



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

May 23, 2017

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515/281-5834

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

The City's receipts totaled \$2,791,830 for the year ended June 30, 2016. The receipts included \$56,701 in property tax, \$119,107 from charges for service, \$46,385 from operating grants, contributions and restricted interest, \$1,147,675 from capital grants, contributions and restricted interest, \$15,523 from local option sales tax, \$514 from unrestricted interest on investments, \$1,400,000 from note proceeds and \$5,925 from other receipts.

Disbursements for the year ended June 30, 2016 totaled \$2,661,832, and included \$54,992 for public works, \$37,471 for general government and \$35,648 for culture and recreation. Also, disbursements for business type activities totaled \$2,507,687.

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/1622-0387-B00F>.

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CITY OF WODEN
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

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City of Woden

Officials

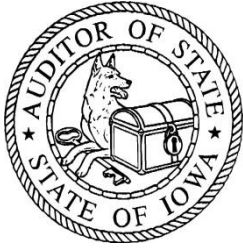
(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kathy Brown	Mayor	Jan 2016
Donald Isebrand	Mayor Pro tem	(Deceased)
Larry Burma	Council Member	Jan 2016
Colin Fjetland	Council Member	Jan 2016
Bill Rout	Council Member	Jan 2018
Jeff Stucki	Council Member	Jan 2018
Debra Schimmelpfennig	City Clerk/Treasurer	Indefinite
Earl Hill	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kathy Brown	Mayor	Jan 2018
Roger Wood	Mayor Pro tem	Jan 2020
Bill Rout	Council Member	Jan 2018
Jeff Stucki	Council Member	Jan 2018
Larry Burma	Council Member	Jan 2020
Andrew Schimmelpfennig	Council Member	Jan 2020
Debra Schimmelpfennig	City Clerk/Treasurer	Indefinite
Earl Hill	Attorney	Indefinite

City of Woden



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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 and each major fund of the City of Woden, 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 and each major fund of the City of Woden 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 Woden's basic financial statements. The supplementary information included in Schedules 1 and 2, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 22 through 28 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 May 12, 2017 on our consideration of the City of Woden'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 Woden's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

May 12, 2017

Basic Financial Statements

City of Woden

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	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 26,034	480	1,917	-
Public works	53,330	21,855	22,267	-
Culture and recreation	37,310	3,602	19,705	-
General government	37,471	6,075	-	-
Total governmental activities	154,145	32,012	43,889	-
Business type activities:				
Water	13,134	19,742	2,496	-
Sewer	2,494,553	67,353	-	1,147,675
Total business type activities	2,507,687	87,095	2,496	1,147,675
Total	\$ 2,661,832	119,107	46,385	1,147,675

General Receipts:

Property and other city tax levied for general purposes
 Local option sales tax
 Commercial industrial tax replacement
 Unrestricted interest on investments
 Miscellaneous
 Note proceeds
 Total general receipts
 Change in cash basis net position
 Cash basis net position beginning of year
 Cash basis net position end of year

Cash Basis Net Position

Restricted:
 Streets
 Employee benefits
 Debt service
 Capital projects
 Unrestricted

Total cash basis net position

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(23,637)	-	(23,637)
(9,208)	-	(9,208)
(14,003)	-	(14,003)
(31,396)	-	(31,396)
(78,244)	-	(78,244)
-	9,104	9,104
-	(1,279,525)	(1,279,525)
-	(1,270,421)	(1,270,421)
(78,244)	(1,270,421)	(1,348,665)
56,701	-	56,701
15,523	-	15,523
3,614	-	3,614
323	191	514
2,311	-	2,311
-	1,400,000	1,400,000
78,472	1,400,191	1,478,663
228	129,770	129,998
327,213	60,505	387,718
\$ 327,441	190,275	517,716
\$ 164,974	-	164,974
3,112	-	3,112
-	4,309	4,309
-	105,311	105,311
159,355	80,655	240,010
\$ 327,441	190,275	517,716

