community and economic development	23,457	-	23,457
General government	136,145	-	136,145
Debt service	150,246	-	150,246
Business type activities	-	278,527	278,527
Total disbursements	830,813	278,527	1,109,340
Excess (deficiency) of receipts over (under) disbursements	(116,975)	37,093	(79,882)
Other financing sources (uses), net	10,002	(10,002)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(106,973)	27,091	(79,882)
Balances beginning of year	1,205,292	315,524	1,520,816
Balances end of year	\$ 1,098,319	342,615	1,440,934

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
232,214	232,214	5,230
78,045	78,045	1,860
104,830	104,830	12,153
625	625	865
17,350	17,350	(4,281)
147,623	147,623	74,323
325,543	325,543	(9,572)
16,990	16,990	25,660
923,220	923,220	106,238
104,074	167,974	(3,319)
199,591	199,591	(10,686)
8,133	8,133	-
135,910	143,410	12,148
24,100	24,100	643
116,636	134,036	(2,109)
55,045	55,045	(95,201)
356,076	356,076	77,549
999,565	1,088,365	(20,975)
(76,345)	(165,145)	85,263
-	-	-
(76,345)	(165,145)	85,263
1,278,406	1,278,406	242,410
1,202,061	1,113,261	327,673

City of Colo

Notes to Other Information – Budgetary Reporting

June 30, 2016

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 discretely presented 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 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 \$88,800. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, public works, general government and debt service functions.

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City of Colo

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

Iowa Public Employees' Retirement System  
For the Last Two Years\*  
(In Thousands)

Other Information

	2016	2015
City's proportion of the net pension liability	0.002509%	0.002719%
City's proportionate share of the net pension liability	\$ 124	108
City's covered-employee payroll	\$ 168	179
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	73.81%	60.34%
IPERS' net position as a percentage of the total pension liability	85.19%	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 year.

See accompanying independent auditor's report.

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City of Colo

Schedule of City Contributions

Iowa Public Employees' Retirement System  
For the Last Eight Years  
(In Thousands)

Other Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 14	15	16	15
Contributions in relation to the statutorily required contribution	(14)	(15)	(16)	(15)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 160	168	179	173
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.94%	8.67%

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

See accompanying independent auditor's report.



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2012	2011	2010	2009
13	11	11	10
(13)	(11)	(11)	(10)
-	-	-	-
161	158	165	157
8.07%	6.96%	6.67%	6.37%

City of Colo

Notes to Other Information – Pension Liability

Year ended June 30, 2016

*Changes of benefit terms:*

Legislation enacted in 2010 modified benefit terms for 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.

*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.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- 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 the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

**Supplementary Information**

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City of Colo  
Schedule of Indebtedness  
Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan note series 2009	Dec 22, 2009	1.00-3.20% \$	790,000
Capital loan note series 2014	Jul 15, 2014	1.00-3.00	1,250,000
Revenue note:			
Water revenue note	Sep 28, 2004	4.25% \$	550,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
140,000	-	95,000	45,000	4,730
1,250,000	-	20,000	1,230,000	30,065
\$ 1,390,000	-	115,000	1,275,000	34,795
478,168	-	7,520	470,648	21,603

