

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

April 3, 2018

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$7,028,021 for the year ended June 30, 2017, a 43% increase over the prior year. The receipts included \$852,591 of property tax, \$3,138,814 of charges for service, \$342,947 of operating grants, contributions and restricted interest, \$116,225 of local option sales tax, \$5,411 of unrestricted interest on investments, \$2,505,346 of note proceeds and \$66,687 of other general receipts. The increase in receipts was primarily due to the issuance of general obligation notes for the municipal pool project.

Disbursements for the year ended June 30, 2017 totaled \$4,779,700, a 4.8% decrease from the prior year, and included \$498,653 for public works, \$418,161 for public safety and \$324,881 for debt service. Also, disbursements for business type activities totaled \$2,789,382.

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/1721-0835-BLOF>.

###

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

JUNE 30, 2017

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-7
Management’s Discussion and Analysis		9-15
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	18-19
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	20
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	21
Notes to Financial Statements		23-33
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		36-37
Notes to Other Information – Budgetary Reporting		38
Schedule of the City’s Proportionate Share of the Net Pension Liability		39
Schedule of City Contributions		41
Notes to Other Information – Pension Liability		42
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	44-45
Schedule of Indebtedness	2	46-47
Bond and Note Maturities	3	48-49
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	50-51
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 <u>Government Auditing Standards</u>		53-54
Schedule of Findings		55-64
Staff		65

City of Traer

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Pete Holden	Mayor	Jan 2018
Carri Holst	Mayor Pro Tem	Jan 2020
Steve Foster	Council Member	Jan 2018
Craig Youel	Council Member	Jan 2018
Raymond Mundt	Council Member	(Resigned Aug 2017)
Mark Mason (Appointed Aug 2017)	Council Member	Nov 2017
Dahn Kennedy	Council Member	Jan 2020
Jon Panfil	City Clerk/Treasurer	Indefinite
Bruce Reinders	Attorney	Indefinite
Dave Barnes	TMU Trustee	Jan 2018
Suzanne Early	TMU Trustee	Jan 2019
Nick Podhajsky	TMU Trustee	Jan 2020
Joe Marris	TMU Trustee	Jan 2021
Sandra Whannel	TMU Trustee	Jan 2022
Pat Steif	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite

City of Traer



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

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Traer, 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

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 Traer 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 Traer's basic financial statements. The financial statements for the nine years ended June 30, 2016 (which are not presented herein) were audited by other auditor 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 15 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 March 26, 2018 on our consideration of the City of Traer'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 Traer's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

March 26, 2018

City of Traer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Traer 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, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

As described in Note 13 on page 33, beginning governmental activities net position increased and the discretely presented component unit net position decreased \$104,777 to reclassify the Traer Volunteer Ambulance Fundraiser activity to the Special Revenue Funds. In addition, beginning governmental activities net position and the beginning cash balance of the Special Revenue Funds were restated to include the financial activity for the Traer Fire Department Fundraiser, a component unit pursuant to Governmental Accounting Standards Board (GASB) Statements Nos. 14, 39 and 61. To enhance comparability, certain amounts presented for fiscal year 2016 in this discussion and analysis were restated, where applicable, to reflect these changes as if the changes had been made in the prior year.

2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 151.9%, or approximately \$2,542,000, from fiscal year 2016 to fiscal year 2017. Note proceeds increased approximately \$2,505,000 and operating grants, contributions and restricted interest increased approximately \$31,000.
- Disbursements of the City's governmental activities increased 19.7%, or approximately \$327,000, in fiscal year 2017 from fiscal year 2016. Public safety disbursements increased approximately \$65,000 and culture and recreation and community and economic development disbursements increased approximately \$72,000 each.
- The City's total cash basis net position increased 89.8%, or approximately \$2,248,000, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities increased approximately \$2,403,000 and the cash basis net position of the business type activities decreased approximately \$154,000.

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 electric, water, sewer and telecommunications systems. 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, 3) the Debt Service Fund and 4) the Capital Projects 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 four Enterprise Funds to provide separate information for the Electric, Water, Sewer and Telecommunications Funds, considered to be major funds of the City.

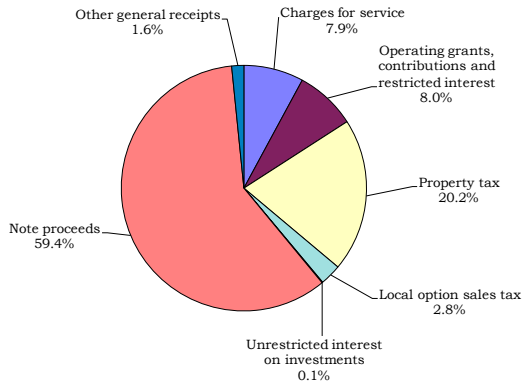
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

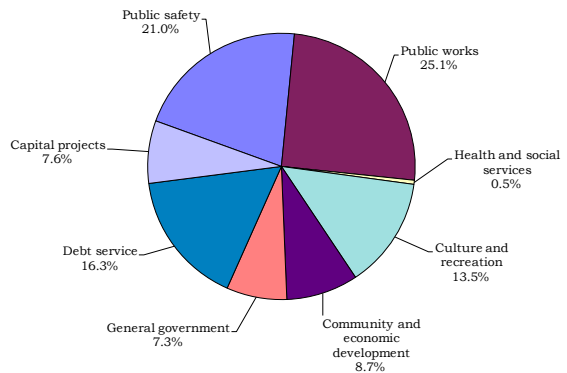
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from approximately \$1.782 million to approximately \$4.185 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service	\$ 331	328
Operating grants, contributions and restricted interest	338	307
Capital grants, contributions and restricted interest	-	23
General receipts:		
Property tax	853	852
Local option sales tax	116	120
Unrestricted interest on investments	4	1
Note proceeds	2,505	-
Other general receipts	68	42
Total receipts	<u>4,215</u>	<u>1,673</u>
Disbursements:		
Public safety	418	353
Public works	498	436
Health and social services	9	9
Culture and recreation	269	197
Community and economic development	173	101
General government	146	137
Debt service	325	339
Capital projects	152	91
Total disbursements	<u>1,990</u>	<u>1,663</u>
Change in cash basis net position before transfers	2,225	10
Transfers, net	178	186
Change in cash basis net position	2,403	196
Cash basis net position beginning of year, as restated	<u>1,782</u>	<u>1,586</u>
Cash basis net position end of year	<u>\$ 4,185</u>	<u>1,782</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 151.9%, or approximately \$2,542,000, over the prior year. The total cost of all programs and services increased approximately \$327,000, or 19.7%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation notes for a pool construction project.