City of Woden

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

As of and for the year ended June 30, 2016

	Special Revenue			Total
	General	Road Use Tax	Employee Benefits	
Receipts:				
Property tax	\$ 50,131	-	5,072	55,203
Other city tax	16,667	-	354	17,021
Licenses and permits	945	-	-	945
Use of money and property	8,315	256	-	8,571
Intergovernmental	16,397	22,011	116	38,524
Charges for service	19,345	-	-	19,345
Miscellaneous	14,764	-	-	14,764
Total receipts	126,564	22,267	5,542	154,373
Disbursements:				
Operating:				
Public safety	26,034	-	-	26,034
Public works	39,657	13,673	-	53,330
Culture and recreation	35,648	-	1,662	37,310
General government	34,883	-	2,588	37,471
Total disbursements	136,222	13,673	4,250	154,145
Change in cash balances	(9,658)	8,594	1,292	228
Cash balances beginning of year	169,013	156,380	1,820	327,213
Cash balances end of year	\$ 159,355	164,974	3,112	327,441
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	164,974	-	164,974
Employee benefits	-	-	3,112	3,112
Unassigned	159,355	-	-	159,355
Total cash basis fund balances	\$ 159,355	164,974	3,112	327,441

See notes to financial statements.

City of Woden

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	Total
Operating receipts:			
Charges for service	\$ 21,060	67,353	88,413
Miscellaneous	1,178	-	1,178
Total operating receipts	22,238	67,353	89,591
Operating disbursements:			
Business type activities	13,134	9,108	22,242
Excess of operating receipts over operating disbursements	9,104	58,245	67,349
Non-operating receipts (disbursements):			
Note proceeds	-	1,400,000	1,400,000
USDA grant	-	1,147,675	1,147,675
Interest on investments	166	25	191
Debt service	-	(1,453,969)	(1,453,969)
Capital projects	-	(1,031,476)	(1,031,476)
Net non-operating receipts (disbursements)	166	62,255	62,421
Change in cash balances	9,270	120,500	129,770
Cash balances beginning of year	40,179	20,326	60,505
Cash balances end of year	\$ 49,449	140,826	190,275
Cash Basis Fund Balances			
Restricted for debt service	\$ -	4,309	4,309
Restricted for capital projects	-	105,311	105,311
Unrestricted	49,449	31,206	80,655
Total cash basis fund balances	\$ 49,449	140,826	190,275

See notes to financial statements.

City of Woden

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Woden is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1904 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Woden has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hancock County Assessor's Conference Board, Hancock County Emergency Management Commission and Hancock 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:

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

Unrestricted net position consists of cash balances not meeting the definition of the preceding 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.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Employee Benefits Fund is used to account for the property tax levy and disbursements for employee benefits.

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.

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 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) Pension Plan

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

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

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

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

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

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

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

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

In fiscal year 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 \$3,291.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$21,744 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 0.000440%, which was an increase of 0.000033% 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 \$1,834, \$4,181 and \$5,063, 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, as follows:

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 an 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 geometric 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 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 that is 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	\$ 38,070	21,744	7,964

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.

(4) Sewer Revenue Capital Loan Notes

Annual debt service requirements to maturity for the sewer revenue capital loan notes are as follows:

Year Ending June 30,	Sewer Revenue Capital Loan Notes	
	Principal	Interest
2017	\$ 23,200	28,496
2018	23,687	28,009
2019	24,184	27,512
2020	24,691	27,005
2021	25,209	26,487
2022-2026	134,200	124,281
2027-2031	148,881	109,599
2032-2036	165,171	93,308
2037-2041	183,251	75,229
2042-2046	203,311	55,169
2047-2051	225,572	32,907
2052-2056	199,661	8,665
Total	<u>\$ 1,381,018</u>	<u>636,667</u>

On August 20, 2015, the City entered into an agreement with the U.S. Department of Agriculture for the issuance of \$1,144,000 and \$256,000 of taxable sewer revenue capital loan notes with interest at 2.125% and 1.875% per annum, respectively. The notes were issued to redeem the project anticipation note previously issued as interim financing to pay construction costs of the municipal sanitary sewer system. The notes are payable solely from sewer customer net receipts. Principal and interest are payable in monthly installments through August 2055. Annual principal and interest payments on the bonds required approximately 74% of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,017,685. For the year ended June 30, 2016, principal and interest paid and total customer net receipts were \$43,080 and \$58,245, respectively.

