



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

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NEWS RELEASE

FOR RELEASE

June 30, 2017

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

The City's receipts totaled \$2,781,164 for the year ended June 30, 2016, a 22.7% decrease from the prior year. The receipts included \$733,182 of property tax, \$66,068 of tax increment financing, \$1,210,323 of charges for service, \$438,387 of operating grants, contributions and restricted interest, \$11,902 of capital grants, contributions and restricted interest, \$164,247 of local option sales tax, \$99,484 of unrestricted interest on investments and \$57,571 of other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$2,597,233, a 23.8% decrease from the prior year, and included \$586,372 for public safety, \$353,870 for public works and \$243,168 for debt service. Also, disbursements for business type activities totaled \$854,364.

The significant decrease in receipts and disbursements is due primarily to the receipt of note and loan proceeds in the prior year, which were used to pay for projects and to redeem general obligation debt.

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/1621-0388-B00F>.

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

JUNE 30, 2016

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City of Ackley

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Daggs	Mayor	Jan 2016
Dale Brass	Mayor Pro tem	Jan 2018
Josh Gronewold	Council Member	Jan 2016
Arlene Thuente	Council Member	Jan 2016
Robert Harms	Council Member	Jan 2018
Susan Ibeling	Council Member	Jan 2018
Cyndee Roskens	City Clerk	Indefinite
Michael A. Smith	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Erik Graham	Mayor	Jan 2018
Dale Brass	Mayor Pro tem	Jan 2018
Robert Harms	Council Member	Jan 2018
Susan Ibeling	Council Member	Jan 2018
Al Jones	Council Member	Jan 2020
Joe Wessels	Council Member	Jan 2020
Cyndee Roskens	City Clerk	Resigned 7/15/16
Kelly DeBerg	City Clerk	Indefinite
Michael A. Smith	Attorney	Indefinite

City of Ackley



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Ackley, 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, each major fund and the aggregate remaining fund information of the City of Ackley 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 Ackley's basic financial statements. The financial statements for the six years ended June 30, 2015 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 9 through 14 and 36 through 42, 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 27, 2017 on our consideration of the City of Ackley'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 Ackley's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

June 27, 2017

City of Ackley

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Ackley provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

As explained in Note 10 on page 32, the beginning cash and revenue capital loan note balances increased a net \$10,278 and \$208,558, respectively, to correctly report the June 30, 2015 balances. To enhance comparability, all amounts presented for fiscal year 2015 in this discussion and analysis was restated, where applicable, to reflect these changes as if the changes had been made in the prior year.

2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 30.7%, or approximately \$875,000, from fiscal year 2015 to fiscal year 2016. Bond proceeds decreased approximately \$815,000.
- Disbursements of the City's governmental activities decreased 36.6%, or approximately \$1,006,000, in fiscal year 2016 from fiscal year 2015. Debt service, capital projects and general government disbursements decreased approximately \$381,000, \$347,000 and \$176,000, respectively.
- The City's total cash basis net position increased 10.6%, or approximately \$184,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased approximately \$234,000 and the cash basis net position of the business type activities decreased approximately \$50,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

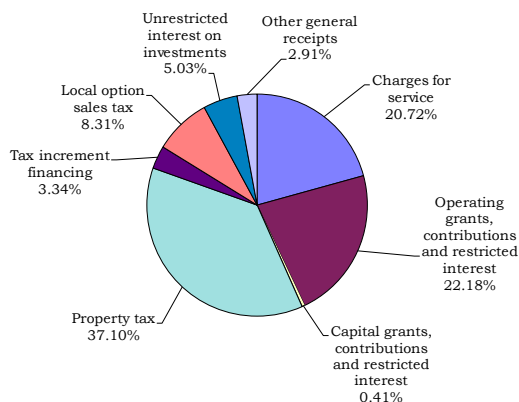
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

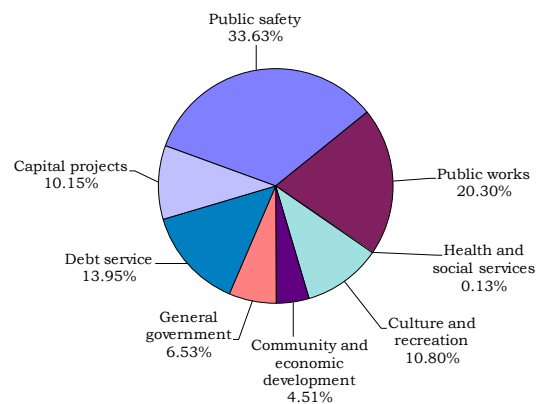
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$1.401 million to approximately \$1.635 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 409,662	514,304
Operating grants, contributions and restricted interest	438,387	191,821
Capital grants, contributions and restricted interest	8,073	71,070
General receipts:		
Property tax	733,182	782,111
Tax increment financing	66,068	21,707
Local option sales tax	164,247	171,013
Unrestricted interest on investments	99,484	74,458
Bond and loan proceeds	-	815,470
Other general receipts	57,571	209,939
Total receipts	1,976,674	2,851,893
Disbursements:		
Public safety	586,372	592,651
Public works	353,870	344,072
Health and social services	2,200	2,964
Culture and recreation	188,145	309,853
Community and economic development	78,546	62,877
General government	113,726	289,424
Debt service	243,168	623,810
Capital projects	176,842	523,439
Total disbursements	1,742,869	2,749,090
Change in cash basis net position	233,805	102,803
Cash basis net position beginning of year, as restated	1,401,358	1,298,555
Cash basis net position end of year	\$ 1,635,163	1,401,358

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 30.7%, or approximately \$875,000, from the prior year. The total cost of all programs and services decreased approximately \$1,006,000, or 36.6%, with no new programs added this year. The significant decrease in receipts and disbursements was primarily the result of bond and loan proceeds received in the prior year to pay for projects and to redeem general obligation debt.