The City's property tax rates increased \$.47967 per \$1,000 of assessed valuation compared to fiscal year 2016. Property tax is budgeted to increase approximately \$93,000 in fiscal year 2018 due to an increase in property valuations and an increase in tax levies.

The cost of all governmental activities this year was approximately \$1.990 million compared to approximately \$1.663 million last year. However, as shown in the Statement of Activities and Net Position on pages 18-19, the amount taxpayers ultimately financed for these activities was approximately \$1.321 million because some of the cost was paid by those directly benefited from the programs (approximately \$331,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$338,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2017 from approximately \$658,000 to approximately \$669,000. 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.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service:		
Electric	\$ 2,133	2,176
Water	371	381
Sewer	164	161
Telecom	140	129
Operating grants, contributions and restricted interest	5	-
General receipts:		
Unrestricted interest on investments	1	1
Note proceeds	-	409
Total receipts	<u>2,814</u>	<u>3,257</u>
Disbursements:		
Electric	2,226	2,229
Water	376	869
Sewer	92	89
Telecom	96	174
Total disbursements	<u>2,790</u>	<u>3,361</u>
Change in cash basis net position before transfers	24	(104)
Transfers, net	<u>(178)</u>	<u>(186)</u>
Change in cash basis net position	(154)	(290)
Cash basis net position beginning of year	<u>722</u>	<u>1,012</u>
Cash basis net position end of year	<u>\$ 568</u>	<u>722</u>

Total business type activities receipts for the fiscal year were approximately \$2.814 million compared to approximately \$3.257 million last year. This significant decrease was due primarily to the receipt of \$409,000 water revenue note proceeds in fiscal year 2016. The cash balance decreased approximately \$154,000 from the prior year to approximately \$568,000. Total disbursements for the fiscal year decreased 17.0% to approximately \$2.790 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Traer completed the year, its governmental funds reported a combined fund balance of \$4,184,659, an increase of more than \$2,402,000 above last year's restated total of \$1,782,393. 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 \$2,379,418 over the prior year to \$3,966,772. Approximately \$2,374,000 of this increase is due to unspent note proceeds restricted for future pool construction costs.
- The Special Revenue, Road Use Tax Fund cash balance remained at \$1,000, the same as the prior years balance. The City funds public works projects out of this fund and any excess disbursements are funded through a transfer from the General Fund. Disbursements increased approximately \$66,000, or 24.0%, over the prior year, primarily due to the purchase of an endloader in the current year.
- The Debt Service Fund cash balance decreased \$6,564 to \$1,000. The City also balances this fund with transfers from the General Fund to subsidize the disbursements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Electric Fund cash balance decreased \$208,032 to \$309,275, due primarily to a decrease in the sale of electricity from the prior year and increased payments on debt service.
- The Enterprise, Water Fund cash balance decreased 2.7%, or \$2,549, to \$92,462.
- The Enterprise, Sewer Fund cash balance increased \$11,428, or 8.5%, to \$145,719.
- The Enterprise, Telecom Fund cash balance increased \$45,208 to \$20,143, due to a decrease in fiber connection costs from the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 1, 2017 and resulted in an increase in operating disbursements related to the cost of repairs to the memorial building and library and the issuance of notes for construction of a swimming pool.

The City's receipts were \$270,382 less than budgeted. This was primarily due to the City budgeting for the reimbursements from Traer Municipal Utility as intergovernmental receipts but reported as transfers between funds.

With the budget amendment, total disbursements were \$554,036 less than the amended budget. Actual disbursements for the capital projects and business type activities functions were \$191,770 and \$255,508, respectively, less than the amended budget. This was primarily due to the City delaying work on the pool construction and other repairs for the utilities.

The City exceeded the amounts budgeted in the health and social services and community and economic development functions prior to the budget amendment due to unanticipated repairs.

DEBT ADMINISTRATION

At June 30, 2017, the City had \$4,503,000 of bonds and other long-term debt outstanding, compared to \$2,763,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2017	2016
General obligation bonds	\$ 150,000	230,000
General obligation notes	3,515,000	1,215,000
Revenue notes	848,000	1,048,000
Lease purchase agreement	90,000	270,000
Total	<u>\$ 4,603,000</u>	<u>2,763,000</u>

Debt increased as a result of issuing general obligation notes for a municipal pool construction project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,755,000 is below its constitutional debt limit of approximately \$4 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 Traer's elected and appointed officials and citizens considered many factors when setting the fiscal year 2018 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the Tama County now stands at 3.2% versus 3.9% a year ago. This compares with the State's unemployment rate of 3.2% and the national rate of 4.4%.

These indicators were taken into account when adopting the budget for fiscal year 2018. Amounts available for appropriation in the operating budget are approximately \$4.7 million, an increase of .5% over the final fiscal year 2017 budget. Property tax (benefiting from the fiscal year 2018 rate increases) is expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer. General obligation note proceeds budgeted for will be used to pay for pool construction project. Budgeted disbursements increased approximately \$2,740,000 due to the pool construction project.

If these estimates are realized, the City's cash balance is expected to decrease approximately \$479,000 by the close of fiscal year 2018.

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 Jon Panfil, City Clerk, 649 Second Street, Traer, Iowa 50675-1230.

