



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

March 30, 2018

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

The City's receipts totaled \$1,301,379 for the year ended June 30, 2017. The receipts included \$507,731 of property tax, \$444,908 of charges for service, \$180,382 of operating grants, contributions and restricted interest, \$148,953 of local option sales tax, \$4,721 of unrestricted interest on investments and \$14,684 of other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$1,301,436, and included \$361,373 for public works, \$205,536 for debt service and \$158,331 for culture and recreation. Also, disbursements for business type activities totaled \$384,872.

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/audit-reports/1721-0552-B00F>.

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

JUNE 30, 2017

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City of Springville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Shebetka	Mayor	Jan 2018
Mareta Ralston	Mayor Pro tem	Jan 2020
Patrick Hoyt Sr.	Council Member	Jan 2018
Penny Sindelar	Council Member	Jan 2018
Brad Merrit	Council Member	Jan 2020
Dennis Thies	Council Member	Jan 2020
Kim Donaldson	City Clerk	(Resigned Apr 2017)
Mark Bloom (Appointed Jun 2017)	City Clerk	Jan 2020
Mark Parmenter	Attorney	Indefinite

City of Springville



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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 Springville, Iowa, as of and for the year ended June 30, 2017, 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

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for the Friends of the Springville Fire Department, a legally separate entity which should be reported as a discretely presented component unit. The amount by which this departure would affect the receipts, disbursements and cash balances of the aggregate discretely presented component units have not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units” paragraph, the financial statements do not present fairly the financial position of the aggregate discretely presented component units as of June 30, 2017, 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 for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we are unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2016.

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2016, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Springville as of June 30, 2017, 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 Springville’s basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. Because of the significance of the matter described in the “Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units” paragraph on the preceding page, it is inappropriate to, and we do not, express an opinion on the supplementary information.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2018 on our consideration of the City of Springville’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 solely 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 effectiveness of the City’s 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 Springville’s internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

March 21, 2018

City of Springville

Basic Financial Statements

City of Springville

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 93,750	35,719	7,008
Public works	361,373	-	135,261
Culture and recreation	159,097	31,273	38,113
Community and economic development	12,863	350	-
General government	75,776	10,174	-
Debt service	205,536	-	-
Capital projects	8,169	-	-
Total governmental activities	916,564	77,516	180,382
Business type activities:			
Water	128,622	172,450	-
Sewer	216,490	149,646	-
Landfill	39,760	45,296	-
Total business type activities	384,872	367,392	-
Total	\$ 1,301,436	444,908	180,382
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			
Cash Basis Net Position			
Restricted for:			
Debt service			
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
(51,023)	-	(51,023)
(226,112)	-	(226,112)
(89,711)	-	(89,711)
(12,513)	-	(12,513)
(65,602)	-	(65,602)
(205,536)	-	(205,536)
(8,169)	-	(8,169)
(658,666)	-	(658,666)
-	43,828	43,828
-	(66,844)	(66,844)
-	5,536	5,536
-	(17,480)	(17,480)
(658,666)	(17,480)	(676,146)
374,847	-	374,847
132,884	-	132,884
148,953	-	148,953
4,264	457	4,721
10,221	4,463	14,684
(195)	195	-
670,974	5,115	676,089
12,308	(12,365)	(57)
790,549	164,151	954,700
\$ 802,857	151,786	954,643
\$ -	1,500	1,500
429,469	-	429,469
373,388	150,286	523,674
\$ 802,857	151,786	954,643

City of Springville

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

As of and for the year ended June 30, 2017

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 318,463	-	-
Other city tax	11,427	-	148,953
Licenses and permits	33,162	-	-
Use of money and property	5,398	-	418
Intergovernmental	38,422	133,330	-
Charges for service	5,590	-	-
Special assessments	1,931	-	-
Miscellaneous	45,872	6,110	-
Total receipts	460,265	139,440	149,371
Disbursements:			
Operating:			
Public safety	93,750	-	-
Public works	28,588	332,785	-
Culture and recreation	158,331	-	-
Community and economic development	12,863	-	-
General government	75,776	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	369,308	332,785	-
Excess (deficiency) of receipts over (under) disbursements	90,957	(193,345)	149,371
Other financing sources (uses):			
Sale of capital assets	401	-	-
Transfers in	12,638	25,000	-
Transfers out	(62,487)	(21,679)	-
Total other financing sources (uses)	(49,448)	3,321	-
Change in cash balances	41,509	(190,024)	149,371
Cash balances beginning of year	507,571	51,401	241,985
Cash balances end of year	\$ 549,080	(138,623)	391,356
Cash Basis Fund Balances			
Restricted for other purposes	\$ -	-	391,356
Assigned for:			
Fire station	1,100	-	-
Library	39,637	-	-
City hall	84,356	-	-
Parks	64,231	-	-
Cemetery	39,122	-	-
Unassigned	320,634	(138,623)	-
Total cash basis fund balances	\$ 549,080	(138,623)	391,356

See notes to financial statements.