The cost of all governmental activities this year was approximately \$1.743 million compared to approximately \$2.749 million last year. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$887,000 because some of the cost was paid by those directly benefited from the programs (approximately \$410,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$446,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2016 from approximately \$777,000 to approximately \$856,000, principally due to receiving contributions for the purchase of two ambulance cots with power loaders and increased road use tax receipts.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 390,703	359,363
Sewer	339,316	324,315
Storm water	70,642	48,359
Capital grants, contributions and restricted interest	3,829	-
General receipts:		
Other general receipts	-	15,983
Total receipts	804,490	748,020
Disbursements:		
Water	415,808	332,895
Sewer	374,327	288,002
Storm sewer	64,229	39,716
Total disbursements	854,364	660,613
Change in cash basis net position	(49,874)	87,407
Cash basis net position beginning of year	337,344	249,937
Cash basis net position end of year	\$ 287,470	337,344

Total business type activities receipts for the fiscal year were approximately \$804,000 compared to approximately \$748,000 last year. This increase was due primarily to increased charges for service receipts in each system. The cash balance decreased approximately \$50,000 from the prior year. Total disbursements for the fiscal year increased 29.3% to approximately \$854,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Ackley completed the year, its governmental funds reported a combined fund balance of \$1,635,163, an increase of approximately \$234,000 above last year’s restated total of \$1,401,358. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$202,174 over the prior year to \$333,669. Disbursements were approximately \$316,000 less in the current year than the prior year, primarily in the culture and recreation and general government functions.
- The Special Revenue, Road Use Tax Fund cash balance increased \$22,964 to a deficit of \$44,550. This increase was also attributable to approximately \$28,000 more road use tax receipts received in the current year.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$14,107 to a deficit of \$379,874.
- The Debt Service Fund cash balance decreased \$10,535 to a deficit of \$21,950.
- The Capital Projects Fund decreased \$64,405 to \$1,617,171. Bond proceeds received in the prior year continue to be spent on projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$24,931 to \$360,289, due primarily to an increase in the disbursements over the prior year.
- The Enterprise, Sewer Fund cash balance decreased \$34,865 to a deficit of \$157,013 due primarily to an increase in the disbursements over the prior year.

BUDGETARY HIGHLIGHTS

The City did not amend its budget over the course of the year. The City’s receipts were \$290,127 more than budgeted. This was primarily due to the City receiving more road use tax and other intergovernmental receipts than budgeted.

Overall, the City exceeded the amounts budgeted by \$313,648. The City exceeded the amounts budgeted in the public safety, public works, community and economic development, debt service, capital projects and business type activities functions for the year ended June 30, 2016.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$888,870 of bonds, notes and other long-term debt outstanding, compared to \$1,178,300 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2016	2015
General obligation capital loan notes	\$ 480,000	650,000
Sewer revenue capital loan notes	60,000	80,000
Child care facility revenue capital loan note	193,298	208,558
Bank loan	20,245	30,470
Capital leases	135,327	209,272
Total	\$ 888,870	1,178,300

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation of \$635,572 is significantly below its constitutional debt limit of approximately \$3 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Ackley's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the County was 3.8% at June 30, 2016, which is the same as the State's unemployment rate at the same time.

These indicators were taken into account when adopting the budget for fiscal year 2017. Amounts available for appropriation in the operating budget are \$2,702,486, an increase of 7.9% over the fiscal year 2016 budget. The increase is primarily related to charges for fees and service and miscellaneous receipts. The City will use these increases in receipts to finance programs we currently offer. Budgeted disbursements are expected to increase \$237,612 over the 2016 fiscal year budget of \$2,283,585. This is primarily due to the community and economic development and business type activities functions.

If these estimates are realized, the City's cash balance is expected to increase approximately \$117,000 by the close of fiscal year 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelly DeBerg, City Clerk, 208 State Street, Ackley, Iowa 50601.

Basic Financial Statements

City of Ackley

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	\$ 586,372	141,067	142,837	-
Public works	353,870	227,019	210,937	-
Health and social services	2,200	-	-	-
Culture and recreation	188,145	39,171	66,121	-
Community and economic development	78,546	923	-	-
General government	113,726	1,482	18,492	-
Debt service	243,168	-	-	-
Capital projects	176,842	-	-	8,073
Total governmental activities	1,742,869	409,662	438,387	8,073
Business type activities:				
Water	415,808	390,703	-	174
Sewer	374,327	339,316	-	146
Storm water	64,229	70,642	-	3,509
Total business type activities	854,364	800,661	-	3,829
Total	\$ 2,597,233	1,210,323	438,387	11,902
General Receipts:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year, as restated				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
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		
Governmental Activities	Business Type Activities	Total
(302,468)	-	(302,468)
84,086	-	84,086
(2,200)	-	(2,200)
(82,853)	-	(82,853)
(77,623)	-	(77,623)
(93,752)	-	(93,752)
(243,168)	-	(243,168)
(168,769)	-	(168,769)
(886,747)	-	(886,747)
-	(24,931)	(24,931)
-	(34,865)	(34,865)
-	9,922	9,922
-	(49,874)	(49,874)
(886,747)	(49,874)	(936,621)
506,589	-	506,589
226,593	-	226,593
66,068	-	66,068
164,247	-	164,247
99,484	-	99,484
57,571	-	57,571
1,120,552	-	1,120,552
233,805	(49,874)	183,931
1,401,358	337,344	1,738,702
\$ 1,635,163	287,470	1,922,633
\$ 58,658	-	58,658
1,617,171	-	1,617,171
573,484	15,889	589,373
(614,150)	271,581	(342,569)
\$ 1,635,163	287,470	1,922,633