City of Traer

Basic Financial Statements

City of Traer

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	\$ 418,161	153,523	80,508
Public works	498,653	147,015	213,432
Health and social services	8,813	-	5,953
Culture and recreation	268,711	22,150	38,060
Community and economic development	172,942	481	-
General government	145,927	7,706	-
Debt service	324,881	-	-
Capital projects	152,230	-	-
Total governmental activities	<u>1,990,318</u>	<u>330,875</u>	<u>337,953</u>
Business type activities:			
Electric	2,225,533	2,132,837	1,279
Water	375,792	370,952	2,215
Sewer	92,033	164,422	-
Telecom	96,024	139,728	1,500
Total business type activities	<u>2,789,382</u>	<u>2,807,939</u>	<u>4,994</u>
Total	<u>\$ 4,779,700</u>	<u>3,138,814</u>	<u>342,947</u>
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Local option sales tax			
Unrestricted interest on investments			
Note proceeds			
Sale of capital assets			
Miscellaneous			
Transfers			
Total general receipts and transfers			
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:			
Capital projects			
Streets			
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
(184,130)	-	(184,130)
(138,206)	-	(138,206)
(2,860)	-	(2,860)
(208,501)	-	(208,501)
(172,461)	-	(172,461)
(138,221)	-	(138,221)
(324,881)	-	(324,881)
(152,230)	-	(152,230)
<u>(1,321,490)</u>	<u>-</u>	<u>(1,321,490)</u>
-	(91,417)	(91,417)
-	(2,625)	(2,625)
-	72,389	72,389
-	45,204	45,204
-	23,551	23,551
<u>(1,321,490)</u>	<u>23,551</u>	<u>(1,297,939)</u>
641,512	-	641,512
211,079	-	211,079
116,225	-	116,225
4,454	957	5,411
2,505,346	-	2,505,346
52,850	-	52,850
13,837	-	13,837
178,453	(178,453)	-
<u>3,723,756</u>	<u>(177,496)</u>	<u>3,546,260</u>
2,402,266	(153,945)	2,248,321
1,782,393	721,544	2,503,937
<u>\$ 4,184,659</u>	<u>567,599</u>	<u>4,752,258</u>
\$ 2,373,905	-	2,373,905
1,000	-	1,000
1,000	209,455	210,455
215,887	-	215,887
1,592,867	358,144	1,951,011
<u>\$ 4,184,659</u>	<u>567,599</u>	<u>4,752,258</u>

Exhibit B

City of Traer

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

As of and for the year ended June 30, 2017

	<u>Special Revenue</u>				Total
	General	Road Use Tax	Debt Service	Nonmajor	
Receipts:					
Property tax	\$ 480,337	-	211,079	161,175	852,591
Other city tax	-	-	-	116,225	116,225
Licenses and permits	4,513	-	-	-	4,513
Use of money and property	4,454	-	-	177	4,631
Intergovernmental	35,155	211,417	-	-	246,572
Charges for service	322,452	-	-	-	322,452
Miscellaneous	69,513	-	-	39,438	108,951
Total receipts	<u>916,424</u>	<u>211,417</u>	<u>211,079</u>	<u>317,015</u>	<u>1,655,935</u>
Disbursements:					
Operating:					
Public safety	369,958	-	-	48,203	418,161
Public works	157,149	341,505	-	-	498,654
Health and social services	8,813	-	-	-	8,813
Culture and recreation	268,711	-	-	-	268,711
Community and economic development	172,942	-	-	-	172,942
General government	145,927	-	-	-	145,927
Debt service	-	-	324,880	-	324,880
Capital projects	-	-	-	152,230	152,230
Total disbursements	<u>1,123,500</u>	<u>341,505</u>	<u>324,880</u>	<u>200,433</u>	<u>1,990,318</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(207,076)</u>	<u>(130,088)</u>	<u>(113,801)</u>	<u>116,582</u>	<u>(334,383)</u>
Other financing sources (uses):					
Note proceeds, including premium of \$45,346 and net of issuance costs of \$40,000	2,505,346	-	-	-	2,505,346
Sale of capital assets	52,850	-	-	-	52,850
Transfers in	399,665	130,088	107,237	190,230	827,220
Transfers out	(371,367)	-	-	(277,400)	(648,767)
Total other financing sources (uses)	<u>2,586,494</u>	<u>130,088</u>	<u>107,237</u>	<u>(87,170)</u>	<u>2,736,649</u>
Change in cash balances	2,379,418	-	(6,564)	29,412	2,402,266
Cash balances beginning of year, as restated	1,587,354	1,000	7,564	186,475	1,782,393
Cash balances end of year	<u>\$ 3,966,772</u>	<u>1,000</u>	<u>1,000</u>	<u>215,887</u>	<u>4,184,659</u>
Cash Basis Fund Balances					
Restricted for:					
Pool construction	\$ 2,373,905	-	-	-	2,373,905
Streets	-	1,000	-	-	1,000
Debt service	-	-	1,000	-	1,000
Other purposes	-	-	-	215,887	215,887
Unassigned	<u>1,592,867</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,592,867</u>
Total cash basis fund balances	<u>\$ 3,966,772</u>	<u>1,000</u>	<u>1,000</u>	<u>215,887</u>	<u>4,184,659</u>

See notes to financial statements.

City of Traer

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

As of and for the year ended June 30, 2017

	Enterprise				Total
	Electric	Water	Sewer	Telecom	
Operating receipts:					
Charges for service	\$ 2,132,837	370,952	164,422	139,728	2,807,939
Operating disbursements:					
Business type activities	1,887,508	311,939	92,033	96,024	2,387,504
Excess of operating receipts over operating disbursements	245,329	59,013	72,389	43,704	420,435
Non-operating receipts (disbursements):					
Interest on investments	798	76	79	4	957
Miscellaneous	1,279	2,215	-	1,500	4,994
Debt service	(338,025)	(63,853)	-	-	(401,878)
Net non-operating receipts (disbursements)	(335,948)	(61,562)	79	1,504	(395,927)
Excess (deficiency) of receipts over (under) disbursements	(90,619)	(2,549)	72,468	45,208	24,508
Transfers out	(117,413)	-	(61,040)	-	(178,453)
Change in cash balances	(208,032)	(2,549)	11,428	45,208	(153,945)
Cash balances beginning of year	517,307	95,011	134,291	(25,065)	721,544
Cash balances end of year	\$ 309,275	92,462	145,719	20,143	567,599
Cash Basis Fund Balances					
Restricted for debt service	\$ 175,000	1,278	33,177	-	209,455
Unrestricted	134,275	91,184	112,542	20,143	358,144
Total cash basis fund balances	\$ 309,275	92,462	145,719	20,143	567,599

See notes to financial statements.

