



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 5, 2018

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$1,171,128 for the year ended June 30, 2017, a 13.8% increase over the prior year. The receipts included \$207,688 in property tax, \$270,201 from tax increment financing, \$326,275 from charges for service, \$215,253 from operating grants, contributions and restricted interest, \$120,503 from local option sales tax, \$5,300 from unrestricted interest on investments and other general receipts of \$25,908.

Disbursements for the year ended June 30, 2017 totaled \$1,020,422, an 8.0% decrease from the prior year, and included \$191,203 for general government, \$152,020 for culture and recreation and \$147,105 for debt service. Also, disbursements for business type activities totaled \$277,662.

The significant increase in receipts was primarily the result of increased tax increment financing receipts while disbursements decreased due to less equipment purchases and road projects occurring in fiscal year 2017.

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/1721-0814-B00F>.

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CITY OF COLO
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	20-21
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	23
Notes to Financial Statements		24-34
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		40-41
Notes to Other Information – Pension Liability		42
Supplementary Information:	<u>Schedule</u>	
Schedule of Indebtedness	1	44-45
Note Maturities	2	46
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	3	47
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>		49-50
Schedule of Findings		51-65
Staff		66

City of Colo

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Wilson	Mayor	Jan 2020
Ben Spalding	Council Member	Nov 2017
Paul Conrad	Council Member	Jan 2018
Diane Nichols	Council Member	Jan 2018
Earl Otto	Council Member	Jan 2020
Rod Geisinger	Council Member	Jan 2020
Amy Kohlwes	City Clerk/Treasurer	Indefinite
Dario Zaffrano	Attorney	Indefinite

City of Colo



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colo, 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 Colo 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 Colo's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2016 (which are not presented herein) and 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 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, 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 May 22, 2018 on our consideration of the City of Colo'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 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 Colo's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

May 22, 2018

City of Colo

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Colo 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.

2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 19.5%, or approximately \$139,000, from fiscal year 2016 to fiscal year 2017. Tax increment financing receipts increased approximately \$190,000 while general property tax receipts decreased approximately \$35,000.
- Disbursements of the City's governmental activities decreased 10.5%, or approximately \$87,000, in fiscal year 2017 from fiscal year 2016. Public works disbursements decreased approximately \$89,000 from the prior year.
- The City's total cash basis net position increased 10.5%, or approximately \$151,000, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities increased approximately \$119,000 and the cash basis net position of the business type activities increased approximately \$32,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Solid Waste 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.

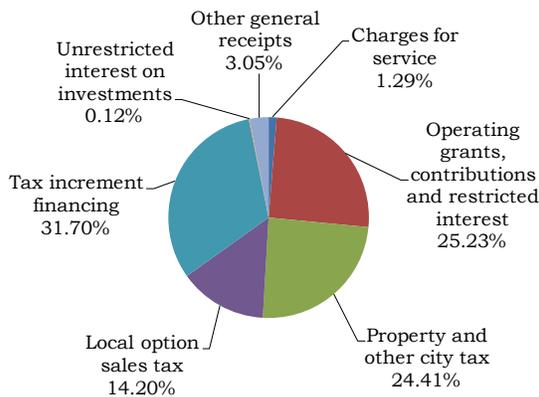
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$1.098 million to approximately \$1.217 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

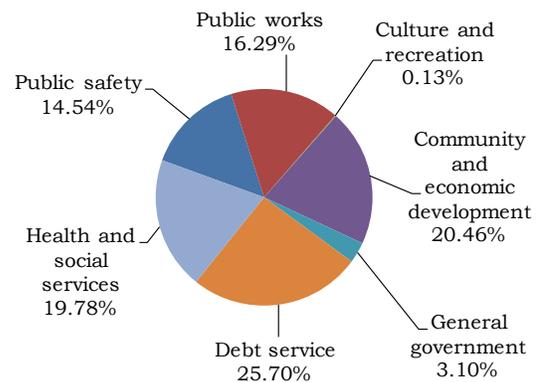
Changes in Cash Basis Net Position of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service	\$ 11	4
Operating grants, contributions and restricted interest	215	239
General receipts:		
Property and other city tax	208	243
Local option sales tax	121	112
Tax increment financing	270	80
Unrestricted interest on investments	1	3
Other general receipts	26	32
Total receipts	852	713
Disbursements:		
Operating:		
Public safety	108	171
Public works	121	210
Health and social services	1	8
Culture and recreation	152	131
Community and economic development	23	2
General government	191	136
Debt service	147	172
Total disbursements	743	830
Change in cash basis net position before transfers	109	(117)
Transfers, net	10	10
Change in cash basis net position	119	(107)
Cash basis net position beginning of year	1,098	1,205
Cash basis net position end of year	\$ 1,217	1,098

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 19.5%, or approximately \$139,000. The total cost of all programs and services decreased approximately \$87,000, or 10.5%. The significant increase in receipts was primarily the result of increased tax increment financing receipts while the decrease in disbursements was due to less equipment purchases and road projects occurring in fiscal year 2017.