Debt Service	Nonmajor	Total
132,884	44,957	496,304
-	-	160,380
-	-	33,162
-	1	5,817
-	-	171,752
-	-	5,590
-	-	1,931
-	1,748	53,730
<u>132,884</u>	<u>46,706</u>	<u>928,666</u>
-	-	93,750
-	-	361,373
-	766	159,097
-	-	12,863
-	-	75,776
205,536	-	205,536
-	8,169	8,169
<u>205,536</u>	<u>8,935</u>	<u>916,564</u>
(72,652)	37,771	12,102
-	-	401
35,426	23,545	96,609
-	(12,638)	(96,804)
<u>35,426</u>	<u>10,907</u>	<u>206</u>
(37,226)	48,678	12,308
<u>157</u>	<u>(10,565)</u>	<u>790,549</u>
<u>(37,069)</u>	<u>38,113</u>	<u>802,857</u>
-	38,113	429,469
-	-	1,100
-	-	39,637
-	-	84,356
-	-	64,231
-	-	39,122
(37,069)	-	144,942
<u>(37,069)</u>	<u>38,113</u>	<u>802,857</u>

Exhibit C

City of Springville

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

As of and for the year ended June 30, 2017

	Enterprise			Total
	Water	Sewer	Nonmajor Landfill	
Operating receipts:				
Charges for service	\$ 172,450	149,646	45,296	367,392
Operating disbursements:				
Business type activities	110,329	90,563	39,760	240,652
Excess of operating receipts over operating disbursements	62,121	59,083	5,536	126,740
Non-operating receipts (disbursements):				
Interest on investments	331	98	28	457
Miscellaneous	3,938	525	-	4,463
Debt service	(18,293)	(34,408)	-	(52,701)
Capital projects	-	(91,519)	-	(91,519)
Net non-operating receipts (disbursements)	(14,024)	(125,304)	28	(139,300)
Excess (deficiency) of receipts over (under) disbursements	48,097	(66,221)	5,564	(12,560)
Transfers in	-	195	-	195
Change in cash balances	48,097	(66,026)	5,564	(12,365)
Cash balances beginning of year	90,058	61,490	12,603	164,151
Cash balances end of year	\$ 138,155	(4,536)	18,167	151,786
Cash Basis Fund Balances				
Restricted for debt service	\$ 1,500	-	-	1,500
Unrestricted	136,655	(4,536)	18,167	150,286
	\$ 138,155	(4,536)	18,167	151,786

See notes to financial statements.

City of Springville

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The City of Springville is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1881 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, culture and recreation, community and economic development and general government services. The City also provides water, sewer and landfill services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Springville 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 financial statements present the City of Springville (the primary government) and the Friends of the Springville Memorial Library (a component unit).

Blended Component Unit

The Friends of the Springville Memorial Library is legally separate from the City, but is so intertwined with the City it is, in substance, part of the City. The Friends of the Springville Memorial Library is organized under Chapter 504A of the Code of Iowa as a non-profit corporation and collects donations which are used to purchase items not included in the City's budget. The financial transactions of the Friends of the Springville Memorial Library have been reported as a Special Revenue Fund of the City.

Excluded Discretely Presented Component Unit

The Friends of the Springville Fire Department was organized as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa to collect donations for the benefit of the Springville Fire Department. These donations are used to purchase items which are not included in the City's budget. The financial statements do not include the financial data for the Friends of the Springville Fire Department, a legally separate entity which should be reported as a discretely presented component unit.

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: Linn County Assessor's Conference Board, Linn County Emergency Management Commission, Cedar Rapids/Linn County Solid Waste Agency and Linn County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for the local option sales tax from the State of Iowa to be used for infrastructure improvements, including water, sewer, storm sewer, streets, curb/gutter, parks and residential development.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Assigned – Amounts the City Council intends to use for specific purposes.