City of Traer

City of Traer

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The City of Traer is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1873 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 electric, water, sewer and telecom utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Traer has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Traer (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

The Traer Municipal Utilities (TMU) was established under Chapter 388 of the Code of Iowa. The TMU is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set forth by the Governmental Accounting Standards Board, the TMU meets the definition of a component unit. The City Clerk is also the Office Manager for the TMU and the TMU's financial records are maintained as part of the City. Accordingly, the TMU has been blended as part of the Enterprise Funds.

The Traer Fire Department Fundraiser was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. This non-profit corporation is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. Their purpose is to benefit the City of Traer (the primary government) by soliciting contributions and managing those funds. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Traer Fire Department meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City.

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: Tama County Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Solid Waste Disposal Commission and Tama 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 funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

The 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, Electric Fund accounts for the operation and maintenance of City's electric system.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding 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 health and social services and community and economic development functions prior to the budget amendment.

(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 investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,430,914 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City’s investment in the Iowa Public Agency Investment Trust is unrated.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation					
	Bonds and Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 290,000	115,627	202,000	24,369	492,000	139,996
2019	295,000	99,613	54,000	19,486	349,000	119,099
2020	295,000	92,812	56,000	18,540	351,000	111,352
2021	285,000	86,133	73,000	17,561	358,000	103,694
2022	135,000	79,792	112,000	16,002	247,000	95,794
2023-2027	730,000	352,633	288,000	44,372	1,018,000	397,005
2028-2032	850,000	243,510	63,000	2,363	913,000	245,873
2033-2036	785,000	80,200	-	-	785,000	80,200
Total	\$ 3,665,000	1,150,320	848,000	142,693	4,513,000	1,293,013

General Obligation Capital Loan Notes

On April 20, 2017, the City entered into a loan agreement for a general obligation capital loan notes, series 2017, to borrow \$2,500,000 to pay the costs of constructing a new municipal pool in Taylor Park, including the demolition and removal of the existing swimming pool. The note bear interest at 3.75% per annum and mature in varying annual amounts ranging from \$135,000 to \$210,000, with a final maturity date of June 1, 2036.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$757,000 of sewer revenue notes issued in August 2001 and \$101,000 of sewer revenue notes issued in May 2003. Proceeds from the notes provided financing for the construction of improvements to and conversion of the discharge lagoon treatment system. The notes are payable solely from sewer customer net receipts and are payable through 2023. Annual principal and interest payments on the notes are expected to require 77% of net receipts. The total principal and interest remaining to be paid on the notes is \$304,943. For the current year, principal and interest paid and total customer net receipts were \$55,933 and \$72,389 respectively.

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$980,000 of electric revenue capital loan notes issued in July 2011. Proceeds from the notes provided financing for the purpose of refinancing the outstanding electric revenue capital loan notes, Series 2003. The notes are payable solely from electric customer net receipts and are payable through 2018. Annual principal and interest payments on the notes are expected to require 64% of net receipts. The total principal and interest remaining to be paid on the notes is \$153,975. For the current year, principal and interest paid and total customer net receipts were \$157,425 and \$245,329 respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$409,000 of water revenue capital loan notes issued in April 2016. Proceeds from the notes provided financing for the purpose of paying costs or repairing and refurbishment of the Jordan Well. The notes are payable solely from water customer net receipts and are payable through 2028. Annual principal and interest payments on the notes are expected to require 28% of net receipts. The total principal and interest remaining to be paid on the notes is \$531,775. For the current year, interest paid and total customer net receipts were \$16,808 and \$59,013 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, electric and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required in the sewer and electric sinking fund shall be made to a revenue reserve account until specific minimum balances have been accumulated.
- (d) Additional monthly deposits of \$1,500 shall be made to an electric improvement account until a specific minimum balance has been accumulated.

(4) Lease Purchase Agreement

In August 2010, the City entered into an agreement with Norseman Wind Energy, LLC for the purchase a wind turbine and the energy produced for \$1,080,000. The lease is interest free and is payable through fiscal year 2018. When the City has purchased 30,584,982 kwh of electric production and all lease payments have been made, Norseman Wind Energy, LLC will convey all rights, title and interest of the wind turbine to the City. During the year ended June 30, 2017, the City made principal payments of \$180,000 on this lease. At June 30, 2017, the City has one payment totaling \$90,000 remaining on the lease.

(5) Pension Plan

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

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

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

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

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

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member’s highest three-year average salary.

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

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

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

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

In fiscal year 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%. 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, 2017 totaled \$72,445.

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 \$613,877 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 0.009754%, which was a decrease of 0.000069% 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 \$78,850, \$112,627 and \$8,885, 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	\$ 1,032,022	613,877	261,006

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.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 9 active and no retired members in the plan.

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members vary depending on member's age. The lowest rate for single coverage is \$683 and the highest for family coverage is \$1,748. For the year ended June 30, 2017, the City contributed \$164,781 and plan members eligible for benefits contributed \$39,013 to the plan.

(7) 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, 2017, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 47,000
Sick leave	55,000
Total	<u>\$ 102,000</u>

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

(8) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 161,175
	Local Option Sales Tax	116,225
	Enterprise:	
	Electric	117,413
	Sewer	4,852
		<u>399,665</u>
Special Revenue:	General	
Road Use Tax		<u>130,088</u>
Debt Service	General	51,049
	Enterprise:	
	Sewer	56,188
		<u>107,237</u>
Capital Projects	General	<u>190,230</u>
Total		<u>\$ 827,220</u>

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

(9) 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.

(10) Development Agreement

The City has entered into a development agreement with Randolph's Trucking Company for the construction of new buildings and structures. The City agreed to rebate a decreasing percentage of additional taxes on the new construction over five years, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2017, the City rebated \$5,734 to the developer. At June 30, 2017, the remaining balance to be paid on the agreement was \$5,733.

(11) Construction Commitments

The City has entered into construction contracts totaling \$2,373,905 for the construction of a municipal pool. As of June 30, 2017, costs of \$131,441 have been paid on the contracts. The remaining \$2,242,464 will be paid as work on the project progresses.

