



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

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NEWS RELEASE

FOR RELEASE

June 23, 2017

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

The City's receipts totaled \$2,011,553 for the year ended June 30, 2016. The receipts included \$619,882 of property tax, \$103,430 of tax increment financing, \$598,005 of charges for service, \$454,567 of operating grants, contributions and restricted interest, \$232 of capital grants, contributions and restricted interest, \$173,057 of local option sales tax, \$9,292 of unrestricted interest on investments and \$53,088 of other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$1,780,177, and included \$447,412 for public works, \$404,048 for public safety and \$140,899 for general government. Also, disbursements for business type activities totaled \$442,125.

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/1621-0700-B00F>.

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

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City of Remsen

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Cluck	Mayor	Jan 2016
Dick Sievers	Mayor Pro tem	Jan 2016
Mindy Klein	Council Member	Jan 2016
Jeremy Bunkers	Council Member	Jan 2018
Dave Sonnichsen	Council Member	Jan 2018
Kim Phillips	Council Member	Jan 2018
Paige List	City Clerk	Indefinite
Barry Thompson	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Joel Fisch	Mayor	Jan 2020
Dick Sievers	Mayor Pro tem	Jan 2020
Jeremy Bunkers	Council Member	Jan 2018
Dave Sonnichsen	Council Member	Jan 2018
Kim Phillips	Council Member	Jan 2018
Mindy Klein	Council Member	Jan 2020
Paige List	City Clerk	Indefinite
Barry Thompson	Attorney	Indefinite

City of Remsen



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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 Remsen, 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.

Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distributions by fund of the total fund balances at July 1, 2015.

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2015, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Remsen 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 Remsen's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 26 through 31, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 14, 2017 on our consideration of the City of Remsen'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 Remsen's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

June 14, 2017

City of Remsen

Basic Financial Statements

City of Remsen

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:				
Primary Government				
Governmental activities:				
Public safety	\$ 404,048	103,608	142,947	-
Public works	447,412	10,290	205,512	232
Health and social services	6,080	-	-	-
Culture and recreation	131,418	22,842	91,540	-
Community and economic development	51,765	3,283	2,718	-
General government	140,899	6,591	10,650	-
Debt service	120,835	-	-	-
Capital projects	35,595	-	1,200	-
Total governmental activities	1,338,052	146,614	454,567	232
Business type activities:				
Sewer	335,510	326,877	-	-
Garbage	106,615	124,514	-	-
Total business type activities	442,125	451,391	-	-
Total Primary Government	\$ 1,780,177	598,005	454,567	232
Component Units				
Remsen Municipal Utilities	\$ 2,074,395	2,838,497	-	-
General Receipts and Transfers:				
Property and other city tax levied for general purposes				
Tax increment financing				
Local option sales tax				
Franchise fees				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Ambulance				
Streets				
Urban renewal purposes				
Debt service				
Fire and Rescue				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Remsen Municipal Utilities
(157,493)	-	(157,493)	
(231,378)	-	(231,378)	
(6,080)	-	(6,080)	
(17,036)	-	(17,036)	
(45,764)	-	(45,764)	
(123,658)	-	(123,658)	
(120,835)	-	(120,835)	
(34,395)	-	(34,395)	
(736,639)	-	(736,639)	
-	(8,633)	(8,633)	
-	17,899	17,899	
-	9,266	9,266	
(736,639)	9,266	(727,373)	
			764,102
619,882	-	619,882	-
103,430	-	103,430	-
173,057	-	173,057	-
5,210	-	5,210	-
16,868	-	16,868	-
9,292	-	9,292	3,422
31,010	-	31,010	39,010
958,749	-	958,749	42,432
222,110	9,266	231,376	806,534
1,486,170	344,553	1,830,723	1,305,306
\$ 1,708,280	353,819	2,062,099	2,111,840
\$ 110,387	-	110,387	-
241,307	-	241,307	-
191,192	-	191,192	-
204,403	-	204,403	-
122,298	-	122,298	-
21,731	-	21,731	-
566,884	-	566,884	27,828
250,078	353,819	603,897	2,084,012
\$ 1,708,280	353,819	2,062,099	2,111,840