The cost of all governmental activities this year was approximately \$743,000 compared to approximately \$830,000 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 \$517,000 because some of the cost was paid by those directly benefited from the programs (approximately \$11,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$215,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$625,000 of tax (some of which could only be used for certain programs) and 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:		
Water	\$ 140	139
Sewer	97	96
Sanitation	79	78
General receipts:		
Unrestricted interest on investments	4	2
Total receipts	<u>320</u>	<u>315</u>
Disbursements:		
Water	124	137
Sewer	74	58
Solid waste	80	83
Total disbursements	<u>278</u>	<u>278</u>
Change in cash basis net position before transfers	42	37
Transfers, net	<u>(10)</u>	<u>(10)</u>
Change in cash basis net position	32	27
Cash basis net position beginning of year	<u>343</u>	<u>316</u>
Cash basis net position end of year	<u>\$ 375</u>	<u>343</u>

Total business type activities receipts for the fiscal year were approximately \$320,000 compared to approximately \$315,000 last year, an increase of 1.6%. Total disbursements for the fiscal year remained steady at approximately \$278,000. The cash balance increased approximately \$32,000 over the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Colo completed the year, its governmental funds reported a combined fund balance of \$1,216,536, an increase of more than \$118,000 above last year's total of \$1,098,319. 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 decreased \$6,417 from the prior year to \$1,091,190. Public safety and public works disbursements decreased the most, while general government and culture and recreation disbursements increased in fiscal year 2017.
- The Special Revenue, Road Use Tax Fund cash balance increased \$35,171 to \$49,535. Receipts remained consistent while disbursements decreased approximately \$25,000 when compared to the prior year.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$12,511 to a negative cash balance of \$(59,059). The decrease is due to the City transferring more in receipts than was necessary to cover the required debt principal and interest payments.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$1,121 to \$27,451.
- The Debt Service Fund cash balance remained consistent when compared to the prior year, increasing by \$2,158 to a balance of \$139,805.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$12,753 to \$209,360. Receipts remained consistent when compared to the prior year while disbursements decreased by \$13,564.
- The Enterprise, Sewer Fund cash balance increased \$20,649 to \$162,702, due primarily to receipts outpacing disbursements in the current year. Sewer Fund disbursements increased from the prior year due to the implementation of an inflow and infiltration program in fiscal year 2017.
- The Enterprise, Solid Waste Fund cash balance decreased \$913 to \$3,042. Receipts remained consistent compared to the prior year, and disbursements decreased slightly in fiscal year 2017.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on March 6, 2017 and resulted in a decrease in operating disbursements.

The City's receipts were \$50,749 more than budgeted. This was primarily due to the City receiving more in intergovernmental receipts than anticipated.

Total disbursements were \$241,098 less than the amended budget. This was primarily due to the City spending less on the Community Center renovation and debt service than anticipated. In addition, the City budgeted more for disbursements relating to the inflow and infiltration project implementation, trash collection and recycling fees than was necessary. However, actual disbursements for the public works and general government functions were \$5,870 and \$4,614, respectively, more than amended budgeted.

The City exceeded the amounts budgeted in the public works and general government functions for year ended June 30, 2017, primarily due to the City not budgeting enough for street department disbursements such as salaries and equipment repairs and general government disbursements for the community center renovations.

DEBT ADMINISTRATION

At June 30, 2017, the City had approximately \$1,620,000 of notes outstanding, compared to approximately \$1,746,000 last year, as shown below.

Outstanding Debt at Year-End Expressed in Thousands		
	June 30,	
	2017	2016
General obligation capital loan notes	\$ 1,160	1,275
Revenue notes	460	471
Total	\$ 1,620	1,746

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 \$1,166,000, including developer agreements of \$6,000, is below its constitutional debt limit of approximately \$1.9 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 Colo’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2018 budget. The City had a valuation increase of \$3,589,504 for fiscal year 2018.

Amounts levied in fiscal year 2018 for property tax totaled \$146,906, an increase of \$29,140 over fiscal year 2017. Total receipts and other financial resources in the fiscal year 2018 budget decreased \$1,505,055 from the fiscal year 2017 budget.

Fiscal year 2018 budgeted disbursements are approximately \$1,281,000 less than the fiscal year 2017 budgeted disbursements due to the anticipated project costs budgeted in fiscal year 2017.

If these estimates are realized, the City’s budgetary operating balance is expected to increase to \$2,494,252 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 Amy Kohlwes, City Clerk, 209 Main Street, Colo, Iowa 50056.

City of Colo

Basic Financial Statements

City of Colo

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 108,014	-	52,293
Public works	120,711	-	109,017
Health and social services	750	-	-
Culture and recreation	152,020	7,677	43,943
Community and economic development	22,957	200	10,000
General government	191,203	2,704	-
Debt service	147,105	-	-
Total governmental activities	742,760	10,581	215,253
Business type activities:			
Water	123,690	140,306	-
Sewer	74,388	96,717	-
Solid waste	79,584	78,671	-
Total business type activities	277,662	315,694	-
Total Primary Government	\$ 1,020,422	326,275	215,253
Component Unit:			
Colo Volunteer Firefighter Association	\$ 17,285	-	18,112
General Receipts and Transfers:			
Property and other city tax levied for general purposes			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			
Cash Basis Net Position			
Restricted:			
Streets			
Debt service			
Cemetery			
Library			
Recreation			
Other purposes			
Unrestricted			
Total cash basis net position			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Governmental Activities	Business Type Activities	Total	Colo Volunteer Firefighters Association
(55,721)	-	(55,721)	
(11,694)	-	(11,694)	
(750)	-	(750)	
(100,400)	-	(100,400)	
(12,757)	-	(12,757)	
(188,499)	-	(188,499)	
(147,105)	-	(147,105)	
(516,926)	-	(516,926)	
-	16,616	16,616	
-	22,329	22,329	
-	(913)	(913)	
-	38,032	38,032	
(516,926)	38,032	(478,894)	
			827
207,688	-	207,688	-
270,201	-	270,201	-
120,503	-	120,503	-
843	4,457	5,300	-
25,908	-	25,908	-
10,000	(10,000)	-	-
635,143	(5,543)	629,600	-
118,217	32,489	150,706	827
1,098,319	342,615	1,440,934	13,320
\$ 1,216,536	375,104	1,591,640	14,147
\$ 49,535	-	49,535	-
139,805	29,123	168,928	-
328,246	-	328,246	-
253,568	-	253,568	-
20,290	-	20,290	-
27,451	-	27,451	14,147
397,641	345,981	743,622	-
\$ 1,216,536	375,104	1,591,640	14,147