(12) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

(13) Restatement/Reclassification

The cash basis net position for governmental activities and the discretely presented component unit have been restated to reclassify the Traer Volunteer Ambulance Fundraiser activity to the Special Revenue Funds.

In addition, the beginning net position/fund balance of the governmental activities and the Special Revenue Funds were restated to include the Traer Volunteer Fire Department Fundraiser, a blended component.

The effect of the restatements are as follows:

	<u>Governmental Activities</u>	<u>Discretely Presented Component Unit</u>	<u>Special Revenue, Traer Volunteer Ambulance Fundraiser</u>	<u>Special Revenue, Traer Fire Department Fundraiser</u>
Net position/fund balances June 30, 2016, as previously reported	\$ 1,641,788	104,777	-	-
Reclassification	104,777	(104,777)	104,777	-
Component Unit Traer Fire Department Fundraiser previously omitted	35,828	-	-	35,828
Balances July 1, 2016, as restated	<u>\$ 1,782,393</u>	<u>-</u>	<u>104,777</u>	<u>35,828</u>

City of Traer

Other Information

City of Traer
 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	\$ 852,591	-	-
Other city tax	116,225	-	-
Licenses and permits	4,513	-	-
Use of money and property	4,631	957	31
Intergovernmental	246,572	-	-
Charges for service	322,452	2,807,939	-
Miscellaneous	108,951	4,994	17,369
Total receipts	<u>1,655,935</u>	<u>2,813,890</u>	<u>17,400</u>
Disbursements:			
Public safety	418,161	-	26,016
Public works	498,654	-	-
Health and social services	8,813	-	-
Culture and recreation	268,711	-	-
Community and economic development	172,942	-	-
General government	145,927	-	-
Debt service	324,880	-	-
Capital projects	152,230	-	-
Business type activities	-	2,789,382	-
Total disbursements	<u>1,990,318</u>	<u>2,789,382</u>	<u>26,016</u>
Excess (deficiency) of receipts over (under) disbursements	(334,383)	24,508	(8,616)
Other financing sources, net	<u>2,736,649</u>	<u>(178,453)</u>	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,402,266	(153,945)	(8,616)
Balances beginning of year, as restated	<u>1,782,393</u>	<u>721,544</u>	<u>35,828</u>
Balances end of year	<u>\$ 4,184,659</u>	<u>567,599</u>	<u>27,212</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
852,591	835,489	835,489	17,102
116,225	117,793	117,793	(1,568)
4,513	4,250	4,250	263
5,557	400	400	5,157
246,572	470,370	470,370	(223,798)
3,130,391	3,189,405	3,189,405	(59,014)
96,576	55,100	105,100	(8,524)
<u>4,452,425</u>	<u>4,672,807</u>	<u>4,722,807</u>	<u>(270,382)</u>
392,145	375,420	380,420	(11,725)
498,654	440,120	520,120	21,466
8,813	7,750	12,750	3,937
268,711	232,870	277,870	9,159
172,942	96,000	202,000	29,058
145,927	150,140	155,140	9,213
324,880	370,530	370,530	45,650
152,230	94,000	344,000	191,770
<u>2,789,382</u>	<u>3,044,890</u>	<u>3,044,890</u>	<u>255,508</u>
<u>4,753,684</u>	<u>4,811,720</u>	<u>5,307,720</u>	<u>554,036</u>
(301,259)	(138,913)	(584,913)	283,654
<u>2,558,196</u>	<u>-</u>	<u>2,500,000</u>	<u>58,196</u>
2,256,937	(138,913)	1,915,087	341,850
<u>2,468,109</u>	<u>2,270,078</u>	<u>2,270,078</u>	<u>198,031</u>
<u>4,725,046</u>	<u>2,131,165</u>	<u>4,185,165</u>	<u>539,881</u>

City of Traer

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 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 \$496,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded amounts budgeted in the health and social services and community and economic development functions prior to the budget amendment.

City of Traer

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

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

Other Information

	<u>2017</u>
City's proportion of the net pension liability	0.009754%
City's proportionate share of the net pension liability	\$ 614
City's covered-employee payroll	\$ 773
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	79.43%
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 Traer

City of Traer

Schedule of City Contributions

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

Other Information

	2017	2016
Statutorily required contribution	\$ 72	70
Contributions in relation to the statutorily required contribution	(72)	(70)
Contribution deficiency (excess)	\$ -	-
City's covered-employee payroll	\$ 803	773
Contributions as a percentage of covered-employee payroll	8.97%	9.06%

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

See accompanying independent auditor's report.

City of Traer

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.

Supplementary Information

City of Traer

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

As of and for the year ended June 30, 2017

		Local Option Sales Tax	Special Traer Volunteer Ambulance Fundraiser
Receipts:			
Property tax	\$ 161,175	-	-
Other city tax	-	116,225	-
Use of money and property	-	-	146
Miscellaneous	-	-	22,069
Total receipts	161,175	116,225	22,215
Disbursements:			
Operating:			
Public safety	-	-	22,187
Capital projects	-	-	-
Total disbursements	-	-	22,187
Excess (deficiency) of receipts over (under) disbursements	161,175	116,225	28
Other financing uses:			
Transfers in	-	-	-
Transfers out	(161,175)	(116,225)	-
Total other financing sources (uses)	(161,175)	(116,225)	-
Change in cash balances	-	-	28
Cash balances beginning of year, as restated	-	-	104,777
Cash balances end of year	\$ -	-	104,805
Cash Basis Fund Balances			
Restricted for other purposes	\$ -	-	104,805

See accompanying independent auditor's report.