City of Remsen

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	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 450,387	-	-	-
Tax increment financing	-	-	-	103,430
Other city tax	-	-	173,057	-
Licenses and permits	14,582	-	-	-
Use of money and property	24,298	-	-	-
Intergovernmental	84,476	205,512	-	-
Charges for service	136,577	-	-	-
Special assessments	10,290	-	-	-
Miscellaneous	23,310	-	-	-
Total receipts	743,920	205,512	173,057	103,430
Disbursements:				
Operating:				
Public safety	288,724	-	17,732	-
Public works	119,718	230,753	25,575	-
Health and social services	6,080	-	-	-
Culture and recreation	122,396	-	641	-
Community and economic development	13,829	-	5,000	32,936
General government	112,752	-	-	-
Debt service	-	-	-	25,727
Capital projects	-	-	-	-
Total disbursements	663,499	230,753	48,948	58,663
Excess (deficiency) of receipts over (under) disbursements	80,421	(25,241)	124,109	44,767
Other financing sources (uses):				
Transfers in	-	-	77,391	-
Transfers out	-	-	-	(77,391)
Total other financing sources (uses)	-	-	77,391	(77,391)
Change in cash balances	80,421	(25,241)	201,500	(32,624)
Cash balances beginning of year	363,162	266,548	282,620	223,816
Cash balances end of year	\$ 443,583	241,307	484,120	191,192
Cash Basis Fund Balances				
Restricted for:				
Ambulance	\$ 77,241	-	-	-
Streets	-	241,307	-	-
Urban renewal purposes	-	-	-	191,192
Debt service	-	-	-	-
Fire and Rescue	88,333	-	-	-
Capital projects	-	-	-	-
Other purposes	27,931	-	484,120	-
Unassigned	250,078	-	-	-
Total cash basis fund balances	\$ 443,583	241,307	484,120	191,192

See notes to financial statements.

Employee Benefits	Debt Service	Nonmajor	Total
169,495	-	-	619,882
-	-	-	103,430
-	-	-	173,057
-	-	-	14,582
-	50,220	49	74,567
-	-	-	289,988
-	-	-	136,577
-	-	-	10,290
-	31,010	83,469	137,789
169,495	81,230	83,518	1,560,162
45,556	-	52,036	404,048
71,366	-	-	447,412
-	-	-	6,080
8,381	-	-	131,418
-	-	-	51,765
28,147	-	-	140,899
-	95,108	-	120,835
-	-	35,595	35,595
153,450	95,108	87,631	1,338,052
16,045	(13,878)	(4,113)	222,110
-	43,858	-	121,249
-	-	(43,858)	(121,249)
-	43,858	(43,858)	-
16,045	29,980	(47,971)	222,110
38,788	174,423	136,813	1,486,170
54,833	204,403	88,842	1,708,280
-	-	33,146	110,387
-	-	-	241,307
-	-	-	191,192
-	204,403	-	204,403
-	-	33,965	122,298
-	-	21,731	21,731
54,833	-	-	566,884
-	-	-	250,078
54,833	204,403	88,842	1,708,280

Exhibit C

City of Remsen

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

As of and for the year ended June 30, 2016

	Enterprise		
	Sewer	Garbage	Total
Operating receipts:			
Charges for service	\$ 326,877	124,514	451,391
Operating disbursements:			
Business type activities	181,568	106,615	288,183
Excess of operating receipts over operating disbursements	145,309	17,899	163,208
Non-operating disbursements:			
Debt service	(153,942)	-	(153,942)
Change in cash balances	(8,633)	17,899	9,266
Cash balances beginning of year	269,660	74,893	344,553
Cash balances end of year	\$ 261,027	92,792	353,819
Cash Basis Fund Balances			
Unrestricted	\$ 261,027	92,792	353,819

See notes to financial statements.

City of Remsen
Notes to Financial Statements
June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Remsen is a political subdivision of the State of Iowa located in Plymouth County. It was first incorporated in 1889 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 sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Remsen 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 Remsen (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit

The Municipal Utilities of the City of Remsen are governed by a three member Board of Trustees appointed by the Mayor and approved by the City Council. The Municipal Utilities' operating budget is subject to the approval of the City Council. The Municipal Utilities was established to operate the City's water, electric and gas operations. It has a June 30 year end. Complete financial statements for the component unit may be obtained at the City Hall office located at 008 West 2nd Street, Remsen, Iowa 51050.

Blended Component Units

The Remsen Ambulance, Inc. is legally separate from the City, but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Funds. The Remsen Ambulance, Inc. was incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the provision of emergency medical services and performing such other duties as set forth by the City of Remsen Ambulance Department.