City of Colo

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

As of and for the year ended June 30, 2017

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 160,867	-	-
Tax increment financing	-	-	270,201
Other city tax	-	-	-
Licenses and permits	7,557	-	-
Use of money and property	8,951	-	-
Intergovernmental	78,791	109,017	-
Charges for service	2,009	-	-
Miscellaneous	27,277	-	-
Total receipts	<u>285,452</u>	<u>109,017</u>	<u>270,201</u>
Disbursements:			
Operating:			
Public safety	107,227	-	-
Public works	38,991	73,846	-
Health and social services	750	-	-
Culture and recreation	151,328	-	-
Community and economic development	3,000	-	19,957
General government	178,297	-	-
Debt service	-	-	-
Total disbursements	<u>479,593</u>	<u>73,846</u>	<u>19,957</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(194,141)</u>	<u>35,171</u>	<u>250,244</u>
Other financing sources (uses):			
Sale of assets	18,983	-	-
Transfers in	129,382	-	-
Transfers out	-	-	(262,755)
Total other financing sources (uses)	<u>148,365</u>	<u>-</u>	<u>(262,755)</u>
Change in cash balances	(45,776)	35,171	(12,511)
Cash balances beginning of year	1,097,607	14,364	(46,548)
Cash balances end of year	<u>\$ 1,051,831</u>	<u>49,535</u>	<u>(59,059)</u>
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	49,535	-
Debt service	-	-	-
Cemetery	328,246	-	-
Library	253,568	-	-
Recreation	20,290	-	-
Other purposes	-	-	-
Unassigned	449,727	-	(59,059)
Total cash basis fund balances	<u>\$ 1,051,831</u>	<u>49,535</u>	<u>(59,059)</u>

See notes to financial statements.

Local Option Sales Tax	Debt Service	Nonmajor - Employee Benefits	Total
-	21,997	24,824	207,688
-	-	-	270,201
120,503	-	-	120,503
-	-	-	7,557
-	-	-	8,951
-	-	-	187,808
-	-	-	2,009
-	-	-	27,277
120,503	21,997	24,824	831,994
-	-	787	108,014
-	-	7,874	120,711
-	-	-	750
-	-	692	152,020
-	-	-	22,957
-	-	12,906	191,203
-	147,105	-	147,105
-	147,105	22,259	742,760
120,503	(125,108)	2,565	89,234
-	-	-	18,983
-	262,755	-	392,137
(119,382)	-	-	(382,137)
(119,382)	262,755	-	28,983
1,121	137,647	2,565	118,217
26,330	2,158	4,408	1,098,319
27,451	139,805	6,973	1,216,536
-	-	-	49,535
-	139,805	-	139,805
-	-	-	328,246
-	-	-	253,568
-	-	-	20,290
27,451	-	-	27,451
-	-	6,973	397,641
27,451	139,805	6,973	1,216,536

City of Colo

City of Colo

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

As of and for the year ended June 30, 2017

	Enterprise			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 140,140	96,717	78,671	315,528
Operating disbursements:				
Business type activities	94,567	74,388	79,584	248,539
Excess of operating receipts over operating disbursements	45,573	22,329	(913)	66,989
Non-operating receipts (disbursements):				
Interest on investments	1,137	3,320	-	4,457
Debt service	(29,123)	-	-	(29,123)
Miscellaneous	166	-	-	166
Net nonoperating receipts (disbursements)	(27,820)	3,320	-	(24,500)
Excess (deficiency) of receipts over (under) disbursements	17,753	25,649	(913)	42,489
Transfers out	(5,000)	(5,000)	-	(10,000)
Change in cash balances	12,753	20,649	(913)	32,489
Cash balances beginning of year	196,607	142,053	3,955	342,615
Cash balances end of year	\$ 209,360	162,702	3,042	375,104
Cash Basis Fund Balances				
Restricted for debt service	\$ 29,123	-	-	29,123
Unrestricted	180,237	162,702	3,042	345,981
Total cash basis fund balances	\$ 209,360	162,702	3,042	375,104

See notes to financial statements.

City of Colo

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The City of Colo is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

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

Discretely Presented Component Units

The Colo Volunteer Firefighters Association, Inc. (Association) has been incorporated under the Iowa Nonprofit Corporation Act to protect human life and property through fighting fires and providing community education in fire prevention and first aid/safety practices. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Association are substantially for the direct benefit of the City of Colo Fire Department.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Story County Assessor's Conference Board, Story County Emergency Management Commission and Story County Joint E-911 Service Board.

B. Basis of Presentation

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

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

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

The Local Option Sales Tax is utilized to account for the collection and use of the local option sales tax.

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

The City reports the following major proprietary funds:

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

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

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's solid waste collection program.

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 positions 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 public works and general government functions.

(2) Cash and Pooled Investments

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

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

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

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 120,000	28,690	9,472	19,651	129,472	48,341
2019	120,000	27,190	9,874	19,249	129,874	46,439
2020	120,000	24,970	10,294	18,829	130,294	43,799
2021	125,000	22,750	10,731	18,392	135,731	41,142
2022	125,000	19,625	11,188	17,935	136,188	37,560
2023-2027	550,000	42,000	63,487	82,128	613,487	124,128
2028-2032	-	-	78,174	67,441	78,174	67,441
2033-2037	-	-	96,260	49,355	96,260	49,355
2038-2042	-	-	118,529	27,086	118,529	27,086
2043-2044	-	-	52,477	3,482	52,477	3,482
Total	\$ 1,160,000	165,225	460,486	323,548	1,620,486	488,773

Revenue Note

The City has pledged future water customer receipts, net of specified operating disbursements, to repay a \$550,000 water revenue note issued in September 2004. Proceeds from the note provided financing for the improvement and extensions to the water distribution system and refunding the City's outstanding \$750,000 water loan note. The note is payable solely from water customer net receipts and is payable through 2044. Annual principal and interest payments on the note are expected to require less than of 64% net receipts. The total principal and interest remaining to be paid on the note is \$784,034. For the current year, principal and interest paid and total customer net receipts were \$29,123 and \$45,573, respectively.