City of Ackley

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

As of and for the year ended June 30, 2016

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 344,745	-	-
Tax increment financing	-	-	66,068
Other city tax	9,960	-	-
Licenses and permits	22,826	-	-
Use of money and property	121,744	-	-
Intergovernmental	90,589	196,367	493
Charges for service	376,729	-	-
Special assessments	12,195	-	-
Miscellaneous	141,683	-	-
Total receipts	<u>1,120,471</u>	<u>196,367</u>	<u>66,561</u>
Disbursements:			
Operating:			
Public safety	546,527	-	-
Public works	171,402	173,403	-
Health and social services	2,200	-	-
Culture and recreation	183,452	-	-
Community and economic development	-	-	52,454
General government	113,691	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>1,017,272</u>	<u>173,403</u>	<u>52,454</u>
Excess (deficiency) of receipts over (under) disbursements	<u>103,199</u>	<u>22,964</u>	<u>14,107</u>
Other financing sources (uses):			
Transfers in	98,975	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>98,975</u>	<u>-</u>	<u>-</u>
Change in cash balances	202,174	22,964	14,107
Cash balances beginning of year, as restated	131,495	(67,514)	(393,981)
Cash balances end of year	<u>\$ 333,669</u>	<u>(44,550)</u>	<u>(379,874)</u>
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Restricted for:			
Capital projects	-	-	-
Fire	296,099	-	-
Ambulance	71,475	-	-
Library	44,852	-	-
Other purposes	36,620	-	-
Unassigned	<u>(115,377)</u>	<u>(44,550)</u>	<u>(379,874)</u>
Total cash basis fund balances	<u>\$ 333,669</u>	<u>(44,550)</u>	<u>(379,874)</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
220,534	-	147,615	712,894
-	-	-	66,068
6,059	-	168,516	184,535
-	-	-	22,826
-	-	-	121,744
6,040	7,500	4,186	305,175
-	-	-	376,729
-	573	-	12,768
-	-	32,252	173,935
<u>232,633</u>	<u>8,073</u>	<u>352,569</u>	<u>1,976,674</u>
-	-	39,845	586,372
-	-	9,065	353,870
-	-	-	2,200
-	-	4,693	188,145
-	-	26,092	78,546
-	-	35	113,726
243,168	-	-	243,168
-	176,842	-	176,842
<u>243,168</u>	<u>176,842</u>	<u>79,730</u>	<u>1,742,869</u>
<u>(10,535)</u>	<u>(168,769)</u>	<u>272,839</u>	<u>233,805</u>
-	104,364	-	203,339
-	-	(203,339)	(203,339)
-	104,364	(203,339)	-
<u>(10,535)</u>	<u>(64,405)</u>	<u>69,500</u>	<u>233,805</u>
<u>(11,415)</u>	<u>1,681,576</u>	<u>61,197</u>	<u>1,401,358</u>
<u>(21,950)</u>	<u>1,617,171</u>	<u>130,697</u>	<u>1,635,163</u>
-	-	58,658	58,658
-	1,617,171	-	1,617,171
-	-	-	296,099
-	-	-	71,475
-	-	-	44,852
-	-	124,438	161,058
<u>(21,950)</u>	<u>-</u>	<u>(52,399)</u>	<u>(614,150)</u>
<u>(21,950)</u>	<u>1,617,171</u>	<u>130,697</u>	<u>1,635,163</u>

City of Ackley

City of Ackley

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	Nonmajor	Total
			Storm Water	
Operating receipts:				
Charges for service	\$ 387,157	339,316	70,642	797,115
Miscellaneous	3,546	-	-	3,546
Total operating receipts	390,703	339,316	70,642	800,661
Operating disbursements:				
Business type activities	415,808	349,877	34,778	800,463
Excess (deficiency) of operating receipts over (under) operating disbursements	(25,105)	(10,561)	35,864	198
Non-operating receipts (disbursements):				
Special assessments	174	146	3,509	3,829
Debt service	-	(24,450)	(29,451)	(53,901)
Net non-operating receipts (disbursements)	174	(24,304)	(25,942)	(50,072)
Change in cash balances	(24,931)	(34,865)	9,922	(49,874)
Cash balances beginning of year, as restated	385,220	(122,148)	74,272	337,344
Cash balances end of year	\$ 360,289	(157,013)	84,194	287,470
Cash Basis Fund Balances				
Restricted for water deposits	\$ 15,889	-	-	15,889
Unrestricted	344,400	(157,013)	84,194	271,581
Total cash basis fund balances	\$ 360,289	(157,013)	84,194	287,470

See notes to financial statements.

City of Ackley

City of Ackley

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Ackley is a political subdivision of the State of Iowa located in the Hardin County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and storm water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Ackley 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: Hardin County Assessor's Conference Board, Hardin County Emergency Management Commission, and Hardin 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:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

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

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

The Cash Basis Statement of Activities and Net Position 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 non-major governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

The Capital Project Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

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:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, debt service, capital projects and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 72.

(3) Long-Term Debt

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

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 175,000	11,200	20,000	3,000	195,000	14,200
2018	35,000	7,700	20,000	2,020	55,000	9,720
2019	35,000	7,000	20,000	1,020	55,000	8,020
2020	35,000	6,300	-	-	35,000	6,300
2021	40,000	5,600	-	-	40,000	5,600
2022-2025	160,000	12,000	-	-	160,000	12,000
Total	\$ 480,000	49,800	60,000	6,040	540,000	55,840

Revenue Capital Loan Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$245,000 of sewer revenue notes issued in November 2004. Proceeds from the notes provided financing for the construction of extensions and improvements to the municipal sewer utility of the City. The notes are payable solely from sewer customer net receipts and are payable through 2019. During the year ended June 30, 2016, annual principal and interest payments on the notes exceeded net operating receipts. The total principal and interest remaining to be paid on the notes is \$66,040. For the current year, principal and interest paid and total customer deficit net operating receipts were \$23,950 and \$10,561, respectively.

The resolution providing for the issuance of the revenue notes include 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 separate sewer revenue note sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a sewer reserve account and monthly transfers shall be made to a sewer revenue reserve account within the Enterprise Fund until specific minimum balances have been accumulated in the accounts. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

The City has not established the sinking account or the reserve account.

Revenue Capital Loan Notes

On August 28, 2003, the City entered into an agreement with the U.S. Department of Agriculture (USDA) for the issuance of \$265,000 of child care facility revenue capital loan notes for the purpose of paying costs of construction of a Community Child Care Facility and refunding any outstanding capital loan notes. The notes bear interest of 4.25% per annum and requires monthly payments of \$1,151 through August 28, 2043. The AGWSR Community School District (CSD) leases the child care facility from the City for \$4,638 per quarter for a total of \$18,552 for the year. For the current year, principal and interest paid was \$15,260 and \$8,552, respectively, of which \$9,269 and \$731, respectively was paid by the CSD directly to the USDA.