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, 2017, disbursements exceeded the amounts budgeted in the public works and capital projects functions.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2017 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Notes		Water Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 115,000	6,605	18,000	9,210	14,793	3,499	147,793	19,314
2019	120,000	4,133	18,000	8,670	15,204	3,089	153,204	15,892
2020	45,000	1,192	19,000	7,560	15,626	2,666	79,626	11,418
2021	-	-	19,000	6,990	16,061	2,232	35,061	9,222
2022	-	-	20,000	6,990	16,507	1,786	36,507	8,776
2023-2027	-	-	111,000	25,530	52,323	2,555	163,323	28,085
2028-2031	-	-	95,000	7,800	-	-	95,000	7,800
Total	\$ 280,000	11,930	300,000	72,750	130,514	15,827	710,514	100,507

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$403,000 of sewer revenue notes issued in September 2011 with interest at 3% per annum. The agreement also requires the City to annually pay a 0.25% servicing fee on the outstanding principal balance. Proceeds from the notes provided financing for improvements and extensions to municipal sanitary sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2031. Annual principal and interest payments on the notes are expected to require less than 60% of net receipts. The total principal and interest remaining to be paid on the notes is \$372,750. For the current year, principal and interest paid and total customer net receipts were \$33,720 and \$59,083, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$160,000 of water revenue notes issued in August 2015 with interest at 2.759% per annum. Proceeds from the notes provided financing for the construction of improvements to the municipal water system. The notes are payable solely from water customer net receipts and are payable through 2025. Annual principal and interest payments on the notes are expected to require less than 30% of net receipts. The total principal and interest remaining to be paid on the notes is \$146,341. For the current year, principal and interest paid and total customer net receipts were \$18,293 and \$62,121, respectively.

The resolutions 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 separate water revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) The City will establish rates sufficient to meet the operation and maintenance expenses of the sewer system and to produce and maintain net receipts at a level sufficient to pay the amount of principal and interest on the revenue notes falling due in the same year.

(4) Pension Plan

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

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

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

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

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

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

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

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

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%.

The City’s contributions to IPERS for the year ended June 30, 2017 totaled \$17,689.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$170,405 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 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, 2016, the City’s proportion was 0.002708%, which was a decrease of 0.000137% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$20,211, \$49,471 and \$23,121, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 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, 2016 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

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

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	<u>100%</u>	

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 275,693	170,405	81,541

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) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City’s approximate liability for earned vacation payable to employees at June 30, 2017, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 15,000

This liability has been computed based on rates of pay in effect at June 30, 2017.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Employee Benefits	\$ 12,638
Special Revenue: Road Use Tax	General	25,000
Debt Service	General	35,426
		<u>60,426</u>
Capital Projects	General	1,866
	Special Revenue: Road Use Tax	21,679
		<u>23,545</u>
Enterprise: Sewer	General	195
Total		<u>\$ 96,804</u>

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

(7) Risk Management

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

(8) Deficit Balances

The Special Revenue, Road Use Tax Fund, the Debt Service Fund and the Enterprise, Sewer Fund had deficit balances of \$138,623, \$37,069 and \$4,536 respectively, at June 30, 2017. The deficit balances were a result of interfund transfers from the General Fund not completed in fiscal year 2017. The deficit will be eliminated upon the transfer of these funds.