The resolution providing for the issuance of the revenue note includes the following provisions:

- a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making principal and interest payments when due.
- c) Additional monthly transfers shall be made to a water reserve account until a maximum balance of \$29,123 has been accumulated.
- d) An improvement account shall be established and maintained with a minimum amount to be determined between the City and the Lender.
- e) User rates shall be established and charged to customers of the Utility, including the City, at a level sufficient to pay the expenses and operation and maintenance of the utility and to leave a balance of net receipts at a level not less than 120% of the amount of principal and interest on all notes falling due in the next succeeding fiscal year.

At June 30, 2017, the City had not established the required sinking and improvement accounts, and the City does not pay for water usage, as required.

General Obligation Notes

In December 2009, the City issued \$790,000 of general obligation capital loan notes for improvements to the City's storm sewer system and for refunding other City indebtedness. The notes matured during the year ended June 30, 2017.

In July 2014, the City issued \$1,250,000 of general obligation capital loan notes for a street improvement project. The notes bear interest at rates ranging from 1.25% to 3.0% per annum and mature in annual amounts with the final maturity due in the year ending June 20, 2026.

(4) Pension Plan

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

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

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

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

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

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

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

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

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

The City's contributions to IPERS for the year ended June 30, 2017 were \$14,565.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City’s reported a liability of \$136,164 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 0.002164, which was an decrease of 0.000345 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 \$16,150, \$39,529 and \$18,475, respectively.

There were no non-employee 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:

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 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 the 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 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	\$ 220,295	136,164	65,156

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

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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	\$ 6,000
Sick leave	16,000
Total	<u>\$ 22,000</u>

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

(6) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 119,382
	Enterprise:	
	Water	5,000
	Sewer	5,000
		<u>129,382</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	262,755
Total		<u>\$ 392,137</u>

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

(7) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 753 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2017 were \$15,293.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workmen's compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Development Agreements

The City entered into a development agreement with Heartland Co-Op in October 2009. During the terms of the agreement, Heartland Co-Op undertook an expansion of manufacturing facilities and is to employ no less than six full-time equivalent employees at the project. In return, and upon proof that the developer has paid all ad valorem taxes owed with respect to the project, the City will make semi-annual grants to the developer, payable from Tax Increment Project revenues. The amount of the grant is limited to \$25,000 annually and \$150,000 over the life of the agreement. During the year ended June 30, 2017, the City paid \$16,957 to the developer. Per the developer agreement, the payments were scheduled to end in fiscal year 2016.

The City entered into a development agreement with McKinney Seed in May 2013. Under the terms of the agreement, McKinney Seed agreed to purchase and develop two lots in the business park, constructing warehouse and adjoining office space. In addition, the developer is to employ no less than two full-time equivalent employees at the project. In return, and upon proof that the developer has paid all ad valorem taxes owed with respect to the project, the City will make semi-annual grants to the developer, payable from Tax Increment Project revenues. The amount of the grant is limited to \$3,000 annually and \$15,000 over the life of the agreement. During the year ended June 30, 2017, the City paid \$3,000 to the developer. The balance remaining under the agreement at June 30, 2017 is \$6,000.

(9) Deficit Balance

At June 30, 2017, the Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of \$59,059. The deficit balance will be eliminated with future TIF revenues.

(10) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2017, the City abated \$7,543 of property tax under the urban renewal and economic development projects.

(11) New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial Statements include information about the City's tax abatements.

(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.

Other Information

City of Colo

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	Total
Receipts:			
Property tax	\$ 207,688	-	207,688
Tax increment financing	270,201	-	270,201
Other city tax	120,503	-	120,503
Licenses and permits	7,557	-	7,557
Use of money and property	8,951	4,457	13,408
Intergovernmental	187,808	-	187,808
Charges for service	2,009	315,528	317,537
Miscellaneous	27,277	166	27,443
Total receipts	<u>831,994</u>	<u>320,151</u>	<u>1,152,145</u>
Disbursements:			
Public safety	108,014	-	108,014
Public works	120,711	-	120,711
Health and social services	750	-	750
Culture and recreation	152,020	-	152,020
Community and economic development	22,957	-	22,957
General government	191,203	-	191,203
Debt service	147,105	29,123	176,228
Business type activities	-	248,539	248,539
Total disbursements	<u>742,760</u>	<u>277,662</u>	<u>1,020,422</u>
Excess (deficiency) of receipts over (under) disbursements	89,234	42,489	131,723
Other financing sources (uses), net	28,983	(10,000)	18,983
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	118,217	32,489	150,706
Balances beginning of year	<u>1,098,319</u>	<u>342,615</u>	<u>1,440,934</u>
Balances end of year	<u>\$ 1,216,536</u>	<u>375,104</u>	<u>1,591,640</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
201,675	201,675	6,013
267,295	267,295	2,906
104,955	104,955	15,548
5,025	5,025	2,532
11,500	11,500	1,908
162,563	162,563	25,245
330,743	330,743	(13,206)
17,640	17,640	9,803
<u>1,101,396</u>	<u>1,101,396</u>	<u>50,749</u>
103,074	115,044	7,030
1,390,141	114,841	(5,870)
8,133	8,133	7,383
140,123	200,123	48,103
24,100	24,100	1,143
122,609	186,589	(4,614)
241,005	241,005	64,777
329,315	371,685	123,146
<u>2,358,500</u>	<u>1,261,520</u>	<u>241,098</u>
(1,257,104)	(160,124)	291,847
<u>1,500,000</u>	<u>1,500,000</u>	<u>(1,481,017)</u>
242,896	1,339,876	(1,189,170)
<u>1,639,801</u>	<u>1,096,294</u>	<u>344,640</u>
<u>1,882,697</u>	<u>2,436,170</u>	<u>(844,530)</u>

City of Colo

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 discretely presented 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 and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$1,096,980.