The letter of conditions from the USDA includes the following provisions:

- (a) One monthly payment of one-twelfth of the annual payment will be set aside from the receipts of the facility to a debt service account each month.
- (b) A minimum of ten percent of the monthly or annual payment will be set aside from receipts in a payment reserve account each month, and will continue until one annual payment has been accumulated.
- (c) A facility replacement reserve account will be established which will require funds from the revenue account to be set aside each month as agreed with the USDA.

The City has not established the required accounts.

Bank Loan

On February 27, 2015, the City entered into a bank loan for the purchase of a police car for \$30,470. The agreement requires three annual payments of \$10,783, paid in August of each year, including interest at 4.25% per annum. During the year ended June 30, 2016, the City paid \$10,225 of principal under the agreement, leaving an outstanding principal balance of \$20,245 at June 30, 2016.

Capital Lease Purchase Agreements

On September 28, 2012, the City entered into a capital lease purchase agreement for a street sweeper for \$177,960. The agreement requires five annual payments of \$37,620, paid in September of each year, including interest at 2.85% per annum. The first payment was due at the signing of the lease and was paid in September 2012. During the year ended June 30, 2016, the City paid \$35,564 of principal under the agreement, leaving an outstanding principal balance of \$36,577 at June 30, 2016.

On November 18, 2013, the City entered into a capital lease purchase agreement for a police car for \$27,447. The agreement requires three annual payments of \$9,665, paid in November of each year, including interest at 5.75% per annum. The first payment was due at the signing of the lease and was paid in November 2013. During the year ended June 30, 2016, the City paid the remaining principal balance of \$9,139.

On April 23, 2014, the City entered into a capital lease purchase agreement for two new loaders for \$133,576. The agreement requires five annual payments of \$29,451, paid in April of each year, including interest at 3.29% per annum. During the year ended June 30, 2016, the City paid \$25,824 of principal under the agreement, leaving an outstanding principal balance of \$82,763 at June 30, 2016.

On April 1, 2015, the City entered into a capital lease purchase agreement for an ambulance for \$32,000. The agreement requires 15 quarterly payments of \$1,500, with a final payment of \$1,625, including interest at 7.90% per annum. The first payment of \$11,500 was due at the signing of the lease and was paid in April 2015 and the first quarterly payment due July 1, 2015 was paid prior to June 30, 2015. Therefore, during the year ended June 30, 2016, the City paid \$3,416 of principal under the agreement, representing three quarterly payments, leaving an outstanding principal balance of \$15,987 at June 30, 2016.

(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, P.O. 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 \$35,939.

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 \$102,294 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 0.0020705%, which was an increase of 0.0004357% over 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 \$17,053, \$45,241 and \$65,788, 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	<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 (Asset) to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability (asset) 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 (asset)	\$ 290,690	102,294	(56,584)

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. There are 5 active members in the plan.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark.

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 month-to-month basis. The most recent active member monthly premiums for the City are \$581. For the year ended June 30, 2016, the City expended \$37,764 and plan members eligible for benefits did not contribute to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 6,000
Sick leave	44,000
Total	<u>\$ 50,000</u>

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
General	Special Revenue:	
	Employee Benefit	\$ 64,188
	Local Option Sales Tax	<u>34,787</u>
		98,975
Capital Projects	Special Revenue:	
	Local Option Sales Tax	<u>104,364</u>
Total		<u>\$ 203,339</u>

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

(8) 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.

(9) Deficit Balances

The Special Revenue, Road Use Tax, Urban Renewal Tax Increment, Urban Renewal and Debt Service Funds have deficit balances of \$44,550, \$379,874, \$52,399 and \$21,950, respectively at June 30, 2016.

(10) Restatements

The beginning year cash balances for the General Fund, Capital Projects Fund, governmental activities and the Enterprise, Water Fund were restated for accounts incorrectly classified as of June 30, 2015. The General Fund, Special Revenue, Ackley Firemen Fund and governmental activities were restated to include separately maintained accounts previously excluded as of June 30, 2015. In addition, the General Fund and governmental activities were decreased for a negative balance not correctly reported as of June 30, 2015. The effect of this restatement is as follows:

	Balances June 30, 2015, as previously reported	Accounts reclassified	Separately maintained accounts not previously included	Negative balance not previously reported	Balances July 1, 2015, as restated
Governmental Activities:					
Total Governmental Activities	\$ 1,391,080	-	70,242	(59,964)	1,401,358
General	(138,862)	288,925	41,396	(59,964)	131,495
Capital Reserve Endowment	915,325	(915,325)	-	-	-
Fire Expendable Trust	223,774	(223,774)	-	-	-
Capital Projects	766,251	915,325	-	-	1,681,576
Cougar Den	479	(479)	-	-	-
Police Car Expendable Trust	1,768	(1,768)	-	-	-
Ambulance Expendable Trust	15,193	(15,193)	-	-	-
Library Board	43,295	(43,295)	-	-	-
Swimming Pool Trust	4,416	(4,416)	-	-	-
Ackley Firemen	-	-	28,846	-	28,846
Business Type Activities:					
Water	253,343	131,877	-	-	385,220
Water Improvement Reserve	109,373	(109,373)	-	-	-
Water Reserve Sinking	6,511	(6,511)	-	-	-
Water Deposits	15,993	(15,993)	-	-	-

In addition, the beginning of year balance reported in Schedule 2 for the USDA, child care facility revenue capital loan notes was restated to \$208,558 to include the June 30, 2015 balance not previously reported.