City of Springville

Other Information

City of Springville
 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, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 496,304	-	-
Other city tax	160,380	-	-
Licenses and permits	33,162	-	-
Use of money and property	5,817	457	1
Intergovernmental	171,752	-	-
Charges for service	5,590	367,392	-
Special assessments	1,931	-	-
Miscellaneous	53,730	4,463	1,748
Total receipts	<u>928,666</u>	<u>372,312</u>	<u>1,749</u>
Disbursements:			
Public safety	93,750	-	-
Public works	361,373	-	-
Culture and recreation	159,097	-	766
Community and economic development	12,863	-	-
General government	75,776	-	-
Debt service	205,536	-	-
Capital projects	8,169	-	-
Business type activities	-	384,872	-
Total disbursements	<u>916,564</u>	<u>384,872</u>	<u>766</u>
Excess (deficiency) of receipts over (under) disbursements	12,102	(12,560)	983
Other financing sources, net	206	195	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	12,308	(12,365)	983
Balances beginning of year	<u>790,549</u>	<u>164,151</u>	<u>636</u>
Balances end of year	<u>\$ 802,857</u>	<u>151,786</u>	<u>1,619</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
496,304	482,225	482,225	14,079
160,380	156,612	156,612	3,768
33,162	12,000	42,000	(8,838)
6,273	7,600	9,600	(3,327)
171,752	160,200	195,200	(23,448)
372,982	378,118	503,118	(130,136)
1,931	1,000	1,000	931
56,445	29,900	49,900	6,545
<u>1,299,229</u>	<u>1,227,655</u>	<u>1,439,655</u>	<u>(140,426)</u>
93,750	83,276	136,861	43,111
361,373	214,261	335,561	(25,812)
158,331	166,711	196,766	38,435
12,863	20,100	24,700	11,837
75,776	114,809	124,809	49,033
205,536	131,342	231,342	25,806
8,169	-	-	(8,169)
<u>384,872</u>	<u>366,875</u>	<u>492,436</u>	<u>107,564</u>
<u>1,300,670</u>	<u>1,097,374</u>	<u>1,542,475</u>	<u>241,805</u>
(1,441)	130,281	(102,820)	101,379
<u>401</u>	<u>-</u>	<u>-</u>	<u>401</u>
(1,040)	130,281	(102,820)	101,780
<u>954,064</u>	<u>960,250</u>	<u>1,464,653</u>	<u>(510,589)</u>
<u>953,024</u>	<u>1,090,531</u>	<u>1,361,833</u>	<u>(408,809)</u>

City of Springville

Notes to Other Information – Budgetary Reporting

June 30, 2017

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$445,101. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the public works and capital projects functions.

City of Springville

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

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

Other Information

	<u>2017</u>
City's proportion of the net pension liability	0.002708%
City's proportionate share of the net pension liability	\$ 170
City's covered-employee payroll	\$ 194
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.63%
IPERS' net position as a percentage of the total pension liability	81.82%

* 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 Springville

Schedule of City Contributions

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

Other Information

	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 18	17
Contributions in relation to the statutorily required contribution	<u>(18)</u>	<u>(17)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
City's covered-employee payroll	\$ 198	194
Contributions as a percentage of covered-employee payroll*	8.93%	8.93%

* Amounts reported do not agree with calculated amounts due to rounding required contributions and covered payroll to nearest thousandth.

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

See accompanying independent auditor's report.

City of Springville

Notes to Other Information – Pension Liability

Year ended June 30, 2017

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 (unfunded actuarial liability) 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.

City of Springville

Supplementary Information

City of Springville

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

As of and for the year ended June 30, 2017

	<u>Special</u>
	<u>Employee Benefits</u>
Receipts:	
Property tax	\$ 44,957
Use of money and property	-
Miscellaneous	-
Total receipts	<u>44,957</u>
Disbursements:	
Operating:	
Cultures and recreation	-
Capital projects	-
Total disbursements	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>44,957</u>
Other financing uses:	
Transfers in	-
Transfers out	<u>(12,638)</u>
Total other financing sources (uses)	<u>(12,638)</u>
Change in cash balances	32,319
Cash balances beginning of year	<u>4,175</u>
Cash balances end of year	<u>\$ 36,494</u>
Cash Basis Fund Balances	
Restricted for other purposes	<u>\$ 36,494</u>

See accompanying independent auditor's report.

<u>Revenue</u>		
Friends of the Springville Memorial Library	Capital Projects	Total
-	-	44,957
1	-	1
1,748	-	1,748
1,749	-	46,706
766	-	766
-	8,169	8,169
766	8,169	8,935
983	(8,169)	37,771
-	23,545	23,545
-	-	(12,638)
-	23,545	10,907
983	15,376	48,678
636	(15,376)	(10,565)
1,619	-	38,113
1,619	-	38,113

City of Springville
 Schedule of Indebtedness
 Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
General obligation corporate purpose and refundings bonds	Sep 7, 2011	0.65-2.65%	\$ 1,070,000
Revenue notes:			
Sewer	Sep 9, 2011	3.000% *	\$ 403,000
Water	Aug 13, 2015	2.759%	160,000
Total			

* The agreement also requires the City to pay a 0.25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
475,000	-	195,000	280,000	9,421
324,000	-	24,000	300,000	9,720
144,907	-	14,393	130,514	3,900
<u>\$ 468,907</u>	<u>-</u>	<u>38,393</u>	<u>430,514</u>	<u>13,620</u>