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

City of Colo

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

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

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.002164%	0.002509%	0.002719%
City's proportionate share of the net pension liability (asset)	\$ 136	124	108
City's covered-employee payroll	\$ 160	168	179
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	85.00%	73.81%	60.34%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

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

See accompanying independent auditor's report.

City of Colo

Schedule of City Contributions

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

Other Information

	2017	2016	2015	2014
Statutorily required contribution	\$ 15	14	15	16
Contributions in relation to the statutorily required contribution	(15)	(14)	(15)	(16)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 168	160	168	179
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.94%

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.

2013	2012	2011	2010	2009
15	13	11	11	10
(15)	(13)	(11)	(11)	(10)
-	-	-	-	-
173	161	158	165	157
8.67%	8.07%	6.96%	6.67%	6.37%

City of Colo

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (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 Colo
Schedule of Indebtedness
Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan note series 2009	Dec 22, 2009	1.00-3.20%	\$ 790,000
Capital loan note series 2014	Jul 15, 2014	1.25-3.00	1,250,000
Revenue note:			
Water revenue note	Sep 28, 2004	4.25%	\$ 550,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
45,000	-	45,000	-	1,440
1,230,000	-	70,000	1,160,000	29,565
<u>\$ 1,275,000</u>	-	115,000	1,160,000	31,005
470,648	-	10,162	460,486	18,961

Schedule 2

City of Colo
Note Maturities
June 30, 2017

Year Ending June 30,	General Obligation Note		Revenue Note	
	Capital Loan Note		Water	
	Series 2014		Issued Sep 28, 2004	
	Issued Jul 15, 2014		Issued Sep 28, 2004	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2018	1.25%	\$ 120,000	4.25%	\$ 9,472
2019	1.85	120,000	4.25	9,874
2020	1.85	120,000	4.25	10,294
2021	2.50	125,000	4.25	10,731
2022	2.50	125,000	4.25	11,188
2023	3.00	130,000	4.25	11,663
2024	3.00	135,000	4.25	12,159
2025	3.00	140,000	4.25	12,675
2026	3.00	145,000	4.25	13,214
2027		-	4.25	13,776
2028		-	4.25	14,361
2029		-	4.25	14,972
2030		-	4.25	15,607
2031		-	4.25	16,271
2032		-	4.25	16,963
2033		-	4.25	17,684
2034		-	4.25	18,435
2035		-	4.25	19,218
2036		-	4.25	20,035
2037		-	4.25	20,887
2038		-	4.25	21,775
2039		-	4.25	22,700
2040		-	4.25	23,665
2041		-	4.25	24,671
2042		-	4.25	25,719
2043		-	4.25	26,812
2044		-	4.25	25,665
Total		<u>\$ 1,160,000</u>		<u>\$ 460,486</u>

See accompanying independent auditor's report.

City of Colo

Schedule of Receipts by Source and Disbursements
By Function – All Governmental Funds

For the Last Four Years

	2017	2016	2015	2014
Receipts:				
Property tax	\$ 207,688	237,444	211,191	206,719
Tax increment financing	270,201	79,905	150,334	153,734
Other city tax	120,503	116,983	117,832	100,495
Licenses and permits	7,557	1,490	995	635
Use of money and property	8,951	11,096	12,140	7,234
Intergovernmental	187,808	221,946	149,915	165,695
Charges for service	2,009	2,719	3,089	4,687
Miscellaneous	27,277	42,255	60,910	710,898
Total	<u>\$ 831,994</u>	<u>713,838</u>	<u>706,406</u>	<u>1,350,097</u>
Disbursements:				
Operating:				
Public safety	\$ 108,014	171,293	153,746	120,593
Public works	120,711	210,277	1,236,617	154,316
Health and social services	750	8,133	8,133	10,404
Culture and recreation	152,020	131,262	115,713	129,032
Community and economic development	22,957	1,500	1,600	19,403
General government	191,203	136,145	142,428	126,626
Debt service	147,105	172,203	150,361	165,363
Total	<u>\$ 742,760</u>	<u>830,813</u>	<u>1,808,598</u>	<u>725,737</u>

See accompanying independent auditor's report.

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



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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colo, 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 May 22, 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 Colo'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 Colo's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Colo'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 Colo's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (E) to be material weaknesses.

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

Compliance and Other Matters

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

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


MARY MOSIMAN, CPA
Auditor of State

May 22, 2018

City of Colo

Schedule of Findings

Year ended June 30, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

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

Condition – One person has control over each of the following areas of the City:

- (1) Accounting system – performing all general accounting functions, including journal entries and having custody of City assets.
- (2) Cash and petty cash – reconciling bank accounts and initiating and recording cash receipt and disbursement transactions.
- (3) Investments – investing and recording.
- (4) Long-term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check signing, recording and reconciling.
- (8) Payroll – recordkeeping, preparing and distributing.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting – preparing, reconciling and distributing.
- (11) Journal entries – preparing and journalizing.

Cause – The City offices noted above 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 ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Officials and other current personnel should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be documented by the signature or initials of the reviewer and the date of the review.

City of Colo

Schedule of Findings

Year ended June 30, 2017

Response – The City will review its control procedures to obtain the maximum internal control possible. An individual will be appointed to review documents for added controls. Reviews will be documented by the signature or initials of the reviewer and the date of the review.

Conclusion – Response accepted.

(B) City of Colo Fire Department

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 Fire Department's financial statements.

Condition – Generally, one individual has control over collecting, depositing, posting, disbursing and reconciling for the Department for which no compensating controls exist.