<u>Revenue</u>		
Traer Fire Department Fundraiser	Capital Projects	Total
-	-	161,175
-	-	116,225
31	-	177
17,369	-	39,438
17,400	-	317,015
26,016	-	48,203
-	152,230	152,230
26,016	152,230	200,433
(8,616)	(152,230)	116,582
-	190,230	190,230
-	-	(277,400)
-	190,230	(87,170)
(8,616)	38,000	29,412
35,828	45,870	186,475
27,212	83,870	215,887
27,212	83,870	215,887

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Street improvements	Aug 20, 2007	3.90-4.30%	\$ 750,000
Refunding	May 3, 2011	1.00-3.40	660,000
Refunding and bridge repairs	May 1, 2013	0.45-2.00	830,000
Street improvements	Jun 16, 2014	1.50-2.10	520,000
Municipal pool	Apr 20, 2017	3.75	2,500,000
Total			
Revenue Notes:			
Sewer	Aug 19, 2001	1.75%	\$ 757,000
Sewer	May 5, 2003	1.75	101,000
Electric	Jul 6, 2011	0.85-2.65	980,000
Water	Apr 27, 2016	3.75	409,000
Total			
Lease purchase agreement:			
Wind turbine	Aug 12, 2010	0.00%	\$ 1,080,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
230,000	-	80,000	150,000	9,767
210,000	-	40,000	170,000	6,545
500,000	-	100,000	400,000	7,600
505,000	-	60,000	445,000	9,375
-	2,500,000	-	2,500,000	-
<u>\$ 1,445,000</u>	<u>2,500,000</u>	<u>280,000</u>	<u>3,665,000</u>	<u>33,287</u>
296,000	-	44,000	252,000	5,180
43,000	-	6,000	37,000	753
300,000	-	150,000	150,000	7,425
409,000	-	-	409,000	16,808
<u>\$ 1,048,000</u>	<u>-</u>	<u>200,000</u>	<u>848,000</u>	<u>30,166</u>
<u>\$ 270,000</u>	<u>-</u>	<u>180,000</u>	<u>90,000</u>	<u>-</u>

City of Traer
Bond and Note Maturities
June 30, 2017

Year Ending June 30,	Street Improvements Bonds		Refunding Notes		General Obligation Refunding and Bridge Repair Notes	
	Issued Aug 20, 2007		Issued May 3, 2011		Issued May 1, 2013	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2018	4.27%	\$ 85,000	2.70%	\$ 45,000	1.20%	\$ 100,000
2019	4.30	65,000	3.40	45,000	1.20	100,000
2020	-	-	3.40	45,000	2.00	100,000
2021	-	-	3.40	35,000	2.00	100,000
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
Total		<u>\$ 150,000</u>		<u>\$ 170,000</u>		<u>\$ 400,000</u>

Year Ending June 30,	Revenue Notes								
	Sewer		Sewer		Electric		Water		Total
	Issued Aug 19, 2001		Issued May 3, 2003		Issued Jul 6, 2011		Issued Apr 27, 2016		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2018	1.75%	\$ 46,000	1.75%	\$ 6,000	2.65%	\$ 150,000	3.75%	\$ -	202,000
2019	1.75	48,000	1.75	6,000	-	-	3.75	-	54,000
2020	1.75	50,000	1.75	6,000	-	-	3.75	-	56,000
2021	1.75	53,000	1.75	6,000	-	-	3.75	14,000	73,000
2022	1.75	55,000	1.75	6,000	-	-	3.75	51,000	112,000
2023	-	-	1.75	7,000	-	-	3.75	52,000	59,000
2024	-	-	-	-	-	-	3.75	54,000	54,000
2025	-	-	-	-	-	-	3.75	56,000	56,000
2026	-	-	-	-	-	-	3.75	58,000	58,000
2027	-	-	-	-	-	-	3.75	61,000	61,000
2028	-	-	-	-	-	-	3.75	63,000	63,000
Total		<u>\$ 252,000</u>		<u>\$ 37,000</u>		<u>\$ 150,000</u>		<u>\$ 409,000</u>	<u>848,000</u>

See accompanying independent auditor's report.

Bonds and Notes				
Street				
Improvement Notes		Municipal Pool Notes		
Issued Jun 16, 2014		Issued Apr 20, 2017		
Interest		Interest		
Rates	Amount	Rates	Amount	Total
1.90%	\$ 60,000	3.75%	\$ -	290,000
1.97	85,000	3.75	-	295,000
2.10	150,000	3.75	-	295,000
2.10	150,000	3.75	-	285,000
-	-	3.75	135,000	135,000
-	-	3.75	140,000	140,000
-	-	3.75	140,000	140,000
-	-	3.75	145,000	145,000
-	-	3.75	150,000	150,000
-	-	3.75	155,000	155,000
-	-	3.75	160,000	160,000
-	-	3.75	165,000	165,000
-	-	3.75	170,000	170,000
-	-	3.75	175,000	175,000
-	-	3.75	180,000	180,000
-	-	3.75	185,000	185,000
-	-	3.75	190,000	190,000
-	-	3.75	200,000	200,000
-	-	3.75	210,000	210,000
	<u>\$ 445,000</u>		<u>\$ 2,500,000</u>	<u>3,665,000</u>

City of Traer

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

For the Last Ten Years

	2017	2016	2015	2014
Receipts:				
Property tax	\$ 852,591	842,089	815,962	795,209
Other city tax	116,225	129,615	115,890	113,930
Licenses and permits	4,513	1,428	1,413	1,497
Use of money and property	4,631	7,704	6,261	6,003
Intergovernmental	246,572	310,901	515,414	676,368
Charges for service	322,452	322,960	314,827	290,792
Miscellaneous	108,951	40,463	68,275	30,202
Total	\$ 1,655,935	1,655,160	1,838,042	1,914,001
Disbursements:				
Operating:				
Public safety	\$ 418,161	345,958	509,965	408,067
Public works	498,654	435,514	400,699	434,333
Health and social services	8,813	8,795	4,482	4,917
Culture and recreation	268,711	196,934	209,237	205,883
Community and economic development	172,942	100,717	102,326	60,824
General government	145,927	137,320	147,098	149,260
Debt service	324,880	339,350	279,128	271,102
Capital projects	152,230	91,173	533,622	698,441
Total	\$ 1,990,318	1,655,761	2,186,557	2,232,827