(11) Subsequent Events

In July 2016, the City issued \$835,000 of general obligation corporate purpose bonds, Series 2016A for street, sidewalk, bridge, sanitary sewer system, water system and storm water management system improvements, improvements to the City Hall, including parking improvements and the Heritage Center Museum, improvements to the Ackley Municipal Swimming Pool, installation of aesthetic streetscape elements on and along Main Street in the City and to pay costs associated with the issuance of the bonds.

In July 2016, the City issued \$23,000 of general obligation capital loan notes, Series 2016 to pay costs of equipping the police department, including the purchase of a patrol car.

(12) New Accounting Pronouncement

The City of Ackley 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.

City of Ackley

Other Information

City of Ackley
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 712,894	-	712,894
Tax increment financing	66,068	-	66,068
Other city tax	184,535	-	184,535
Licenses and permits	22,826	-	22,826
Use of money and property	121,744	-	121,744
Intergovernmental	305,175	-	305,175
Charges for service	376,729	797,115	1,173,844
Special assessments	12,768	3,829	16,597
Miscellaneous	173,935	3,546	177,481
Total receipts	1,976,674	804,490	2,781,164
Disbursements:			
Public safety	586,372	-	586,372
Public works	353,870	-	353,870
Health and social services	2,200	-	2,200
Culture and recreation	188,145	-	188,145
Community and economic development	78,546	-	78,546
General government	113,726	-	113,726
Debt service	243,168	-	243,168
Capital projects	176,842	-	176,842
Business type activities	-	854,364	854,364
Total disbursements	1,742,869	854,364	2,597,233
Excess of receipts and other financing sources over disbursements and other financing uses	233,805	(49,874)	183,931
Balances beginning of year, as restated	1,401,358	337,344	1,738,702
Balances end of year	\$ 1,635,163	287,470	1,922,633

See accompanying independent auditor's report.

Budgeted Amounts	
Original and Final	Total Variance
711,694	1,200
64,461	1,607
176,524	8,011
3,825	19,001
93,317	28,427
197,314	107,861
1,112,836	61,008
-	16,597
131,066	46,415
<u>2,491,037</u>	<u>290,127</u>
449,512	(136,860)
346,899	(6,971)
2,500	300
201,298	13,153
77,711	(835)
173,177	59,451
188,749	(54,419)
113,933	(62,909)
729,806	(124,558)
<u>2,283,585</u>	<u>(313,648)</u>
207,452	(23,521)
<u>1,491,174</u>	<u>247,528</u>
<u>1,698,626</u>	<u>224,007</u>

City of Ackley

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, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, debt service, capital projects and business type activities functions.

City of Ackley

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

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

Other Information

	2016	2015
City's proportion of the net pension liability	0.0020705%	0.0016348%
City's proportionate share of the net pension liability	\$ 102	65
City's covered-employee payroll	\$ 355	341
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	28.73%	19.06%
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 fiscal year.

See accompanying independent auditor's report.

City of Ackley

Schedule of City Contributions

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

Other Information

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 36	34	33	37
Contributions in relation to the statutorily required contribution	<u>(36)</u>	<u>(34)</u>	<u>(33)</u>	<u>(37)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 383	355	341	396
Contributions as a percentage of covered-employee payroll	9.40%	9.58%	9.68%	9.34%

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
38	35	30	25	22	24
(38)	(35)	(30)	(25)	(22)	(24)
-	-	-	-	-	-
425	408	381	346	320	345
8.94%	8.58%	7.87%	7.23%	6.88%	6.96%

City of Ackley

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 Ackley

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		
	Employee Benefits	Local Option Sales Tax	Urban Renewal
Receipts:			
Property tax	\$ 147,615	-	-
Other city tax	4,269	164,247	-
Intergovernmental	4,186	-	-
Miscellaneous	-	-	-
Total receipts	156,070	164,247	-
Disbursements:			
Operating:			
Public safety	15,153	-	-
Public works	9,065	-	-
Cultures and recreation	4,693	-	-
Community and economic development	-	-	26,092
General government	35	-	-
Total disbursements	28,946	-	26,092
Excess (deficiency) of receipts over (under) disbursements	127,124	164,247	(26,092)
Other financing uses:			
Transfers out	(64,188)	(139,151)	-
Change in cash balances	62,936	25,096	(26,092)
Cash balances beginning of year, as restated	-	-	(26,307)
Cash balances end of year	\$ 62,936	25,096	(52,399)
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Restricted for other purposes	62,936	25,096	-
Unassigned	-	-	(52,399)
Total cash basis fund balances	\$ 62,936	25,096	(52,399)

See accompanying independent auditor's report.

<u>Permanent</u>		
Ackley Firemen	Cemetery Perpetual Care	Total
-	-	147,615
-	-	168,516
-	-	4,186
32,252	-	32,252
32,252	-	352,569
<hr/>		
24,692	-	39,845
-	-	9,065
-	-	4,693
-	-	26,092
-	-	35
24,692	-	79,730
7,560	-	272,839
-	-	(203,339)
7,560	-	69,500
28,846	58,658	61,197
36,406	58,658	130,697
<hr/>		
-	58,658	58,658
36,406	-	124,438
-	-	(52,399)
36,406	58,658	130,697

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Series 2014A	Jul 23, 2014	2.0-3.0	\$ 785,000
Revenue capital loan notes:			
Sewer	Nov 1, 2004	2.45-5.10	\$ 245,000
Revenue capital loan notes:			
USDA - Child care facility	Aug 28, 2003	4.25	\$ 265,000
Bank loan:			
Police car	Feb 27, 2015	4.25	\$ 30,470
Capital lease purchase agreements:			
Street cleaner	Sep 28, 2012	2.85	\$ 177,960
Police car	Nov 18, 2013	5.75	27,447
Loaders	Apr 23, 2014	3.29	133,576
Ambulance	Apr 1, 2015	7.90	32,000
Total			

* - The AGWSR Community School District paid \$9,269 and \$731 of principal and interest, respectively, directly to the USDA.

See accompanying independent auditor's report.