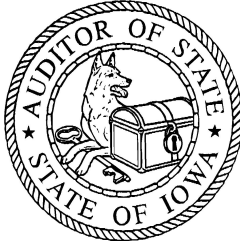
City of Springville

City of Springville
Bond and Note Maturities
June 30, 2017

Year Ending June 30,	General Obligation Bonds		Revenue Notes					
	Corporate Purpose and Refunding Bonds		Sewer			Water		
	Issued Sep 7, 2011		Issued Sep 9, 2011			Issued Aug 13, 2015		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total	
2018	2.15%	\$ 115,000	3.00%	\$ 18,000	2.759%	\$ 14,793	32,793	
2019	2.45	120,000	3.00	18,000	2.759	15,204	33,204	
2020	2.65	45,000	3.00	19,000	2.759	15,626	34,626	
2021		-	3.00	19,000	2.759	16,061	35,061	
2022		-	3.00	20,000	2.759	16,507	36,507	
2023		-	3.00	21,000	2.759	16,965	37,965	
2024		-	3.00	21,000	2.759	17,437	38,437	
2025		-	3.00	22,000	2.759	17,921	39,921	
2026		-	3.00	23,000		-	23,000	
2027		-	3.00	24,000		-	24,000	
2028		-	3.00	24,000		-	24,000	
2029		-	3.00	25,000		-	25,000	
2030		-	3.00	26,000		-	26,000	
2031		-	3.00	20,000		-	20,000	
Total		<u>\$ 280,000</u>		<u>\$ 300,000</u>		<u>130,514</u>	<u>430,514</u>	

See accompanying independent auditor's report.

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



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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 Springville, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 21, 2018. The financial statements were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed modified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Springville'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 Springville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Springville'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 have not been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Springville'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 (F) 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 (G) through (I) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Springville'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, 2017 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 Springville's Responses to the Findings

The City of Springville's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Springville'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 Springville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

March 21, 2018

City of Springville

Schedule of Findings

Year ended June 30, 2017

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 individual in the City has control over each of the following areas for which no compensating controls exist:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (3) Investments – recordkeeping, custody of investments and reconciling earnings.
- (4) Receipts – collecting, depositing and recording.
- (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (6) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – recordkeeping, preparing and distributing.
- (8) Long-term debt – recording, reconciling and performing cash functions.
- (9) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
- (10) Journal entries – preparing and recording with no independent review.

For the Friends of the Springville Memorial Library (Friends of the Library), one individual has control over collecting, depositing and posting receipts.

Cause – The City and the Friends of the Library have 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 and the Friends of the Library’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.

City of Springville

Schedule of Findings

Year ended June 30, 2017

Recommendation – The City and the Friends of the Library should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Responses

City – The City will design accounting and bookkeeping policies, procedures, and processes that ensure segregated duties between employees. Some procedures, where possible and appropriate, will also include an external review or control. Specific attention will be given to monetary transactions. We will focus on procedures that include regular, systematic external reviews of monetary transactions by other City employees and elected officials.

Friends of Library – We plan to continue having a non-board member review our bank statements, books, receipts and disbursements once a year. The results of this review will be presented to the Friends of the Springville Memorial Library Board.

Conclusions

City – Response accepted.

Friends of Library – Response acknowledged. The Friends should continue to review operating procedures to obtain the maximum internal control possible, including using Board members more frequently than just annually to review transactions and reconciliations. This would help strengthen internal controls and allow for more timely resolutions if errors or discrepancies are identified.

(B) Bank Reconciliations

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

Condition – Although monthly bank reconciliations were prepared for individual bank accounts, the reconciliations are not compiled to show a complete reconciliation of all accounts and investments with the general ledger. Also, the bank reconciliations did not include evidence of an independent review. Additionally, the bank reconciliations prepared by the Friends of the Library are not reviewed.

Cause – Policies have not been established and procedures have not been implemented to require preparation of a complete bank reconciliation of all accounts and investments or to require the bank reconciliations be reviewed by an independent person.

Effect – Lack of performing and maintaining bank reconciliations and lack of review by an independent person could result in unrecorded transactions, undetected errors and opportunity for misappropriation.

City of Springville

Schedule of Findings

Year ended June 30, 2017

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. Procedures should be established to ensure all financial reports reconcile and include all City activity. An independent person should review the City and the Friends of the Library bank reconciliations and document the review by signing or initialing and dating the monthly bank reconciliations.