The resolution providing for the issuance of the sewer revenue capital loan notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account for the purpose of making principal and interest payments when due.
- (c) The City will provide for the establishment of rates to produce gross receipts at least sufficient to pay the expenses of operation and maintenance, debt service and reserves.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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 payable to employees at June 30, 2016, primarily relating to the General Fund, was \$100. This liability has been computed based on rates of pay in effect at June 30, 2016.

(6) 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 \$4,164.

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 workers compensation in the amount of \$1,000,000. 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.

(7) Commitments

The City has entered into contracts for sewer treatment plant improvements and a sanitary sewer collection system totaling \$2,277,301, of which \$2,254,528 has been paid at June 30, 2016. The balance of \$22,773 will be paid as work on the projects progress. These projects are being funded through federally awarded grants and loans.

(8) New Accounting Pronouncement

The City of Woden adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

City of Woden
 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
Receipts:		
Property tax	\$ 55,203	-
Other city tax	17,021	-
Licenses and permits	945	-
Use of money and property	8,571	191
Intergovernmental	38,524	1,147,675
Charges for service	19,345	88,413
Miscellaneous	14,764	1,178
Total receipts	154,373	1,237,457
Disbursements:		
Public safety	26,034	-
Public works	53,330	-
Health and social services	-	-
Culture and recreation	37,310	-
General government	37,471	-
Business type activities	-	2,507,687
Total disbursements	154,145	2,507,687
Excess (deficiency) of receipts over (under) disbursements	228	(1,270,230)
Other financing sources, net	-	1,400,000
Excess of receipts and other financing sources over disbursements and other financing uses	228	129,770
Balances beginning of year	327,213	60,505
Balances end of year	\$ 327,441	190,275

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total
			Variance
55,203	54,960	54,960	243
17,021	18,036	18,036	(1,015)
945	1,000	1,000	(55)
8,762	9,615	9,615	(853)
1,186,199	542,169	2,692,577	(1,506,378)
107,758	191,250	312,500	(204,742)
15,942	8,300	8,300	7,642
1,391,830	825,330	3,096,988	(1,705,158)
26,034	24,410	26,410	376
53,330	57,800	62,800	9,470
-	1,600	1,600	1,600
37,310	47,430	47,430	10,120
37,471	29,036	39,036	1,565
2,507,687	666,300	2,816,708	309,021
2,661,832	826,576	2,993,984	332,152
(1,270,002)	(1,246)	103,004	(1,373,006)
1,400,000	-	-	1,400,000
129,998	(1,246)	103,004	26,994
387,718	353,222	353,222	34,496
517,716	351,976	456,226	61,490

City of Woden

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Enterprise 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, two budget amendments increased budgeted disbursements by \$2,167,408. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted.

City of Woden

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

Iowa Public Employees' Retirement System
For the Last Two Years*

Other Information

	2016	2015
City's proportion of the net pension liability	0.000440%	0.000407%
City's proportionate share of the net pension liability	\$ 21,744	16,133
City's covered-employee payroll	\$ 30,152	26,619
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.61%
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.

City of Woden

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Eight Years

Other Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 3,291	2,693	2,377	2,198
Contributions in relation to the statutorily required contribution	(3,291)	(2,693)	(2,377)	(2,198)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 36,856	30,152	26,619	25,357
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%

See accompanying independent auditor's report.