Balance Beginning of Year, as restated	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
650,000	-	170,000	480,000	14,600
80,000	-	20,000	60,000	3,950
208,558	-	15,260	193,298	8,552 *
30,470	-	10,225	20,245	558
72,141	-	35,564	36,577	2,056
9,139	-	9,139	-	526
108,587	-	25,824	82,763	3,627
19,405	-	3,418	15,987	1,082
\$ 209,272	-	73,945	135,327	7,291

City of Ackley

City of Ackley

Note Maturities

June 30, 2016

Year Ending June 30,	General Obligation Capital Loan Notes Series 2014A		Sewer Revenue Capital Loan Notes Series 2004	
	Issued Jul 23, 2014		Issued Nov 1, 2004	
	Interest Rates	Amount	Interest Rates	Amount
2017	2.00%	\$ 175,000	4.90%	\$ 20,000
2018	2.00	35,000	5.00	20,000
2019	2.00	35,000	5.10	20,000
2020	2.00	35,000		-
2021	2.00	40,000		-
2022	3.00	40,000		-
2023	3.00	40,000		-
2024	3.00	40,000		-
2025	3.00	40,000		-
Total		<u>\$ 480,000</u>		<u>\$ 60,000</u>

See accompanying independent auditor's report.

City of Ackley

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Seven Years

	2016	2015	2014	2013
Receipts:				
Property tax	\$ 712,894	749,837	644,266	624,047
Tax increment financing	66,068	21,707	9,539	57,628
Other city tax	184,535	214,767	186,645	175,731
Licenses and permits	22,826	5,846	3,584	3,130
Use of money and property	121,744	110,512	97,353	96,718
Intergovernmental	305,175	338,213	211,874	241,961
Charges for service	376,729	387,864	249,799	295,116
Special assessments	12,768	4,144	3,841	5,025
Miscellaneous	173,935	203,533	101,470	74,686
Total	\$ 1,976,674	2,036,423	1,508,371	1,574,042
Disbursements:				
Operating:				
Public safety	\$ 586,372	592,651	450,398	502,256
Public works	353,870	344,072	342,072	361,919
Health and social services	2,200	2,964	1,254	-
Culture and recreation	188,145	309,853	186,098	196,395
Community and economic development	78,546	62,877	41,840	35,093
General government	113,726	289,424	175,588	129,943
Debt service	243,168	623,810	196,528	216,237
Capital projects	176,842	523,439	307,619	105,629
Total	\$ 1,742,869	2,749,090	1,701,397	1,547,472

See accompanying independent auditor's report.

2012	2011	2010
586,045	585,921	565,336
110,366	70,623	-
166,525	190,110	164,545
3,406	3,352	3,392
95,680	92,794	99,945
1,087,652	625,664	271,518
290,413	340,888	324,639
4,905	-	1,533
67,322	118,628	75,262
<u>2,412,314</u>	<u>2,027,980</u>	<u>1,506,170</u>
455,858	643,121	363,202
342,411	357,926	351,043
893	5,292	2,165
194,108	201,070	288,988
7,104	16,919	125,355
134,543	106,963	122,300
182,105	180,005	185,985
1,010,368	566,197	429,774
<u>2,327,390</u>	<u>2,077,493</u>	<u>1,868,812</u>

City of Ackley



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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Ackley, 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 27, 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 Ackley'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 Ackley's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Ackley'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 Ackley's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (E) to be material weaknesses.

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

Compliance and Other Matters

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

The City of Ackley's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Ackley'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 Ackley 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 27, 2017

City of Ackley

Schedule of Findings

Year ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

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

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

- (1) Accounting system – performing all accounting functions, including making journal entries and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – recordkeeping, investing and reconciling earnings.
- (4) Long-term debt – recordkeeping, compliance and debt payment processing.
- (5) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (6) Disbursements – invoice processing, check preparation and reconciling.
- (7) Payroll – rates are entered into the system by someone independent and are not reviewed and approved by someone independent.
- (8) Compensated absences – no review by an independent person.
- (9) Journal entries – no review and approval by an independent person.

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

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

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures 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. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

City of Ackley

Schedule of Findings

Year ended June 30, 2016

Response – The Clerk now reviews all bank deposits generated by the Deputy Clerk. A Council Member now reviews invoices prior to payment and completed bank reconciliations. The City will continue to look at procedures which will help segregate duties the best it can with a limited numbers of employees.

Conclusion – Response accepted.

(B) 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 polices and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City’s financial statements.

In addition, Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." All funds of the City should be included in the Clerk's report and the report should also include all investments as part of the fund balances to comply with Chapter 384.20 of the Code of Iowa

Condition – The June 30, 2016 book balances did not include the activity of seven separately maintained bank accounts. The June 30, 2015 cash balances reported in the prior year audit report did not include the ending cash balance of \$70,242 for these accounts. Adjustments and beginning cash balance restatements were subsequently made by the City to properly include these amounts in the financial statements.

At June 30, 2015, the City had a negative “adjustment/conversion” account in the general ledger within the general fund which was not included in the June 30, 2015 audit report. However, this account is included in the balance which is reconciled to the bank statement, therefore, should be included in the cash balance of the general fund. A beginning cash balance restatement of \$59,964 was subsequently made by the City to properly include this deficit amount in the financial statements.

In addition, the Clerk's financial reports did not initially reconcile to the computer printouts, receipt and disbursement journals, subsidiary ledgers and bank accounts due to various posting and clerical errors. Adjustments were subsequently made by the City for proper reporting purposes.

Cause – City policies do not require and procedures have not been established to ensure all accounts are included in the book balances reported, all balances are properly included in the financial statements and financial reports agree to supporting documentation.

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

City of Ackley

Schedule of Findings

Year ended June 30, 2016

Recommendation – The City should establish procedures to ensure all separately maintained accounts are included in the book balance and the book balances agree with amounts reported in the financial statements. The City should also establish procedures to ensure general ledger balances reconcile to supporting documentation on a monthly basis.

Response – Many of the separate bank accounts have been closed and the funds deposited in the main bank account. The remaining bank accounts will either be closed or added into the City’s financial software system. Financial statements are generated from the financial software and the general ledger balances in the software are reconciled to the bank balances on a monthly basis.

Conclusion – Response accepted.