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
751,740	733,854	693,194	678,331	654,765	586,025
127,561	96,253	103,577	101,763	100,986	99,065
890	640	1,183	465	3,250	560
7,319	7,054	8,084	7,969	22,421	52,548
452,674	265,870	226,485	312,496	196,741	634,435
286,311	279,459	328,700	320,441	308,275	286,166
498,792	15,759	16,175	54,032	36,365	36,541
<u>2,125,287</u>	<u>1,398,889</u>	<u>1,377,398</u>	<u>1,475,497</u>	<u>1,322,803</u>	<u>1,695,340</u>
314,309	288,831	395,845	417,896	273,554	241,390
423,777	358,508	433,608	440,949	359,911	348,085
1,802	6,204	9,438	7,772	7,302	9,469
239,617	194,485	227,952	176,831	168,456	181,152
95,314	95,064	116,794	167,571	107,527	226,156
145,636	142,597	133,710	131,271	132,973	131,735
886,618	282,929	528,436	371,082	360,438	290,524
283,099	146,581	171,280	290,022	221,407	518,952
<u>2,390,172</u>	<u>1,515,199</u>	<u>2,017,063</u>	<u>2,003,394</u>	<u>1,631,568</u>	<u>1,947,463</u>

**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**



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

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Traer, 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 26, 2018. 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 Traer'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 Traer's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Traer'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 Traer'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 (C) 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 (D) through (I) to be significant deficiencies.

Compliance and Other Matters

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

The City of Traer's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Traer'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 Traer 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 26, 2018

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 – performance of all accounting functions and having custody of assets.
- (2) Cash – handling, recording and reconciling.
- (3) Debt – recordkeeping and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (5) Disbursements – purchasing, invoice processing, check writing, signing and reconciling.
- (6) Payroll – entering rates into the system, preparing, recording and distributing.
- (7) Compensated absences – maintaining records and balances.
- (8) Journal entries – preparing and recording.

The Traer Volunteer Fire Department Fundraiser (Fire Department):

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling
- (3) Journal entries – preparing and recording with no independent review and approval.
- (4) Debt – record keeping, compliance and debt payment processing.
- (5) Financial reporting – preparing and reconciling.

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2017

Recommendation – The City and the Fire Department should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials to provide additional control through review of financial transactions, reconciliations and reports.

Response –

City – We will review our procedures to determine what changes can be made to improve internal control over financial transactions and reconciliations. Where possible, an extra level of review will be considered within our small staff of office personnel.

Fire Department – We will review our procedures for any additional levels of independent review that can be performed.

Conclusion – Responses accepted.

(B) 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.

Condition – The City Clerk's monthly financial reports to the City Council included cash balances and monthly receipts and disbursements, but did not include a summary of beginning balance, receipts, disbursement, transfers or ending balances by fund. Also, the reports do not include a comparison of actual to budgeted disbursements by function.

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 is not provided with complete financial information on a monthly basis, including a comparison of actual to budgeted disbursements, which is needed to make informed decisions regarding the City.

Recommendation – To provide better financial information, the monthly reports should include the beginning balance, receipts, disbursements, transfers and ending balance for each fund. Also, the monthly reports should include actual year-to-date disbursements by function compared with budgeted disbursements by function.

Response – We will revise the information provided to the City Council on a monthly basis. This information will include the appropriate financial information required to satisfy the City Council and to keep them informed of budget to actual variances.

Conclusion – Response accepted.

City of Traer

Schedule of Findings

Year ended June 30, 2017

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

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

Condition – Ambulance billings, collections and outstanding accounts were not reconciled throughout the year.

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

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

Recommendation – Procedures should be established to reconcile ambulance billings, collections, write-offs and outstanding/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 outstanding balances. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – We will review the procedures for verifying that ambulance records are reconciled. The ambulance staff will create a procedure for documenting that all “calls” are properly billed by the third party vendor. The City office will establish a regular reconciliation procedure to verify that collections are properly recorded and the payments to the 3rd party vendor are based on actual collections.

Conclusion – Response accepted.

(D) Credit Cards

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

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2017

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

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

Response – The City will document the existing policies relating to usage of credit cards.

Conclusion – Response accepted.

(E) 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, compensatory time, holiday hours and personal days and provide an accurate record of hours worked. Supervisory review of timesheets can help ensure the accuracy of recorded hours worked.

Condition – Timesheets prepared by hourly employees are not reviewed and approved 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 hours or leave will go undetected.

Recommendation – Policies should be established and procedures implemented to require timesheets be reviewed and approved by supervisory personnel prior to the preparation or payroll.

Response – Timesheets have always been reviewed by supervisory personnel, however there has been a lack of documentation. We will make sure timesheets are initialed.

Conclusion – Response accepted.

City of Traer

Schedule of Findings

Year ended June 30, 2017

(F) Compensated Absences

Criteria – An effective internal control system provides for internal controls related to the processing and approval of payroll for employees in accordance with adopted policies of the City. Approved policies regarding compensated absence records can help ensure proper payment of payroll expenses.

Condition – Although the City has an established policy for paid holidays, sick leave, personal leave and vacation time, the City has not enforced the vacation time allowed by the policy resulting in excessive carryover of and payout of balances. Also, compensated absence balances are not reviewed by independent person.

Cause – Established vacation accrual policies have not been enforced.

Effect – The lack of enforcing the policy regarding compensated absences payouts could result in inaccurate payouts.

Recommendation – The City should review policies regarding vacation accruals and payout of compensated absences upon resignation and establish procedures to ensure the policies are enforced. In addition, the City Council should review compensated absence balances to determine their accuracy.

Response – The City has policies for vacation time in the employee handbooks. There have been instances where various factors have resulted in personnel having excess time accrued. We will review the policies and document how these instances are handled in the event of termination or retirement.

Conclusion – Response accepted.

(G) Bank Reconciliations and Voided Receipts

Criteria – An effective internal control system provides for an independent review of reconciliations of monthly bank statements to book balances and reconciliations of daily collections to deposit and voided receipts to ensure the accuracy of accounting records.

Condition – Although monthly reconciliations of book to bank balances were prepared, the independent review or the date of review was not documented.

In addition, reports of voided receipts are not periodically prepared and voided receipts are not independently reviewed.

Cause – Policies have not been established and procedures have not been implemented to require an independent review of bank reconciliations or an independent review of reconciliations of daily collections to deposit and voided receipts.

Effect – The lack of independent review of the bank reconciliations and the independent review of reconciliations of daily collections to deposit and voided receipts increases the risk misstatements may not have been prevented or detected and corrected on a timely basis in the normal course of operations.