In addition, the Department does not issue prenumbered receipts for all collections and monthly bank reconciliations are not prepared.

Cause – The City offices noted above 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 ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of individuals. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Officials and other current personnel should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be documented by the signature or initials of the reviewer and the date of the review.

Prenumbered receipts should be issued for all collections.

Also, to improve financial accountability and control, the ledger balances should be reconciled monthly to the bank balances. Any variances should be investigated and resolved in a timely manner. An independent person should review the reconciliations and document the review by signing or initialing and dating the review.

Response – The City will work with the Fire Department to review their control procedures to obtain maximum internal control possible and issue prenumbered receipts for all collections.

City of Colo
Schedule of Findings
Year ended June 30, 2017

The Fire Department's bank account was closed effective May 2017.

Conclusion – Response accepted.

(C) Financial Reporting

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

Condition – During the audit, we identified material amounts of receipts, transfers and adjustments which were not posted correctly. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

Cause – City policies do not require review and procedures have not been established to require independent review of year end cut-off transactions to ensure the City's financial statements are accurate and reliable.

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

Recommendation – The City should implement procedures to ensure receipts, transfers and adjustments are properly recorded in the City's accounting records and financial statements.

Response – The City will implement procedures to ensure receipts, transfers and adjustments are properly recorded in the City's accounting records and financial statements.

Conclusion – Response accepted.

(D) Bank Reconciliations

Criteria – Monthly reconciliations of book balances to the bank accounts are to be prepared each month along with reconciling items.

Condition – Monthly reconciliations of the City Clerk's book balances to the bank accounts and investments were prepared, however reconciling items were not accurate and adjusted bank balances did not agree to the Treasurer's Report from the accounting software. The items noted as outstanding at June 30, 2017, including deposits in transit and outstanding checks, contained errors. The variance between the bank balance and book balance per the accounting software was 6,939.

Cause – Reconciliations were performed by the City that did not accurately reconcile book and bank balances. Journal entries were made that caused invalid outstanding deposits and checks to appear on the Outstanding Transaction Register.

City of Colo

Schedule of Findings

Year ended June 30, 2017

Effect – Errors in the books may not be detected timely when accurate bank reconciliations are not performed.

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared and retained. Variances, if any, should be investigated and resolved in a timely manner. A listing of outstanding items should be reviewed for accuracy each month and retained.

Response – A monthly bank reconciliation is prepared and outstanding items are now being reviewed for accuracy each month and retained. The City will appoint an independent person to review the reconciliation and the review will be documented by the signature or initials of the reviewer and the date of the review.

Conclusion – Response accepted.

(E) Utility Reconciliation and Policies

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

Condition – Reconciliations of utility billings, collections and delinquent accounts are not documented for each billing cycle. The City does not retain a monthly delinquent utility listing.

Written policies and procedures should be established for the assessment of penalties, shut-off procedures for delinquent accounts or for the write-off of uncollectible accounts.

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

In addition, the City has not established written policies for the assessment of penalties, shut-off procedures for delinquent accounts or the write-off of uncollectible accounts.

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

Recommendation – Procedures should be established to document reconciliations of utility billings, collections and delinquent accounts for each billing period. An independent person should review the utility reconciliation and document the review by signing or initialing and dating the reconciliation. The City should retain a copy of the monthly delinquent utility listing.

City of Colo

Schedule of Findings

Year ended June 30, 2017

Written policies and procedures should be established for the assessment of penalties, shut-off procedures for delinquent accounts or for the write-off of uncollectible accounts.

Response – The City has begun maintaining monthly documentation on all delinquent accounts. In addition, the City will establish written policies for penalty, shut off and write-off of uncollectible accounts.

Conclusion – Response acknowledged. The City should establish procedures to document reconciliations of utility billings, collections and delinquent accounts for each billing period. An independent person should review the utility reconciliation and document the review by signing or initialing and dating the reconciliation.

(F) Colo Volunteer Firefighters Association, Inc.

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 Association’s financial statements.

Condition – Generally, one individual has control over collecting, depositing, posting, disbursing and reconciling for the Association for which no compensating controls exist. In addition, the Association does not prepare monthly bank reconciliations.

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

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

Recommendation – We realize segregation of duties is difficult with a limited number of individuals. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Officials and other current personnel should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be documented by the signature or initials of the reviewer and the date of the review.

Also, to improve financial accountability and control, the ledger balances should be reconciled monthly to the bank balances. Any variances should be investigated and resolved in a timely manner. An independent person should review the reconciliations and document the review by signing or initialing and dating the review.

City of Colo

Schedule of Findings

Year ended June 30, 2017

Response – Operating procedures will be reviewed to obtain the maximum internal control possible. An independent person will provide additional control through reviewing all transactions and will sign and date. Monthly bank reconciliations will be performed and an independent person will look over reconciliations.

Conclusion – Response accepted.

(G) Disbursements

Criteria – Disbursements should be properly supported by invoice or other supporting documentation. In addition, checks should be signed by two approved signers.

Condition – Two of ten disbursements tested were not properly supported by invoice or other documentation. Five of ten disbursements did not contain dual signatures on the checks.

Cause – The City did not maintain proper documentation for disbursements. Proper procedures were not followed in obtaining a second signature on all checks written by the City.

Effect – Lack of supporting documentation for all disbursements and lack of dual signatures could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – The City should maintain support for all disbursements in the future. Disbursements should not be approved unless adequate supporting documentation is available. All disbursements should be reviewed and checks should contain a second signature as evidence of review.

Response – The City will maintain documentation for all disbursements. The City plans to work with the Library and Recreation Department to obtain dual signatures or eliminate the outside accounts.

Conclusion – Response accepted.

(H) Accounting Procedures Manual

Criteria – Accounting policies and procedures manuals provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Condition – The City does not have a current accounting policies and procedures manual.