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

2012	2011	2010	2009
2,078	1,778	1,581	2,148
(2,078)	(1,778)	(1,581)	(2,148)
-	-	-	-
25,752	25,581	23,769	30,705
8.07%	6.95%	6.65%	7.00%

City of Woden

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 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

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Project anticipation note	May 5, 2011	3.50%	\$ 1,400,000
Revenue capital loan notes:			
Sewer	Aug 20, 2015	2.125%	\$ 906,000
Sewer	Aug 20, 2015	1.875%	256,000
Sewer	Aug 20, 2015	2.125%	238,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 1,400,000	-	1,400,000	-	10,889
-	906,000	12,151	893,849	15,939
-	256,000	3,638	252,362	3,972
-	238,000	3,193	234,807	4,187
\$ -	1,400,000	18,982	1,381,018	24,098

Schedule 2

City of Woden
 Note Maturities
 June 30, 2016

Sewer Revenue Capital Loan Notes								
Year Ending June 30,	Sewer Construction		Construction		Construction		Total	
	Issued Aug 20, 2015		Issued Aug 20, 2015		Issued Aug 20, 2015			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2017	2.125%	\$ 14,858	1.875%	\$ 4,438	2.125%	\$ 3,904	23,200	
2018	2.125	15,177	1.875	4,522	2.125	3,988	23,687	
2019	2.125	15,502	1.875	4,608	2.125	4,074	24,184	
2020	2.125	15,835	1.875	4,695	2.125	4,161	24,691	
2021	2.125	16,175	1.875	4,784	2.125	4,250	25,209	
2022	2.125	16,522	1.875	4,874	2.125	4,341	25,737	
2023	2.125	16,876	1.875	4,966	2.125	4,435	26,277	
2024	2.125	17,239	1.875	5,060	2.125	4,530	26,829	
2025	2.125	17,609	1.875	5,156	2.125	4,627	27,392	
2026	2.125	17,986	1.875	5,253	2.125	4,726	27,965	
2027	2.125	18,372	1.875	5,353	2.125	4,828	28,553	
2028	2.125	18,766	1.875	5,454	2.125	4,931	29,151	
2029	2.125	19,169	1.875	5,557	2.125	5,037	29,763	
2030	2.125	19,581	1.875	5,662	2.125	5,145	30,388	
2031	2.125	20,001	1.875	5,769	2.125	5,256	31,026	
2032	2.125	20,430	1.875	5,878	2.125	5,368	31,676	
2033	2.125	20,868	1.875	5,990	2.125	5,484	32,342	
2034	2.125	21,316	1.875	6,103	2.125	5,601	33,020	
2035	2.125	21,773	1.875	6,218	2.125	5,721	33,712	
2036	2.125	22,241	1.875	6,336	2.125	5,844	34,421	
2037	2.125	22,718	1.875	6,456	2.125	5,970	35,144	
2038	2.125	23,205	1.875	6,578	2.125	6,098	35,881	
2039	2.125	23,703	1.875	6,702	2.125	6,229	36,634	
2040	2.125	24,212	1.875	6,829	2.125	6,362	37,403	
2041	2.125	24,732	1.875	6,958	2.125	6,499	38,189	
2042	2.125	25,262	1.875	7,090	2.125	6,638	38,990	
2043	2.125	25,804	1.875	7,224	2.125	6,781	39,809	
2044	2.125	26,358	1.875	7,360	2.125	6,926	40,644	
2045	2.125	26,924	1.875	7,500	2.125	7,075	41,499	
2046	2.125	27,501	1.875	7,641	2.125	7,227	42,369	
2047	2.125	28,091	1.875	7,786	2.125	7,382	43,259	
2048	2.125	28,694	1.875	7,933	2.125	7,540	44,167	
2049	2.125	29,310	1.875	8,083	2.125	7,702	45,095	
2050	2.125	29,939	1.875	8,236	2.125	7,867	46,042	
2051	2.125	30,581	1.875	8,392	2.125	8,036	47,009	
2052	2.125	31,238	1.875	8,550	2.125	8,208	47,996	
2053	2.125	31,908	1.875	8,712	2.125	8,384	49,004	
2054	2.125	32,593	1.875	8,877	2.125	8,564	50,034	
2055	2.125	33,292	1.875	8,779	2.125	8,748	50,819	
2056	2.125	1,488		-	2.125	320	1,808	
Total		<u>\$ 893,849</u>		<u>\$ 252,362</u>		<u>\$ 234,807</u>	<u>1,381,018</u>	