City of Traer

Schedule of Findings

Year ended June 30, 2017

Recommendation – To improve financial accountability and control, the monthly reconciliations of the book and bank balances 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. An independent review of the reconciliation of daily collections to deposit and voided receipts should be performed periodically. The review of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review.

Response – We will establish a policy of documenting the review of bank reconciliations, and will look into what procedures can be implemented for reconciling daily collections to deposits in addition to the monthly reconciliation of receivables, which is currently being completed.

Conclusion – Response accepted

(H) Journal Entries and Transfers

Criteria – Supporting documentation for all journal entries and transfers supports the accuracy of the entries by employees and an independent review helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – Supporting documentation is not maintained for all journal entries, including transfers. Approval and review for journal entries, including transfers not authorized in the budget, is not documented.

Cause – The City has a limited number of employees and procedures have not been designed to clearly document supporting documentation for journal entries and to document the review and approval of journal entries, including transfers not authorized in the budget.

Effect – Inadequate supporting documentation or lack of independent approval of transactions could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriations on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – Journal entries and transfers should be supported and support should be provided to the reviewer for approval by an independent person. The City Council should approve all transfers not authorized in the budget and also review and approve closing procedures.

Response – Most journal entries are created based directly on information collected from accounting software reports for billing, collections, payroll, etc. In addition, spreadsheets are used for routine journal entries for other transactions. The miscellaneous entries are generally for reclassification of items that may have been posted to the wrong expense account. Transfers between funds will be documented in the monthly information provided to the City Council.

Conclusion – Response acknowledged. In addition, all journal entries and supporting documentation should be reviewed by an independent person.

City of Traer

Schedule of Findings

Year ended June 30, 2017

(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.

Condition – The City does not have written policies for the followings:

- (1) Password privacy and confidentiality.
- (2) Requiring password changes because the City’s software does not require the user to change log-ins/passwords periodically.
- (3) Ensuring only software licensed to the City is installed on computers.
- (4) Usage of Internet.
- (5) Requiring the use of an anti-virus program on computers.
- (6) Requiring user profiles to help limit access to programs to those who have a legitimate need.
- (7) Personal use of computer equipment and software.
- (8) Designating an information officer.

Also, the City does not have a written disaster recovery plan and does not require backup tapes be stored off site daily in fire proof vault or safe.

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

Effect – Lack of written policies for computer based systems 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. Storing backup tapes off-site helps ensure financial and other information is readily available in the case of a disaster or emergency.

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 also be developed and back-up tapes should be stored offsite daily in a fireproof vault or safe.

Response – We will document procedures for computer activities such as passwords, internet usage and personal use. We use a third party as our “information officer” and they provide us with computer support and software. We will work with them on providing off-site backup in the event of a disaster.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Traer

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements in the health and social services and community and economic development functions exceeded the amounts budgeted prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The disbursements were properly approved. However, since they occurred early in the year, this created an “over-budget” situation. The budget was amended in May near the end of the year to cover these disbursements. We will try to amend the budget earlier if disbursements create this type of problems in future year.

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>
Tyler Sell	Meals for three people at Jethro’s BBQ	\$ 213
Pizza Palace	Pizza for undocumented purpose	86
Sam’s Club	Tootsie Rolls for unknown purpose	68
Simpling Blooming	Flowers for a funeral	58

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 disbursements were all paid by the Ambulance and Fire Departments from their fundraising money, which is not maintained or controlled by the City Council. We will make sure that both departments understand the need for proper recordkeeping.

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 Traer

Schedule of Findings

Year ended June 30, 2017

- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the City Council minutes but were not.

Certain transfers were not approved by the City Council or documented in the City Council meeting minutes.

Although a list of claims paid by the City was published, the publications did not include the reason for the claims as required by Chapter 372.13(6) of the Code of Iowa. Additionally, the minutes for the March 6, 2017 City Council meeting were not published within 15 days.

Also, the City Council minutes were not properly signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City Council should approve all interfund transfers and the action should be recorded in the City Council minutes. The City should ensure the reason for each claim is published and comply with Chapter 380.7 of the Code of Iowa and ensure all minutes are signed, as required.

Response – Transfers will be included with revised information provided to the City Council at each meeting and will be approved as part of the consent agenda. Descriptions will be included with published check registers and every attempt will be made to have minutes published timely.

Conclusion – Response acknowledged. Additionally, the City should insure that minutes are properly signed.

- (7) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The City updates the banking resolution every year, which documents where funds can be deposited. There are no other investments maintained with City funds.

Conclusion – Response acknowledged. Chapter 12B.10B of the Code of Iowa requires all public agencies to adopt an investment policy. The City should adopt an investment policy, as required.

- (8) Revenue Bonds and Notes – No instances of non-compliance with the revenue note resolutions were noted.

City of Traer

Schedule of Findings

Year ended June 30, 2017

- (9) Telecommunications Services – No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.
- (10) Payment of General Obligation Bonds - Certain general obligation bonds were paid from the Enterprise Water Fund. Chapter 384.4 of the Code of Iowa states in part that "Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the Debt Service Fund."

Recommendation - The City should transfer from the Enterprise, Water Fund to the Debt Service Fund for future funding contributions. Payments of the bonds should be disbursed from the Debt Service Fund.

Response – We will transfer the funds from the Water Fund to the Debt Service Fund and pay the debt out of Debt Service Fund in the future.

Conclusion – Response accepted.

- (11) Separately Maintained Records – The Traer Ambulance maintains a bank account for activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Report. The transactions and resulting balances are included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records, annual budget and Annual Financial Report and should be reported to the City Council on a monthly basis.

Response – The City Council and Ambulance Board will review this recommendation and find a suitable method of including this information in the City’s records.

Conclusion – Response accepted.

- (12) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled checks. The image of the backs of each cancelled check was not obtained by the City or the Traer Ambulance.

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

Response – We will discuss the options for retaining both sides of the checks with our local bank.


Conclusion – Response accepted.

City of Traer

Staff

This audit was performed by:

Katherine L. Rupp, CPA, Manager
Jonathan M. Mader, CPA, Staff Auditor
Adjoa S. Adanledji, Staff Auditor
Madeline W. Petellin, 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