Responses

City – The City will establish procedures and processes that provide the City Council with reconciled bank and investment account balances. These reports will be reviewed by an independent person, most probably an elected official, monthly.

Friends of the Library – Our bank statements along with the books will be reviewed annually by a non-Board member. This review will include the bank reconciliation performed. The results of this review will be presented to the Friends of the Springville Memorial Library Board.

Conclusions

City – Response accepted.

Friends of the Library – Response acknowledged. The Friends should establish procedures which include a monthly independent review of bank reconciliations. This would help strengthen internal controls and allow for more timely resolutions if errors or discrepancies are identified.

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

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

Condition – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

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

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

City of Springville

Schedule of Findings

Year ended June 30, 2017

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 delinquents. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – Processes and procedures will be designed and implemented that reconcile utility billings, collections, deposits, and delinquencies on a monthly basis. The process will include a review by Council designated independent review.

Conclusion – Response accepted.

(D) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – During the fiscal year ending June 30, 2017, the following financial conditions were noted:

- \$332,578 of intrafund transfers in were not recorded in the City's general ledger.
- \$122,578 of intrafund transfers out were not recorded in the City's general ledger.
- \$5,810 of miscellaneous receipts were not recorded in the City's general ledger.
- One interfund transfer totaling \$25,000 was improperly coded as road use tax receipt rather than a transfer in and as a General Fund disbursement rather than a transfer out.
- Two intrafund transfers in, amounting to \$230,000, were improperly coded as other miscellaneous use of property.
- Two intrafund transfers in, amounting to \$300, were improperly coded as water deposits.

Adjustments were subsequently made by the City to properly report these items in the City's financial statements.

Cause – Procedures have not been established to require independent review of financial records to ensure the City's financial records are accurate and reliable.

City of Springville

Schedule of Findings

Year ended June 30, 2017

Effect – Lack of independent review procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, a material adjustment to the City’s financial statements were necessary.

Recommendation – The City should establish procedures to ensure all transactions are properly reported in the City’s financial statements.

Response – Two actions will be taken. First, incomplete or incorrect transactions as noted here will be corrected in the accounting software. Second, procedures and processes will be established to ensure that future transfers and receipts are properly recorded and are regularly reviewed by an independent person.

Conclusion – Response accepted.

(E) Disbursements

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

Condition – Invoices for three credit card disbursements tested for the City and one tested from the Friends of the Library were paid without supporting documentation.

Cause – The City and the Friends of the Library have not implemented policies and procedures requiring supporting documentation for all disbursements prior to signing of checks.

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

Recommendation – The City and the Friends of the Library should establish policies and procedures to require proper support for all disbursements. Disbursements should not be approved unless adequate supporting documentation is available.

Response – Procedures for receiving and processing invoices need to be updated by the City. Special attention will be given to the scanning of all invoices as they arrive, before the Library or other departments can review them. The Library invoice process will be modified to ensure the City Clerk’s office has established an appropriate record, determined coding and authorization is obtained before they are paid.

Conclusion – Response accepted.

(F) Monthly City Clerk’s Report

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management to effectively perform their fiduciary responsibilities related to City financial management.

City of Springville

Schedule of Findings

Year ended June 30, 2017

Condition – A monthly City Clerk’s report including receipts, disbursements, transfers and balances for each fund and a comparison of total disbursements to the certified budget by function is not prepared and provided to the City Council monthly.

Cause – Policies have not been established and procedures have not been implemented which require the City Clerk to provide the City Council with the required financial information.

Effect – The City Council may not have effective control over budgeted disbursements and the ability to amend the budget on a timely basis. In addition, City Council may not be aware of monthly financial activity, including deficit fund balances.

Recommendation – The City Clerk should prepare a monthly City Clerk’s report which includes receipts, disbursements, transfers and balances for each fund and comparisons of total disbursements by function to the certified budget.

Response – The City Clerk will design and implement processes and procedures to provide a monthly report of receipts, disbursements, transfers, and balances for each fund and a comparison of total disbursements to the budget by function to the City Council.

Conclusion – Response accepted.

(G) Timesheets

Criteria – An effective internal control system provides for internal controls related to preparation of timesheets by all employees. Timesheets support all hours worked and taken as vacation, sick leave and holiday hours. Supervisory review of timesheets can help ensure the accuracy of recorded hours worked and taken as leave.

Condition – Although timesheets are prepared, there is no evidence of the approval of timesheets by supervisory personnel.