The Remsen Fire Department, Inc. is legally separate from the City, but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Funds. The Remsen Fire Department, Inc. was incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the City of Remsen 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 Plymouth County Assessor's Conference Board, Plymouth County Emergency Management Commission and Plymouth County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for the City's local option sales tax (LOST) receipts and related disbursements.

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

The Employee Benefits Fund is used to account for the tax levy to support City employee benefits.

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

The Enterprise, Garbage Fund accounts for the operation and maintenance of the City's garbage removal.

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. At June 30, 2016, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions. During the year ended June 30, 2016, disbursements also exceeded the amount budgeted in the public works function prior to amendment.

(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) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 72,000	26,522	110,750	39,870	182,750	66,392
2018	76,000	24,939	110,750	36,548	186,750	61,487
2019	79,000	23,220	110,750	33,225	189,750	56,445
2020	83,000	21,358	110,750	29,902	193,750	51,260
2021	86,000	19,330	110,750	26,580	196,750	45,910
2022-2026	425,000	60,498	553,750	83,062	978,750	143,560
2027-2030	188,000	14,494	221,500	9,968	409,500	24,462
Total	\$ 1,009,000	190,361	1,329,000	259,155	2,338,000	449,516

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,215,000 of sewer revenue notes issued in September 2010. Proceeds from the notes provided financing for the replacement of the sewer utility system. The notes are payable solely from sewer customer net receipts and are payable through 2030. Annual principal and interest payments on the notes are expected to require 106% of net receipts. The total principal and interest remaining to be paid on the notes is \$1,588,155. For the current year, principal and interest paid and total customer net receipts were \$153,942 and \$145,309, respectively.

The resolution providing for the issuance of the sewer revenue refunding 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 bond sinking fund for the purpose of making the note principal and interest payments when due.
- (c) User rates shall be established and charged to customers of the utility, including the City, to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

The City's net receipts for the year ended June 30, 2016 were less than the required 110% of principal and interest falling due within the year.

(4) Pension Plan

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

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

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

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

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-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%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$39,567.

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 \$218,123 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 0.004415%, which was a decrease of 0.000155% 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 \$23,376, \$63,399 and \$75,598, 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 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	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments 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	\$ 447,858	218,123	24,294

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

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 8 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$565 for single coverage, \$1,072 for member plus child coverage and \$1,748 for family coverage. For the year ended June 30, 2016, the City contributed \$98,896 and plan members eligible for benefits contributed \$7,443 to the plan.

(6) 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, was \$39,000. This liability has been computed based on rates of pay in effect at June 30, 2016.

(7) Interfund Transfers

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

Transfer to	Transfer from	Amount
Special Revenue:	Special Revenue:	
Local Option Sales Tax	Urban Renewal Tax Increment	\$ 77,391
Debt Service	Capital Projects	43,858
Total		\$ 121,249

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

(8) Rebate and Development Agreements

The City entered into a tax increment financing rebate agreement. The City agreed to assist in an urban renewal project by rebating incremental tax paid by the participating company with respect to the improvements set forth in the urban renewal plan. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the participating company will be rebated for a period of ten years beginning with the tax year in which the property tax on the completed value of the improvements are first paid. The total amount that will be rebated in any fiscal year for the tax increment financing rebate agreement will not exceed 80% for the first two years, 60% for the third year, 50% for the fourth and fifth year, 40% for the sixth year, 30% for the seventh and eighth year and 20% for the ninth and tenth year. The City started paying the rebate for taxes paid by the participating company in September 2011. The actual amount rebated during the year ended June 30, 2016 was \$23,464.

The City has also entered into one development agreement in accordance with Chapter 15A of the Code of Iowa. The agreement was for the construction of two grain bins, a feed mill and a drying facility at Gengler Feed Service, Inc. located in the City. The City agreed to make economic development grants in an amount equivalent to a declining percentage of the difference between the City only property taxes on the development property as of January 1, 2016 and the City only property taxes on the development property as of

January 1, 2015. Such grants are to be paid over a ten year period starting in November 2017. The total grant amount that will be paid in any fiscal year under the development agreement will not exceed 80% for the first two years, 60% for the third year, 50% for the fourth and fifth year, 40% for the sixth year, 30% for the seventh and eighth year and 20% for the ninth and tenth year.