**Schedule 2**

City of Colo  
 Note Maturities  
 June 30, 2016

Year Ending June 30,	General Obligation Notes						Revenue Note	
	Capital Loan Note Series 2009			Capital Loan Note Series 2014			Water	
	Issued Dec 22, 2009			Issued Jul 15, 2014			Issued Sep 28, 2004	
	Interest Rates	Amount		Interest Rates	Amount	Total	Interest Rates	Amount
2017	3.20%	\$ 45,000	1.25%	\$ 70,000	115,000	4.25%	\$ 9,086	
2018		-	1.25	120,000	120,000	4.25	9,472	
2019		-	1.85	120,000	120,000	4.25	9,874	
2020		-	1.85	120,000	120,000	4.25	10,294	
2021		-	2.50	125,000	125,000	4.25	10,731	
2022		-	2.50	125,000	125,000	4.25	11,188	
2023		-	3.00	130,000	130,000	4.25	11,663	
2024		-	3.00	135,000	135,000	4.25	12,159	
2025		-	3.00	140,000	140,000	4.25	12,675	
2026		-	3.00	145,000	145,000	4.25	13,214	
2027		-		-	-	4.25	13,776	
2028		-		-	-	4.25	14,361	
2029		-		-	-	4.25	14,972	
2030		-		-	-	4.25	15,607	
2031		-		-	-	4.25	16,271	
2032		-		-	-	4.25	16,963	
2033		-		-	-	4.25	17,684	
2034		-		-	-	4.25	18,435	
2035		-		-	-	4.25	19,218	
2036		-		-	-	4.25	20,035	
2037		-		-	-	4.25	20,887	
2038		-		-	-	4.25	21,775	
2039		-		-	-	4.25	22,700	
2040		-		-	-	4.25	23,665	
2041		-		-	-	4.25	24,671	
2042		-		-	-	4.25	25,719	
2043		-		-	-	4.25	26,812	
2044		-		-	-	4.25	26,741	
<b>Total</b>		<u>\$ 45,000</u>		<u>\$ 1,230,000</u>	<u>1,275,000</u>		<u>\$ 470,648</u>	

See accompanying independent auditor's report.

## City of Colo

Schedule of Receipts by Source and Disbursements  
By Function – All Governmental Funds

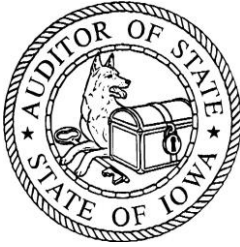
For the Last Three Years

	2016	2015	2014
Receipts:			
Property tax	\$ 237,444	211,191	206,719
Tax increment financing	79,905	150,334	153,734
Other city tax	116,983	117,832	100,495
Licenses and permits	1,490	995	635
Use of money and property	11,096	12,140	7,234
Intergovernmental	221,946	149,915	165,695
Charges for service	2,719	3,089	4,687
Miscellaneous	42,255	60,910	710,898
Total	\$ 713,838	706,406	1,350,097
Disbursements:			
Operating:			
Public safety	\$ 171,293	153,746	120,593
Public works	210,277	1,236,617	154,316
Health and social services	8,133	8,133	10,404
Culture and recreation	131,262	115,713	129,032
Community and economic development	1,500	1,600	19,403
General government	136,145	142,428	126,626
Debt service	172,203	150,361	165,363
Total	\$ 830,813	1,808,598	725,737

See accompanying independent auditor's report.

**City of Colo**





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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Colo, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2017. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Colo'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 Colo's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Colo'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 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 Colo'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) through (E) 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 (F) through (K) to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Colo'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, 2016 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 Colo's Responses to the Findings

The City of Colo's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Colo'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 Colo 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

March 31, 2017

City of Colo

Schedule of Findings

Year ended June 30, 2016

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – One person has control over each of the following areas of the City:

- (1) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.
- (2) Cash and petty cash – reconciling bank accounts and initiating and recording cash receipt and disbursement transactions.
- (3) Investments – investing and recording.
- (4) Long-term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check signing, recording and reconciling.
- (8) Payroll – recordkeeping, preparing and distributing.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting – preparing, reconciling and distributing.
- (11) Journal entries – preparing and journalizing.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of 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, to provide additional control through review of financial transactions, reconciliations and reports.

City of Colo

Schedule of Findings

Year ended June 30, 2016

Response – We will try to segregate more duties.

Conclusion – Response accepted.

(B) Segregation of Duties – Fire Department

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Fire Department's financial statements.

Condition – Generally, one individual has control over collecting, depositing, posting, disbursing and reconciling for the Fire Department for which no compensating controls exist.

Cause – The Fire Department has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Fire Department's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of individuals. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Officials and other current personnel should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be documented by the signature or initials of the reviewer and the date of the review.

Response – The City is discussing these issues with the Fire Department. We will evaluate ways to implement the recommendation.

Conclusion – Response accepted.

(C) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

City of Colo

Schedule of Findings

Year ended June 30, 2016

Condition – During the audit, we identified material amounts of receipts, disbursements and adjustments which were not posted correctly. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

Cause – City policies do not require and procedures have not been established to require independent review of transactions to ensure the City's financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the City's financial statements were necessary.

Recommendation – The City should implement procedures to ensure receipts, disbursements and adjustments are properly recorded in the City's accounting records and financial statements.