(C) 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 and reviewed by an independent person.

Condition – Monthly bank reconciliations were not reviewed by an independent person. Additionally, dual signatures can be applied by the same individual using a signature stamp.

Cause – Procedures have not been designed and implemented to ensure bank reconciliations have been reviewed by an independent person and dual signatures cannot be applied by the same individual.

Effect – Lack of review may result in the potential for errors.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be reviewed by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review. The signature stamp should be discarded and procedures should be established to ensure the same individual is not able to apply two separate signatures on the check during the processing of checks.

Response – A Council Member now reviews all monthly bank reconciliations and initials them. The bank reconciliation procedures include matching the bank statements to the City’s records. All checks are now signed by the Clerk and the Mayor. Signature stamps are no longer being used.

Conclusion – Response accepted.

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

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

City of Ackley

Schedule of Findings

Year ended June 30, 2016

Condition – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Utility collections were not reconciled to deposits. In addition, there was no testing of utility rates to ensure proper billing.

Cause – Policies have not been established and procedures have not been implemented to maintain delinquent account listings, reconcile utility billings, collections and delinquent accounts, to reconcile utility collections to deposits and the review and approval of utility rates to ensure proper billing.

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

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

Response – The Deputy Clerk now performs monthly utility billing reconciliations. The Deputy Clerk will begin working through old delinquent accounts and attempt collections. She will also establish procedures to identify, report on and collect on accounts as they become delinquent. These procedures will include a review by a Council Member of delinquent accounts.

Conclusion – Response accepted.

(E) Vacation Payout

Criteria – The employee handbook states “You **may not** receive pay in lieu of vacation while employed” and “Any vacation time remaining at the **end of the fiscal year** will be lost”. The employee handbook also includes the policy statement full time employees receive the next year’s vacation balance on their anniversary date.

Condition – During June 2016, the former City Clerk received a vacation payout of \$1,828 for 80 hours. The paystub included a note which stated “10 days vacation paid per phone call” with a Council Member. 22 hours of vacation remained and were carried over into the next fiscal year. On the former City Clerk’s anniversary in July, she received 160 hours of vacation. The former City Clerk resigned on July 15, 2016 and was paid for the total 182 hours, which included the 22 hours carried over from the prior year, which is in contradiction to the employee handbook.

Cause – Policies have been established, however they were not followed.

Effect – This condition resulted in an overpayment of 102 hours (the 80 hours paid in June 2016 and the 22 hours improperly carried over and paid in July 2016) of unused vacation to the former City Clerk.

City of Ackley

Schedule of Findings

Year ended June 30, 2016

Recommendation – Any exceptions to established policies should be approved by the City Council and documented in the minutes. The City should also consult legal counsel on the disposition of this matter.

Response – Legal counsel has been obtained. Any exceptions to policy in the future will be approved by the Council and documented in the minutes.

Conclusion – Response accepted.

(F) Accounting Policies and 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.

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

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

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

Response – The City will work on developing an accounting policies and procedures manual.

Conclusion – Response accepted.

(G) Disaster Recovery Plan

Criteria – Properly designed policies and procedures pertaining to control activities over the City's computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, 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's disaster recovery plan does not provide for identification of staff responsibilities and does not include a current list of hardware and components and software application. Also, the plan does not require a copy of the plan or copies of all user documentation and policy and procedures manuals be kept off site or a determination the plan has been adequately tested.

City of Ackley

Schedule of Findings

Year ended June 30, 2016

Cause – Management has not required a complete written disaster recovery plan addressing financial continuity, storage of plan and copies of user documentation and policy and procedures manuals to be kept off site and documentation of whether the plan has been adequately tested.

Effect – Lack of a disaster recovery plan could result in the City’s inability to function in the event of a disaster or continue business without interruption.

Recommendation – The written disaster recovery plan should be updated to include the above items.

Response – The City will work towards updating its current disaster recovery plan and in this updated plan the City will include the items identified.

Conclusion – Response accepted.

(H) Disbursements

Criteria – An effective internal control system provides for internal controls related to City Council approval of disbursements prior to payment and requiring adequate supporting documentation for all disbursements.

Condition – Four of 20 disbursements tested were approved by the City Council after payment had been made. City staff could not locate supporting documentation for two mileage reimbursement checks to the former City Clerk in the amounts of approximately \$209 and \$150.

Cause – Policies have not been established and procedures have not been implemented to require all disbursements to be supported and approved by the City Council prior to payment.

Effect – The lack of City Council approval prior to disbursement increases the probability errors could be made in the amount disbursed or disbursements which may be unallowable were made. The lack of support increases the risk inaccurate amounts will be disbursed and the potential for invalid claims.

Recommendation – The City should ensure all disbursements are supported and are approved by the City Council prior to payment.

Response – A Council Member now reviews and approves all invoices for payment in the regular monthly disbursement cycle and initials them. The Mayor reviews and initials any disbursements made outside of the regular monthly cycle. For any purchases for items over \$500, a purchase order is issued and two signatures from Council Members are obtained. This purchase order is attached to the invoice. All disbursements are listed in a monthly claims report and approved by the City Council at their regular monthly meeting. Documentation for any travel reimbursements will be retained with the disbursement check stub.

Conclusion – Response accepted.

City of Ackley

Schedule of Findings

Year ended June 30, 2016

(I) Transfers

Criteria – An effective internal control system provides for internal controls related to supporting documentation being maintained for all transfers to document the propriety of the transfer.

Condition – For 11 of 15 transfer transactions tested, there was no supporting documentation available to document the propriety.

Cause – Policies have not established and procedures have not been implemented to require supporting documentation for all transfers to document propriety.

Effect – Transfers could be made which are not supported or are not proper.

Recommendation – The City should establish policies and procedures to maintain adequate supporting documentation for all transfers.

Response – The City will retain supporting documentation for all transfers made in the future.

Conclusion – Response accepted.

(J) Compensated Absences Balances

Criteria – An effective internal control system provides for internal controls related to proper support and documentation for unused vacation and sick leave hours.