(9) Interfund Loans

The detail of interfund loans at June 30, 2016 is as follows:

Due From	Due To	Amount
Special Revenue:	Special Revenue:	
Tax Increment Financing	Road Use Tax	\$ 3,437
	Local Option Sales Tax	225,084
Total		\$ 228,521

The loans represent amounts paid from the Special Revenue, Road Use Tax and Local Option Sales Tax Funds for costs associated with the City’s urban renewal projects. These loans will be repaid through transfers from the Special Revenue, Tax Increment Financing Fund as receipts of the fund become available.

(10) Urban Renewal Loan

The loan represents amounts paid by the discretely presented component unit, Remsen Municipal Utilities, for costs associated with the City’s urban renewal projects. This loan will be repaid through payments from the Special Revenue, Tax Increment Financing Fund as receipts of the fund become available. During the year ended June 30, 2016 \$25,727 was paid on the loan. The balance of the loan at June 30, 2016 was \$159,988.

(11) Risk Management

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

(12) New Accounting Pronouncement

The City of Remsen 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 Remsen
 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	Component Unit Actual	Less Funds not Required to be Budgeted
Receipts:				
Property tax	\$ 619,882	-	-	-
Tax increment financing	103,430	-	-	-
Other city tax	173,057	-	-	-
Licenses and permits	14,582	-	-	-
Use of money and property	74,567	-	3,422	49
Intergovernmental	289,988	-	-	-
Charges for service	136,577	451,391	2,838,497	-
Special assessments	10,290	-	-	-
Miscellaneous	137,789	-	39,010	82,269
Total receipts	1,560,162	451,391	2,880,929	82,318
Disbursements:				
Public safety	404,048	-	-	52,036
Public works	447,412	-	-	-
Health and social services	6,080	-	-	-
Culture and recreation	131,418	-	-	-
Community and economic development	51,765	-	-	-
General government	140,899	-	-	-
Debt service	120,835	-	-	-
Capital projects	35,595	-	-	-
Business type activities	-	442,125	2,074,395	-
Total disbursements	1,338,052	442,125	2,074,395	52,036
Excess of receipts over (under) disbursements	222,110	9,266	806,534	30,282
Balances beginning of year	1,486,170	344,553	1,305,306	36,829
Balances end of year	\$ 1,708,280	353,819	2,111,840	67,111

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
619,882	611,826	611,826	8,056
103,430	103,188	103,188	242
173,057	167,000	167,000	6,057
14,582	10,300	10,300	4,282
77,940	69,376	69,376	8,564
289,988	242,306	251,314	38,674
3,426,465	3,512,910	3,512,910	(86,445)
10,290	-	-	10,290
94,530	31,100	31,100	63,430
4,810,164	4,748,006	4,757,014	53,150
352,012	401,904	436,904	84,892
447,412	443,830	455,430	8,018
6,080	-	7,100	1,020
131,418	144,722	160,730	29,312
51,765	36,050	45,050	(6,715)
140,899	164,298	164,298	23,399
120,835	58,375	102,235	(18,600)
35,595	5,000	46,140	10,545
2,516,520	3,397,491	3,407,491	890,971
3,802,536	4,651,670	4,825,378	1,022,842
1,007,628	96,336	(68,364)	1,075,992
3,099,200	2,462,826	2,462,826	636,374
4,106,828	2,559,162	2,394,462	1,712,366

City of Remsen

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$173,708. The budget amendments are reflected in the final budgeted amounts.

At June 30, 2016, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions. During the year ended June 30, 2016, disbursements also exceeded the amount budgeted in the public works function before amendment.

City of Remsen

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

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

Other Information

	<u>2016</u>
City's proportion of the net pension liability	0.004415%
City's proportionate share of the net pension liability	\$ 218
City's covered-employee payroll	\$ 453
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	48.12%
IPERS' net position as a percentage of the total pension liability	85.19%

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

See accompanying independent auditor's report.

City of Remsen

Schedule of City Contributions

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

Other Information

	2016	2015
Statutorily required contribution	\$ 40	40
Contributions in relation to the statutorily required contribution	(40)	(40)
Contribution deficiency (excess)	\$ -	-
City's covered-employee payroll	\$ 439	453
Contributions as a percentage of covered-employee payroll	9.11%	8.83%

See accompanying independent auditor's report.

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

City of Remsen

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.