City of Woden

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Grantor/Program	CFDA Number	Program Expenditures
Direct:		
U.S. Department of Agriculture:		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ <u>1,031,476</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Woden and is presented on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principals. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Woden, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Woden has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

**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**



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STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities and each major fund of the City of Woden, 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 May 12, 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 Woden'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 Woden's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Woden's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Woden's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-16 through II-D-16 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-E-16 and II-F-16 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Woden's Responses to the Findings

The City of Woden's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Woden'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 Woden 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

May 12, 2017



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Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Woden, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City of Woden's major federal program for the year ended June 30, 2016. The City of Woden's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Woden's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Woden's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Woden's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Woden complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance


The management of the City of Woden is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Woden's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Woden's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-16 to be a material weakness.

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

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


MARY MOSIMAN, CPA
Auditor of State

May 12, 2017

City of Woden

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

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

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Woden did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-16 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 – Generally, one individual has control over the following areas for which no compensating controls exist:

- (1) Accounting system – performing all general accounting functions, including journal entries and controlling all data input and output.
- (2) Cash and investments – handling, reconciling and recording.
- (3) Long-term debt – recording and reconciling.
- (4) Receipts – opening mail, collecting, depositing, recording, posting and reconciling.
- (5) Utility receipts – billing, collecting, depositing, posting and entering rates.
- (6) Disbursements – purchasing, invoice processing, signing, mailing and recording.
- (7) Payroll – recordkeeping, preparing checks, distributing, entering pay rates and adding and removing employees from payroll.

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 – The City should review the control activities to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response – The City continues to review procedures for internal controls. The City is currently advertising for an assistant City Clerk, and after a training period, duties will be segregated more fully between the Clerk, Assistant Clerk and Mayor and/or Council designee.

Conclusion – Response accepted.

City of Woden

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

II-B-16 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 and the Uniform Chart of Accounts are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – During the audit, we identified material amounts of receipts, disbursements and transfers coded incorrectly or recorded in incorrect accounts in the City's general ledger and the City's Annual Financial Report. 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 the use of the Uniform Chart of Accounts for coding, or for accounting records to be reviewed by an independent person.

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

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

Response – Accounting policies/procedures are being developed and will be implemented to ensure the coding of receipts, disbursements and transfers are accurate per the Uniform Chart of Accounts.

Conclusion – Response accepted.

II-C-16 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 monthly.

Condition – Although bank reconciliations are performed monthly, the City does not reconcile the bank and investment account balances to the general ledger. In addition, there is no evidence of independent review of the bank reconciliations.

Cause – City policies do not require and procedures have not been established to ensure bank and investment account balances are reconciled monthly to the general ledger. Policies and procedures also do not exist to ensure independently reviewed bank reconciliations are evidenced.

City of Woden

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Effect – Lack of performing a comparison of bank and general ledger balances, and lack of review by an independent person could result in undetected errors or unauthorized activity.

Recommendation – To improve financial accountability and control, monthly bank and investment account balances should be compared to book balances and variances between book and bank balances should be investigated and resolved timely. The bank reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

Response – Reconciliations are to be reviewed by the Mayor or Council designee on a regular basis.

Conclusion – Response accepted.