Response – The City will implement procedures to ensure this is done properly.

Conclusion – Response accepted.

(D) Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by reconciling bank and book balances.

Condition – The City and the Fire Department do not reconcile book balances to bank and investment account balances. In addition, listings of outstanding checks are not prepared monthly or retained.

Cause – Policies have not been established and procedures have not been implemented to ensure book and bank balances are reconciled monthly.

Effect – Lack of bank to book reconciliations can result in unrecorded transactions, undetected errors and the opportunity for unauthorized transactions.

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared and retained. Variances, if any, should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month and retained. Evidence of reviews of reconciliations should be documented by the signature or initials of the independent reviewer and the date of the review.

Response – Financial accountability is now being done with the preparation of monthly reconciliation by the City and the Fire Department. Outstanding checks are accounted for on a monthly basis.

Conclusion – Response accepted.

City of Colo

Schedule of Findings

Year ended June 30, 2016

(E) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings and reconciling utility billings, collections and delinquent accounts to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – Reconciliations of utility billings, collections and delinquent accounts are not documented for each billing cycle. The City does not retain monthly delinquent utility account listings.

Cause – Policies have not been established and procedures have not been implemented to maintain delinquent account listings or to reconcile utility billings, collections and delinquent accounts.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – The City should retain the monthly delinquent utility account listings. Procedures should be established to document reconciliations of utility billings, collections and delinquent accounts for each billing period. An independent person should review the utility reconciliations and document the review by signing or initialing and dating the reconciliations.

Response – We are now keeping monthly records on delinquent utility listings. The City will continue to work to establish procedures to document reconciliations of utilities billings, collections and delinquent accounts for each billing period.

Conclusion – Response accepted.

(F) Fire Department Receipts and Disbursements

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records, including issuing prenumbered receipts and issuing checks in numerical sequence.

Condition – The Fire Department does not issue prenumbered receipts for all collections and does not issue checks in numerical sequence or account for all checks issued.

Cause – Procedures have not been designed and implemented to ensure prenumbered receipts are issued for all collections, checks are issued in numbered sequence and all checks are accounted for.

Effect – Lack of prenumbered receipts and issuing checks out of sequential order can result in unrecorded or unaccounted for transactions and the opportunity for unauthorized transactions.

City of Colo

Schedule of Findings

Year ended June 30, 2016

Recommendation – The Fire Department should establish procedures to ensure prenumbered receipts are issued for all collections and checks are issued in sequential order and are properly accounted for.

Response – The Fire Department is in the process of establishing procedures to ensure prenumbered receipts are issued for all collections and checks are issued in sequential order and properly accounted for.

Conclusion – Response accepted.

(G) Unsupported Disbursements

Criteria – An effective internal control system provides for internal controls related to ensuring all disbursements are properly supported.

Condition - Invoices for 18 of 67 Fire Department transactions tested, totaling \$3,853, could not be located.

Cause – The Fire Department did not maintain proper documentation for disbursements.

Effect – Lack of proper supporting documentation can result in unauthorized or improper disbursements and improperly recorded transactions.

Recommendation – The Fire Department should establish policies to require proper support for all disbursements. Disbursements should not be approved unless adequate supporting documentation is available.

Response – The City has spoken with the Fire Department on this issue. The Fire Department is working on policies to ensure proper support for all disbursements.

Conclusion – Response accepted.

(H) Accounting Procedures Manual

Criteria – Accounting policies and procedures manuals provide the following benefits:

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

Condition – The City does not have a current accounting policies and procedures manual.

Cause – Officials have been unaware of the need for an accounting policies and procedures manual.

City of Colo

Schedule of Findings

Year ended June 30, 2016

Effect – Lack of an accounting policies and procedures manual could result in the City’s lack of ability to continue operating effectively and efficiently in the event there is accounting staff turnover.

Recommendation – An accounting policies and procedures manual should be developed.

Response – We are working on an accounting and procedure manual.

Conclusion – Response accepted.

(I) Computer Systems

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable. Such policies and procedures also help ensure the achievement of objectives for reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have written policies for:

- requiring passwords to be changed at least every 60 to 90 days.
- maintaining password privacy and confidentiality.
- ensuring only software licensed to the City is installed on computers.
- usage of the internet.

Cause – Management has not required written policies for the above computer based controls.