City of Remsen

Supplementary Information

City of Remsen

City of Remsen

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

As of and for the year ended June 30, 2016

	Special Revenue			Total
	Remsen			
	Remsen	Fire	Capital	
	Ambulance Inc.	Department Inc.	Projects	
Receipts:				
Use of money and property	\$ 16	33	-	49
Miscellaneous	38,051	44,218	1,200	83,469
Total receipts	38,067	44,251	1,200	83,518
Disbursements:				
Operating:				
Public safety	24,917	27,119	-	52,036
Capital projects	-	-	35,595	35,595
Total disbursements	24,917	27,119	35,595	87,631
Excess (deficiency) of receipts over (under) disbursements	13,150	17,132	(34,395)	(4,113)
Other financing uses:				
Transfers out	-	-	(43,858)	(43,858)
Change in cash balances	13,150	17,132	(78,253)	(47,971)
Cash balances beginning of year	19,996	16,833	99,984	136,813
Cash balances end of year	\$ 33,146	33,965	21,731	88,842
Cash Basis Fund Balances				
Restricted for:				
Ambulance	\$ 33,146	-	-	33,146
Fire and Rescue	-	33,965	-	33,965
Capital projects	-	-	21,731	21,731
Total cash basis fund balances	\$ 33,146	33,965	21,731	88,842

See accompanying independent auditor's report.

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Essential corporate purpose	March 23, 2009	3.00%	\$ 850,000
Essential corporate purpose	May 1, 2015	1.15% to 3.15%	600,000
Total			
Sewer revenue:			
Capital loan notes	Sep 15, 2010	3.00%	\$ 2,215,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
475,000	-	37,000	438,000	14,250
600,000	-	29,000	571,000	14,858
\$ 1,075,000	-	66,000	1,009,000	29,108
\$ 1,439,750	-	110,750	1,329,000	43,192

Schedule 3

City of Remsen
Bond and Note Maturities
June 30, 2016

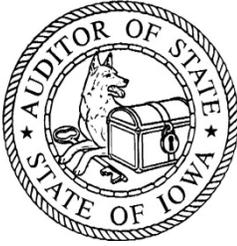
Year Ending June 30,	General Obligation Capital Loan Notes					Total
	Essential		Essential			
	Corporate Purpose		Corporate Purpose			
	Issued Mar 23, 2009		Issued May 1, 2015			
Interest		Interest				
Rates	Amount	Rates	Amount			
2017	3.00%	\$ 39,000	1.25%	\$ 33,000	72,000	
2018	3.00	42,000	1.35	34,000	76,000	
2019	3.00	44,000	1.55	35,000	79,000	
2020	3.00	46,000	1.75	37,000	83,000	
2021	3.00	48,000	2.00	38,000	86,000	
2022	3.00	51,000	2.15	39,000	90,000	
2023	3.00	53,000	2.30	40,000	93,000	
2024	3.00	56,000	2.40	41,000	97,000	
2025	3.00	59,000	2.50	42,000	101,000	
2026		-	2.65	44,000	44,000	
2027		-	2.80	45,000	45,000	
2028		-	2.90	46,000	46,000	
2029		-	3.05	48,000	48,000	
2030		-	3.15	49,000	49,000	
Total		<u>\$ 438,000</u>		<u>\$ 571,000</u>	<u>1,009,000</u>	

Year Ending June 30,	Sewer revenue capital loan note	
	Issued Sept 15, 2010	
	Interest	
Rates	Amount	
2017	3.00%	\$ 110,750
2018	3.00	110,750
2019	3.00	110,750
2020	3.00	110,750
2021	3.00	110,750
2022	3.00	110,750
2023	3.00	110,750
2024	3.00	110,750
2025	3.00	110,750
2026	3.00	110,750
2027	3.00	110,750
2028	3.00	110,750
Total		<u>\$ 1,329,000</u>

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**

City of Remsen



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

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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 Remsen, 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 June 14, 2017. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance of July 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Remsen'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 Remsen's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Remsen'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 a material weakness 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 Remsen's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item A to be a material weakness.