Cause – Policies have not been established and procedures have not been implemented to require timesheets be reviewed and approved by supervisory personnel.

Effect – The lack of a documented supervisory review process increases the probability staff errors in recording of hours or leave will go undetected.

Recommendation – Timesheets should be submitted to an appropriate supervisor for approval prior to the preparation of payroll. The supervisor approval should be documented by the signature of the reviewer and the date of the review.

City of Springville

Schedule of Findings

Year ended June 30, 2017

Response – A policy will be developed which ensures each employee will sign and date their timesheet and that a supervisor will sign each timesheet. It would be the City's intent to have the City Clerk review all timesheets and the Mayor to review the City Clerk's timesheet.

Conclusion – Response accepted.

(H) 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.
- (4) Improve the efficiency and understanding of steps to perform for running monthly financial reports and retrieving management information.

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 the City's lack of ability to continue operating effectively and efficiently in the event there is accounting staff turnover.

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

Response – We have begun and will continue to develop a policy and procedures manual for accounting practices. This will include the goal of having sufficient detail that someone unfamiliar with City practices can use the manual to effectively accomplish accounting tasks.

Conclusion – Response accepted.

(I) Computer System

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 and helps ensure compliance with applicable laws and regulations.

City of Springville

Schedule of Findings

Year ended June 30, 2017

Condition – The City does not have written policies for:

- Requiring password changes every 60 to 90 days to maintain password privacy and confidentiality.
- Requiring password history to be maintained to prevent employees from reusing the same password.
- Restricting access to the computer system through the use of unique user IDs.
- Requiring password length to be at least 8 characters.
- Requiring computers to have a log-off function when not in use.
- Requiring a computer lockout function if passwords are incorrectly entered more than three times.
- Personal use of computer equipment.

Additionally, the City does not have a written disaster recovery plan.

Cause – Management has not required written policies for the above computer based controls or back-up procedures.

Effect – Lack of written policies for the computer based system could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer system. A written disaster recovery plan should be developed and back-ups should be performed.

Response – Written policies which govern passwords, user IDs, and computer data security will be established and followed. A computer system disaster recovery plan will be developed. A backup and restore plan of computer data and software will be developed.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Springville

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public works and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – From April 12th until June 3rd of 2017, the City of Springville essentially had no full-time City Clerk/Treasurer. While a City Clerk from a near-by town helped on a part-time basis, many important pieces of business were not accomplished in a timely manner and/or were accomplished with insufficient knowledge. Losing a City Clerk was an unforeseeable and unfortunate event.

Moving forward, the City Council will conceive and institute a plan to ensure continuity in processes that guarantee budget amendments are created on time to cover actual receipts and disbursements as they occur and appropriate transfers between accounts occur in a timely manner. Such processes will no longer be dependent solely upon one person.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees for the year ended June 30, 2017 were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not. The City did not publish minutes as required by Chapter 372.13(6) of the Code of Iowa, including total disbursements from each fund and a summary of receipts. In addition, the meeting minutes were not signed by the Mayor.

Recommendation – The City should publish minutes, including total disbursements from each fund and a summary of receipts, as required. Also, the minutes should be signed by the City Clerk to authenticate the record, as required.

City of Springville

Schedule of Findings

Year ended June 30, 2017

Response – City Council meeting minutes will be signed at the following regular City Council meeting. Moving forward, the minutes will be published as required, including a summary of receipts and disbursements by fund.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections of receipts, all accounts due to the City, and all expenditures...”. The City’s Annual Financial report included receipts, disbursements and fund balances which did not agree with City records.

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

Response – As noted in item (D) above, incomplete accounting records were found. These errors carried through to the Annual Financial Report causing the balances not to agree. After these transactions are corrected, future Annual Financial Reports will agree with City Records.

Conclusion – Response accepted.

- (9) Financial Condition – The Special Revenue, Road Use Tax Fund, Debt Service Fund and Enterprise, Sewer Fund had deficit balances of \$138,623, \$37,069 and \$4,536 respectively, at June 30, 2017.

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

Response – The Road Use Tax, Debt Service and Sewer Funds did not have appropriate transfers from the General Fund to support their disbursements. These transfers will be made to eliminate the deficits.

Conclusion – Response accepted.

City of Springville

Staff

This audit was performed by:

Katherine L. Rupp, CPA, Manager
Jesse J. Harthan, Senior Auditor
Rachel E. Sigmon, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State