Effect – Lack of written policies for computer based systems could result in a loss of data or compromised data, resulting in unreliable financial information, ineffective or inefficient operations and noncompliance.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer system.

Response – We are working on policies.

Conclusion – Response accepted.

(J) Record of Investments

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all investments by maintaining a detailed record of investment transactions.

Condition – A detailed record of investment transactions was not maintained.

Cause – Management has not required a detailed record of investment transactions.



City of Colo

Schedule of Findings

Year ended June 30, 2016

Effect – Lack of a detailed investment record can result in unrecorded or underrecorded investments and related income.

Recommendation – A detailed record of investment transactions should be maintained which includes the investment number, purchase date, redemption date, interest rate, principal amount and interest received.

Response – A detailed record of investments will be maintained.

Conclusion – Response accepted.

(K) Credit Cards

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity's governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing polices addressing proper asset use and proper supporting documentation.

Condition – The City has a credit card for use by employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Cause – Adoption of a formal policy to regulate the use of credit cards has not been prioritized by the City Council.

Effect – Lack of written policies and procedures to regulate the use of credit cards could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

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

Response – We are working on procedures.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Colo

Schedule of Findings

Year ended June 30, 2016

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, public works, general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The budget should have been amended. In the future, an amendment will be done prior to exceeding the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements, paid from the bank account maintained by the Colo Fire Department, are detailed as follows:

Paid to	Purpose	Amount
Country House	Spouse dinner night	\$ 936
Remarkable Rose Floral	Fireman's cross and two fire boots memorials	470
IEMSA	Tickets for EMS recognition	1,000
Iowa Firefighters Association	Iowa fireman's dues	325
Story County EMS Association	Association dues	25
CIT Charters, Inc.	Motorcoach for funeral procession	500
Graphic Edge	T-shirts	547
Bob Jamison	Toys from Wal Mart	184
Lisa Witaker	HWT twill pant	35
Dennis Clatt	Farren funeral photos	86
Tyler Norgart	Coffee and donuts for Farren funeral	258
Sams Club	Candy and snacks	648
Carpenter Uniform	Clothing items	560
Rodney Geisinger	Pop and candy	682
Casey's General Store	Unable to determine - disbursement is not supported	341
Fareway Stores	Unable to determine - disbursement is not supported	1,667

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

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

City of Colo

Schedule of Findings

Year ended June 30, 2016

Response – The City has informed the Fire Department they will not be paying for items the City Council does not see fit as serving public purpose.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (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 – Except as noted below, no transactions were found that we believe should have been approved in the City Council minutes but were not.

Disbursements for the Fire and Recreation Departments and certain other disbursements were not approved by the City Council prior to disbursement.

Although minutes of the City Council proceedings were published, the publications did not include a listing of all claims allowed, total disbursements from each fund or a summary of receipts for Cemetery, Library and local option sales tax transactions, as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval.

The City should publish a listing of all claims allowed, including the purpose of the claim, total disbursements from each fund and a summary of all receipts for all City departments, as required.

Response – The City is working on a policy to allow payment of certain bills prior to City Council approval. For those disbursements paid prior to City Council approval, a listing will be provided to the Council at their next meeting for their review and approval. The City will publish a listing of all claims allowed, including the purpose of the claim, total disbursement from each fund and a summary of all receipts for all City departments, as required.

Conclusion – Response accepted.

- (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.

City of Colo

Schedule of Findings

Year ended June 30, 2016

(8) Revenue Note – The following instances of non-compliance with the water revenue note were noted:

- The City has not established a water revenue note sinking or water improvement account.
- The City is not paying for water usage as required by the note resolution.
- The water revenue note resolution states the City "will cause the books and accounts to be audited annually not later than 90 days after the end of each fiscal year by an independent auditor." The City has not complied with this provision.
- The provisions of the water revenue note required the City to produce net operating receipts equal to at least 120% of the principal and interest on the bonds as they come due. The City's fiscal year 2016 net operating receipts of \$30,450 were less than 120% of the \$29,123 of water revenue bond principal and interest due during fiscal year 2016.

Recommendation – The City should establish the required accounts and make the necessary transfers required by the note resolution. The City should also pay for water usage, as required, and ensure an annual audit is performed. In addition, the City should review water rates to ensure the rates are adequate to produce the required net operating receipts.