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

City of Colo

Schedule of Findings

Year ended June 30, 2017

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

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

Response – The City will adopt an accounting and procedures manual.

Conclusion – Response accepted.

(I) Computer Systems

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have written policies for:

- requiring passwords to be changed at least every 60 to 90 days.
- maintaining password privacy and confidentiality.
- ensuring only software licensed to the City is installed on computers.
- usage of the internet.

Also, the City doesn’t have a written disaster recovery plan. In addition, there is no audit trail in the accounting software for deleted transactions.

Cause – Management has not required written policies for the above computer based controls.

Effect – Lack of written policies for computer based systems could result in a loss of data or compromised data, resulting in unreliable financial information.

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

Response – The City now has added a written policy to their employee manual. The City is working on a disaster recovery plan.

Conclusion – Response accepted.

(J) Record of Investments

Criteria – A detailed record of investment transactions should be maintained monthly.

Condition – An accurate detailed record of investment transactions was not maintained.

City of Colo

Schedule of Findings

Year ended June 30, 2017

Cause – The City didn't update investment values as certificates of deposit were redeemed, rolled over or changed in value.

Effect – The City did not have an accurate record of the total amount of investments held at year end. As a result, variances existed in the City's reconciliation of bank to book amounts. Corrections were subsequently made by the City to properly report the amounts in the City's financial statements

Recommendation – A detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase date, redemption date, interest rate, principal amount and interest received.

Response – Investment transactions are now updated monthly.

Conclusion – Response accepted.

(K) 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 include establishing policies addressing proper asset use and proper supporting documentation.

Condition – The City has a credit card for use by 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.

During testing, we noted two credit card transactions which were not properly supported by invoice or detailed receipt. In addition, there were two credit card transactions which were not paid timely, which resulted in the payment of late fees by the City.

Cause – Adoption of a formal policy to regulate the use of credit cards has not been prioritized by the City Council. Lack of supporting documentation and late payment of credit card charges is the result of a lack of policies and procedures over credit cards.

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 credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges. Payment on credit card charges should be made in a timely manner.

Response – The City does have written policies. As for the late payment, the claims have to go in front of the City Council before it can be paid.

City of Colo

Schedule of Findings

Year ended June 30, 2017

Conclusion – Response acknowledged. The City should make payments on credit card charges in a timely manner.

(L) Initial Receipt Listing

Criteria – An effective internal control system provides for internal controls related to reconciling an initial listing of receipts to deposits to ensure the accuracy of recorded collections. Pre-numbered receipts should be issued for collections.

Condition – The City did not have procedures in place to ensure an independent receipt to deposit reconciliation was performed. Pre-numbered receipts were not issued for collections.

Cause – Policies have not been established and procedures have not been implemented to require the use of pre-numbered receipts or reconcile an initial listing of receipts to deposit by an independent person.

Effect – Since an initial listing to deposit reconciliation was not performed, misstatements of collections may not be prevented or detected and corrected on a timely basis in the normal course of operations.

Recommendation – The City should perform a reconciliation of recorded receipts to an initial listing by an independent person. Pre-numbered receipts should be issued for collections.

Response – The City does have prenumbered receipts for all payments made by customers for them paying either utility bills, garbage bags, permit, ext. that are paid in cash. We will review our procedures for checks and money orders.

Conclusion – Response acknowledged. The City should establish procedures for an independent receipt to deposit reconciliation.

(M) Payroll

Criteria – An effective internal control system provides for internal controls related to the processing and approval of payroll for employees of the City. Approved timesheets and policies regarding payment of sick leave or vacation time, as well as proper review of payroll checks can help ensure proper payment of payroll expenses.

Condition – The City doesn't have written policies and procedures over compensatory time or overtime. In addition, the City doesn't have a written policy for the payout of vacation or sick leave balances.

One of two timesheets tested was not properly approved by a supervisor.

There is no evidence of approval of vacation or sick leave usage by a supervisor prior to the recording by the City Clerk.

City of Colo

Schedule of Findings

Year ended June 30, 2017

Cause – Policies have not been established and procedures have not been implemented to govern the accrual and payment of compensatory time, overtime, sick leave or vacation time. Supervisors have not prioritized approval of timesheets or sick leave or vacation usage prior to the recording by the City Clerk.

Effect – Lack of written policies could lead to improper accrual or usage of leave balances and errors in payroll hours recorded and paid.

Recommendation – The City should develop the necessary written policies for compensatory time and overtime and the payout of vacation or sick leave balances. Supervisors should review and approve timesheets for accuracy and leave time should be approved by a supervisor in advance of payment.

Response – The City will establish policies and procedures over compensatory time and overtime as well as the payout of vacation and sick leave balances. The City will ensure all timesheets are properly reviewed and any vacation or sick leave taken is included on the timesheet.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Colo

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

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

On the budget amendment approved March 6, 2017, the publication did not display the total budget as certified or last amended, or the current amendment.

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.

The budget amendment form should include the total budget as certified or last amended and the current amendment, in addition to the total budget after total amendment.

Response – The budget will be amended as needed in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – There were no business transactions between the City and City officials or employees requiring disclosure in fiscal year 2017.
- (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.

Four of ten disbursement transactions tested were not approved in the City Council minutes.

Six transfers between funds were not approved in the City Council minutes.

Although minutes of the City Council proceedings were published, they did not include total disbursements from each fund as required by Ch. 372.13(6) of the Code of Iowa.

Recommendation – The City should publish total disbursements from each fund. Transfers should be approved by the City Council.

City of Colo

Schedule of Findings

Year ended June 30, 2017

Response – The City will ensure all disbursements and transfers are approved by the City Council and total disbursements from each fund is published as required by Chapter 372.13(6) of the Code of Iowa.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Note – The following instances of non-compliance with the water revenue note were noted:
- The City has not established a water revenue note sinking or water improvement account.
 - The City is not paying for water usage as required by the note resolution.
 - The water revenue note resolution states the City "will cause the books and accounts to be audited annually not later than 90 days after the end of each fiscal year by an independent auditor." The City has not complied with this provision.