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 B and C to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Remsen'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 which 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 Remsen's Responses to the Findings

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

June 14, 2017

City of Remsen

Schedule of Findings

Year ended June 30, 2016

Findings Related to the Financial Statements:

(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 – Generally, one or two individuals have control over the following areas for which no compensating controls exist:

- (1) Accounting system – Performing all general accounting functions and having custody of City assets.
- (2) Cash – Depositing, reconciling and recording receipts is done by the custodian of the change funds.
- (3) Bank accounts were not reconciled by an individual who does not sign checks, handle or record cash.
- (4) Investments – The person responsible for the detailed investment records is also the custodian of the investments. Investments are not periodically inspected or reconciled to investment records by an independent person and an independent verification of interest earnings is not performed.
- (5) Receipts – opening mail, collecting, recording, depositing, reconciling and posting.
- (6) Disbursements – purchasing, check writing, check signing, recording, reconciling and mailing.
- (7) Journal entries – preparing and recording with no independent review.
- (8) Long-term debt – The person responsible for maintaining records for long-term debt also performs cash functions.

For the Remsen Ambulance, Inc. and the Remsen Fire Department, Inc., one individual has control over the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Bank reconciliations are not reviewed by an independent person for propriety.

Cause – The City, Remsen Ambulance, Inc. and Remsen Fire Department, Inc. have 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.

City of Remsen

Schedule of Findings

Year ended June 30, 2016

Effect – Inadequate segregation of duties could adversely affect the City’s, Remsen Ambulance, Inc.’s and Remsen Fire Department, Inc.’s abilities 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, Remsen Ambulance, Inc. and Remsen Fire Department, Inc. should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials and Board members, to provide additional control through review of financial transactions, reconciliations and reports.

Response – The City, Remsen Ambulance, Inc. and Remsen Fire Department, Inc. understand with a limited number of employees this finding will probably always remain although we will review these segregation of duties and control activities to try to eliminate as many segregation issues as possible.

Conclusion – Response accepted.

(B) Reconciliation of 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 reconciled throughout the year and a delinquent accounts listing was prepared, however, there was no evidence of independent review. Also, a different rate was used to calculate commercial sewer billings than was approved.

Cause – Policies have not been established and procedures have not been implemented to have an independent review of the utility billings reconciliation and the rates entered into the system.

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

Recommendation – The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies as well as approve the rates entered into the utility system. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – The utility billing process is done by the utility department staff and a Utility Board Trustee reviews reconciliations and monitors delinquencies. Since the City Council governs the sewer and garbage enterprise funds, the Mayor or designated person will be notified by staff of the effective date a sewer or garbage rate is changed in the utility billing software, review correct rate(s) and provide a signature and date.

Conclusion – Response accepted.

City of Remsen

Schedule of Findings

Year ended June 30, 2016

(C) Computer Systems

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, regarding the achievement of objectives in the 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:

- password privacy and confidentiality.
- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- no minimum password length and no password history to prevent reuse.
- system does not lock out a user after repeated failed log in attempts.

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.

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

Response – The City will develop a written policy to address the password controls listed above and include in the employee handbook.

Conclusion – Response accepted.

City of Remsen

Schedule of Findings

Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – At June 30, 2016, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions. During the year ended June 30, 2016, disbursements also exceeded the amount budgeted in the public works function before amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will work to amend the budget prior to exceeding budgeted function amounts.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – 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>
Michael Ruden, Public Works, Owner of Rudy’s Repairs	Equipment Rentals	\$ 381

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Michael Ruden do not appear to represent a conflict of interest since total transactions with the individual were less than \$2,500 during the year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Remsen

Schedule of Findings

Year ended June 30, 2016

- (8) Revenue Notes – The City has not established sewer rates to produce net operating revenues equal to at least 110% of the principal and interest coming due each year as required by the sewer revenue capital loan note resolution.

Recommendation – The City should ensure net operating receipts for the Enterprise, Sewer Fund are sufficient to make required debt service payments and comply with the sewer revenue capital loan note resolution.

Response – The City consulted with Dale Barrie, Iowa Rural Water Association, who completed a Wastewater rate study December 2016. The City Council and staff will propose and approve the necessary fees needed to meet the financial obligations of the Sewer Fund.

Conclusion – Response accepted.

- (9) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1.

- (10) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and the back of each cancelled check. Remsen Ambulance, Inc. and Remsen Fire Department, Inc. do not obtain an image of the front and back of each cancelled check as required.

Recommendation – Remsen Ambulance, Inc. and Remsen Fire Department, Inc. should obtain and retain an image of both the front and back of each cancelled check, as required.

Response – Both departments have requested that their bank print images of the back of cancelled checks going forward.

Conclusions – Response accepted.

City of Remsen

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
Emma McGrane, Staff Auditor
Cole Hocker, Staff Auditor
Jason Miller, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State