Response – Water sinking and improvement accounts will be set up for the water note and all principal and interest payments will be paid out of the sinking account. The City will contact bond counsel to determine the disposition of the matter regarding the requirement an annual audit be performed. The City will review rates to ensure the rates are adequate to produce the required net operating receipts. In addition, the City will be charged for water usage.

Conclusion – Response accepted.

(9) Colo Donations – During the year ended June 30, 2016, the City donated a total of \$8,133 to several private non-profit organizations.

The Constitution of the State of Iowa prohibits governmental bodies from making gifts to a private non-profit corporation. Article III, Section 31 states, "No public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly."

We previously requested a letter of advice from the Iowa Attorney General regarding the propriety of a gift to a private non-profit organization. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2008. The advice letter states, in part:

"...I do not believe that a City library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of funds in the event that future trustees do not agree with the delegation of control over the funds, the transaction violates a public purpose and non-delegation principles discussed above. Further, even if safeguards

City of Colo

Schedule of Findings

Year ended June 30, 2016

are put in place to assure ongoing oversight and control, I believe that the funds continue to be 'public funds', subject to the deposit and investment standards contained in the Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate a joint public and private influence over the use of the gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking.”

A 28E agreement, as described in the advice letter, does not exist. We are not aware of any statutory authority for the City to donate public funds to a separate non-profit organization.

Recommendation – The City should consult legal counsel to determine the proper disposition of this matter. The City should ensure all future disbursements are in accordance with the Constitution of the State of Iowa.

Response – The City has contacted legal counsel to determine what should be done.

Conclusion – Response accepted.

- (10) Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1. However, the City understated the amount reported as TIF debt outstanding.

Recommendation – The City should ensure the amount reported as TIF debt agrees with the City’s records.

Response – The City will ensure the TIF debt reported on the Annual Urban Renewal Report agrees with City records.

Conclusion – Response accepted.

- (11) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures ...”. The City’s Annual Financial Report included fund balances which did not materially agree with City records.

Recommendation – The City should ensure the Annual Financial Report materially agrees with the City’s records.

Response – The City will implement procedures to ensure all future AFRs materially agree with the City records.

Conclusion – Response accepted.

- (12) Separately Maintained Records – The City’s Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included with other City accounts, are not budgeted for and are not included in the City’s Annual Financial Reports.

City of Colo

Schedule of Findings

Year ended June 30, 2016

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose."

For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the City's ledgers, budget and Annual Financial Reports.

Response – The City will oversee this account in the future, including accounting for the activity in the City's ledger, budget and Annual Financial Reports.

Conclusion – Response accepted.

- (13) Emergency Fund Levy – Chapter 384.8 of the Code of Iowa provides a City may establish an Emergency Fund and transfers may be made from the Emergency Fund to the General Fund. The City levied property tax for the Emergency Fund, but recorded the property tax in the General Fund rather than establishing a separate fund, as required.

Recommendation – The City should deposit emergency tax levy receipts into a Special Revenue, Emergency Fund and transfer the proceeds to the General Fund to be spent, as required.

Response – The City will transfer the emergency levy from the Special Revenue, Emergency Fund to the General Fund in the future.

Conclusion – Response accepted.

- (14) Local Option Sales Tax – Local Option Sales Tax (LOST) receipts are recorded in the Special Revenue, Local Option Sales Tax Fund. The LOST ballot requires the receipts be allocated 60% for property tax relief and 40% for community betterment.

The City did not track eligible disbursements incurred to demonstrate compliance with the specific criteria of the LOST ballot.

Recommendation – The City Council should ensure local option sales tax collections and disbursements are tracked in order to document meeting the specific criteria of the LOST ballot.

Response – The City will track all LOST receipts and disbursements for compliance.

Conclusion – Response accepted.

- (15) Financial Condition – The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of \$42,548 at June 30, 2016.

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

Response – The City will investigate alternatives to eliminate this deficit.

Conclusion – Response accepted.

City of Colo

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager  
Trent M. Mussmann, Senior Auditor  
Chad C. Lynch, Staff Auditor  
Cole J. Hanley, Assistant Auditor  
Rachel E. Sigmon, Auditor Intern

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State