Recommendation – The City should establish the required accounts and make the necessary transfers required by the note resolution. In addition, the City should pay for water usage, as required, and ensure an annual audit is performed.

Response – The City will discuss and act on auditor's recommendations.

Conclusion – Response accepted.

- (9) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement as provided in the Code section. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available TIF incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness.

We noted the following regarding the City's TIF debt certification:

- The City certified TIF taxes of \$20,000 to the County Auditor for fiscal year 2018 for the development agreement. Payments under the Heartland Co-op development agreement were scheduled to end in fiscal year 2016.
- Maximum payments under the McKinney Seed development agreement were \$3,000 per year. Actual payments made under the agreement during fiscal years 2016 and 2017 were \$5,000 and \$3,000, respectively. Based on our review of the City's TIF certifications and the reconciliation prepared by the County Auditor, it appears the City has certified only \$3,000 for the development agreement as of December 2016.

City of Colo

Schedule of Findings

Year ended June 30, 2017

During the year ended June 30, 2017, the City transferred \$262,755 from the Special Revenue, Urban Renewal Tax Increment Fund to the Debt Service Fund to cover the principal and interest due and paid on the 2009 and 2014 general obligation notes. The transfer was in excess of the amount necessary to service the debt by \$115,650.

Recommendation – The City should consult the County Auditor and TIF legal counsel to determine the propriety of the City’s TIF certifications and the City’s TIF debt to be certified or decertified, if any. The City should use Form 1 to certify portions of TIF obligations which have not been certified and use Form 3 to decertify amounts which have been over certified. In addition, the City should approve and record a corrective transfer to return the excess transferred to Debt Service back to the Special Revenue, Urban Renewal Tax Increment Fund.

Response – The City will make sure correct TIF monies are transferred correctly.

Conclusion – Response acknowledged. The City should consult the County Auditor and legal counsel to determine the propriety of the City’s TIF certifications and the City’s TIF debt to be certified or decertified, if any.

- (10) Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1. However, the City understated the amount reported as TIF debt outstanding by \$1,615,044. In addition, the amounts reported on the Levy Authority Summary for fund balances, receipts and disbursements did not reconcile to the City’s Special Revenue, Tax Increment Financing Fund.

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

Response – The City will ensure future amounts agree.

Conclusion – Response accepted.

- (11) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures ...”. The City’s Annual Financial Report reported receipts, other financing uses and fund balances which did not materially agree with City records.

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

Response – The City will ensure the City’s Annual Financial Report agrees with City records.

Conclusion – Response accepted.

City of Colo

Schedule of Findings

Year ended June 30, 2017

- (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 check. The City does not receive an image of the front and back of each cancelled check for the Fire Department.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response – The Fire Department bank account was closed effective May 2017.

Conclusion – Response accepted.

- (13) Emergency Fund Levy – Chapter 384.8 of the Code of Iowa provides a City may establish an Emergency Fund and transfers may be made from the Emergency Fund to the General Fund. The City levied property tax for the Emergency Fund and established a Special Revenue, Emergency Fund, but recorded the property tax in the General Fund rather than in the Special Revenue, Emergency Fund.

Recommendation – The City should deposit emergency tax levy receipts into a Special Revenue, Emergency Fund before transferring the proceeds to the General Fund.

Response – The City will deposit emergency tax levy receipts into the established Special Revenue, Emergency Fund.

Conclusion – Response accepted.

- (14) Local Option Sales Tax – Local Option Sales Tax (LOST) receipts are recorded in the Special Revenue, Local Option Sales Tax Fund. The LOST ballot requires the receipts be allocated 60% for property tax relief and 40% for community betterment.

The City did not track eligible disbursements incurred to demonstrate compliance with the specific criteria of the LOST ballot.

Recommendation – The City Council should ensure local option sales tax collections and disbursements are tracked in order to document meeting the specific criteria of the LOST ballot.

Response – The City will track local option sales tax disbursements to ensure compliance with the LOST ballot.

Conclusion – Response accepted.

City of Colo

Schedule of Findings

Year ended June 30, 2017

- (15) Development Agreements – As part of the City’s agreements with Heartland Co-op and McKinney Seed, the Developer shall annually certify to the City (a) the average number of FTE employees at the development property as of the certification date, based upon the average of the of the number of FTE employees as of the first day of each of the preceding months since the last certification, and (b) a certification to the effect that the Developer, at the date of the certificate and during the preceding 12 months, is not in default in the fulfillment of any of the terms and conditions of the agreement. Such certificate shall be provided not later than November 1 of each year. Payments were made to Heartland Co-op and McKinney Seed in fiscal year 2017; however, the necessary certifications from the developers were not obtained or retained by the City.

Recommendation – The City should ensure the necessary certification is obtained from each developer by November 1 and the developer is in compliance with the terms of the agreement prior to making the agreed payment(s) to the developer. The certifications should be retained.

Response – The City will ensure necessary certification is obtained from the developer.

Conclusion – Response acknowledged. The City before making payment should review the certification and ensure the developer is in compliance with the terms of the agreement.

- (16) Financial Condition – The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of \$59,059 at June 30, 2017.

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

Response – The City will investigate alternatives to eliminate the deficit to return the fund to a sound financial position.

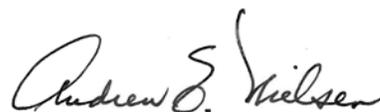
Conclusion – Response accepted.

City of Colo

Staff

This audit was performed by:

Deb J. Moser, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Chad C. Lynch, Staff Auditor
Cole J. Hanley, Staff Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State