Condition – The City converted its compensated absences balances to its computer system in March 2016. The amounts added as balances at that date did not agree with the manual records kept previously. The computer generated report included a description “changed through manual update”.

Cause – Policies have not established and procedures have not been implemented to ensure hours included in the conversion could be supported. The adjusted balances were not approved by someone independent prior to the conversion.

Effect – This condition increases the risk of inaccurate compensated absences hours being added to the system.

Recommendation – The City should establish policies and procedures to ensure compensated balance hours are properly recorded and an independent review of the hours should be performed. The review of the balances should be documented by the signature or initials of the reviewer and the date of the review.

Response – The new payroll software automatically will accrue and track compensated balance hours. In addition, the City Clerk will keep a separate spreadsheet to manually track the hours and reconcile the two methods monthly. A Council Member will review this reconciliation monthly.

Conclusion – Response accepted.

City of Ackley

Schedule of Findings

Year ended June 30, 2016

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Ackley

Schedule of Findings

Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, public works, community and economic development, debt service, capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” This appears to be due to employee oversight.

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 – We will amend the budget as required in the future.

Conclusion – Response accepted.

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

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Cardmember Service	Amazon prime membership	\$ 99
Cardmember Service	Sales tax on purchases	74

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

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

Response – The City will review all invoices for sales tax before payments are made. The City will also review all items and ensure they meet the test of public purpose and document the public purpose for any questionable disbursements.

Conclusion – Response accepted.

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

City of Ackley

Schedule of Findings

Year ended June 30, 2016

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

Name, Title and Business Connection	Transaction Description	Amount
Robert Harms, Council Member, brother of Harley Harms, Owner of H.H. Construction	Snow removal, construction	\$ 5,572
Dale Brass, Council Member, Owner of Sailer Ford	Repairs	3,722
Tim Eichmeier, Fire Chief, Owner of Eichmeier Motor	Repairs & services	1,757
Tim Eichmeier, Fire Chief, Owner of Eichmeier Motor	TIF rebates	1,370
James Daggs, Mayor Owner of Ackley Publishing	Publications	1,170
Retha Starek, Library Director, Wife of Ken Starek, Owner of Photography by Kendall	Photography/design	304

In accordance with Chapter 362.5(3)(d) of the Code of Iowa, the transactions with Harley Harms and Dale Brass may represent conflicts of interest since the total transactions exceeded \$2,500 during the year and the transactions were not entered into through competitive bidding.

In accordance with Chapter 362.5(3)(h) of the Code of Iowa, the transactions with Tim Eichmeier do not appear to represent a conflict of interest since he is a volunteer fire fighter.

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with James Daggs and Ken Starek do not appear to represent a conflict of interest since the total transaction with the individuals were less than \$2,500 during the fiscal year.

Recommendation – The City should consult legal counsel and develop policies and procedures to comply with Chapter 362.5(3)(d) of the Code of Iowa.

Response – A competitive bidding process is not always practical, however, the City will endeavor to competitively bid the work when practicable in the future.

Conclusion – Response accepted.

- (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.

City of Ackley

Schedule of Findings

Year ended June 30, 2016

- (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. However, the City does not have an investment policy.

Recommendation – The City should establish an investment policy.

Response – The City will work towards establishing an investment policy.

Conclusion – Response accepted.

- (8) Revenue Notes – The provisions of the sewer revenue note resolution require sufficient monthly transfers be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due and additional transfers be made to a sewer revenue reserve account until specific minimum balances have been accumulated in the accounts. The City has not established the sinking account or the reserve account.

The provisions of the child facility revenue capital loan note provided in the letter of conditions requires a monthly payment of one-twelfth of the annual payment be set aside to a debt service account, a minimum of ten percent of the monthly or annual payments be set aside in a payment reserve account each month until one annual payment has been accumulated and a facility replacement reserve account be established which requires funds from the revenue account to be set aside each month as agreed with the USDA. The City has not established the required accounts.

Recommendation – The City should establish the required accounts and make the required transfers monthly.

Response – The City has established a sinking and reserve fund in the software for the sewer revenue note and is now complying with the terms of the agreement. The USDA informed the new City Clerk the City needed to establish a reserve amount of \$16,680 to comply with the letter of condition, which the City has now done.

Conclusion – Response accepted.

- (9) Financial Condition – At June 30, 2016, the City had deficit balances in the Special Revenue, Road Use Tax, Urban Renewal Tax Increment, Urban Renewal and Debt Service Funds of deficit balances of \$44,550, \$379,874, \$52,399 and \$21,950, respectively.

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

Response – The City will investigate ways to eliminate these deficits.

Conclusion – Response accepted.

City of Ackley

Schedule of Findings

Year ended June 30, 2016

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

However, the City’s beginning and ending cash balances of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City’s general ledger.

Recommendation – The City should ensure the cash balances and debt amounts reported on the Levy Authority Summary agree with the City’s records.

Response – The City will review next year’s AURR to see that it agrees with the City records before it is submitted.

Conclusion – Response accepted.

- (11) Official Depository – The City has not adopted a current depository resolution establishing maximum deposit amounts for each bank to ensure the official depositories adequately secure all uninsured deposits.

Recommendation – A current depository resolution should be approved establishing maximum deposit amounts for each applicable bank.

Response – The City will establish a depository resolution.

Conclusion – Response accepted.

- (12) Utility Ordinances – Garbage and recycling rates do not agree with current City ordinances.

Recommendation – The City should ensure the City is charging fees in accordance with the City ordinances or as necessary approve up to date and current City ordinances.

Response – New resolutions have recently been passed establishing new garbage and recycling (landfill) fees and the fees will be updated in our system to coincide with the effective date as stated in the resolutions.

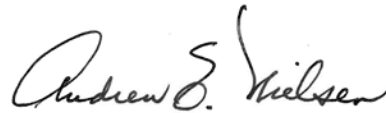
Conclusion – Response accepted.

City of Ackley

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Marcus B. Johnson, Staff Auditor
Alex W. Case, Staff Auditor
Grant W. Pomerenk, 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