II-D-16 Utility Billings, Collections and Delinquent Accounts

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

Condition – Utility billings, collections and delinquent accounts were not reconciled throughout the year. In addition, a delinquent account listing is not maintained or reviewed.

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

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

Response – Procedures are to be developed to reconcile billings/collections to deposits made with the reviewer to initial and date the reconciliations on a regular basis.

Conclusion – Response accepted.

City of Woden

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

II-E-16 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 an accounting policies and procedures manual for all major operations of the City.

Cause – City officials have been aware of the need for an accounting policies and procedures manual, but have not had the time to complete the manual.

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 – A written accounting policies and procedures manual should be developed to provide the noted benefits.

Response – Development of an accounting policies/procedures manual has begun and will continue to be reviewed and updated.

Conclusion – Response accepted.

II-F-16 Disaster Recovery Plan

Criteria – Properly designed procedures ensure the continued operations of the City in the event of a disaster.

Condition – The City has not developed a disaster recovery plan.

Cause – City officials have been aware of the need for a disaster recovery plan, but have not had the time to complete the plan.

Effect – The lack of a disaster recovery plan could result in the City's inability to function in the event of a disaster.

Recommendation – The City should develop a written disaster recovery plan.

Response – The City will develop a written disaster recovery plan, which addresses processes to ensure financial continuity in the event of a disaster.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Woden

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

**CFDA Number 10.760: Water and Waste Disposal Systems for Rural Communities
Federal Award Year: 2015
U.S. Department of Agriculture**

III-A-16 Segregation of Duties over Federal Receipts and Disbursements – The
(2016-001) City did not properly segregate custody, record-keeping and reconciling
functions for receipts and disbursements, including those related to
federal programs. See item II-A-16

City of Woden

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-16 Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.

IV-B-16 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-16 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-16 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Larry Burma, City Council Member, Owner of Linden Welding	Maintenance, repairs, mowing and supplies	\$ 350

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Larry Burma do not appear to represent conflicts of interest since total transactions with the individual were less than \$2,500 during the fiscal year.

IV-E-16 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-16 City Council Minutes – Certain disbursements were not approved by the City Council prior to disbursement as required by Chapter 372.13(6) of the Code of Iowa. The City does not have a written disbursement approval policy allowing certain items to be paid prior to City Council approval.

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.

Response – The City has passed a resolution on June 6, 2016 allowing specific disbursements to be made prior to Council approval. All supporting documentation for the disbursements is provided for review at the next regular Council meeting following the disbursement.

Conclusion – Response accepted.

City of Woden

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

IV-G-16 Official Depositories – A resolution naming official depositories has been adopted by the City. However, the maximum deposit amount for one bank was exceeded.

Recommendation – The City should review the depository resolution which establishes a maximum deposit amount for each bank and ensure the maximum amounts allowed are sufficient.

Response – We will review the depository resolution.

Conclusion – Response accepted.

IV-H-16 Employee Benefits Levy – Pursuant to Chapter 384.6 of the Code of Iowa, the City levies property tax for payment of costs related to employee benefits. The levied tax should be accounted for in the Special Revenue, Employee Benefits Fund. The City has not established fund accounting to properly account for these receipts and the related allowable disbursements. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

Recommendation – The City should establish procedures to properly account for the employee benefits tax receipts and allowable disbursements.

Response – A special revenue fund will be established as recommended.

Conclusion – Response accepted.

IV-I-16 Revenue Notes – No instances of non-compliance with the revenue note resolution were noted.

IV-J-16 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains electronic images of the front of cancelled checks, but not the back of cancelled checks.

Recommendation – The City should retain an image of both the front and back of each cancelled check as required.

Response – The City began receiving the backs of checks in January 2016.


Conclusion – Response accepted.

City of Woden

Staff

This audit was performed by:

Tammy A. Hollingsworth, CIA, Manager
Dorothy O. Stover, Senior Auditor II
Chad C. Lynch, Staff Auditor
Mitchell W. Shipman, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State