



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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

NEWS RELEASE

FOR RELEASE

December 19, 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 \$1,085,196 for the year ended June 30, 2018, a 7.3% decrease from the prior year. The receipts included \$323,474 from charges for service, \$251,473 in property tax, \$193,760 from operating grants, contributions and restricted interest, \$160,803 from tax increment financing, \$110,885 from local option sales tax, \$6,071 from unrestricted interest on investments and other general receipts of \$38,730.

Disbursements for the year ended June 30, 2018 totaled \$1,013,657, a decrease of less than 1% from the prior year, and included \$191,456 for general government, \$154,625 for culture and recreation and \$149,190 for debt service. Also, disbursements for business type activities totaled \$275,709.

The decrease in receipts was primarily the result of decreased tax increment financing receipts in fiscal year 2018.

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/audit-reports/>.

###

CITY OF COLO
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2018

Table of Contents

| | | <u>Page</u> |
|--|-----------------|-------------|
| Officials | | 3 |
| Independent Auditor’s Report | | 5-7 |
| Management’s Discussion and Analysis | | 9-14 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-wide Financial Statement: | | |
| Cash Basis Statement of Activities and Net Position | A | 16-17 |
| Governmental Fund Financial Statement: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | B | 18-19 |
| Proprietary Fund Financial Statement: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | C | 21 |
| Notes to Financial Statements | | 22-32 |
| Other Information: | | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds | | 34-35 |
| Notes to Other Information – Budgetary Reporting | | 36 |
| Schedule of the City’s Proportionate Share of the Net Pension Liability | | 37 |
| Schedule of City Contributions | | 38-39 |
| Notes to Other Information – Pension Liability | | 40 |
| Supplementary Information: | <u>Schedule</u> | |
| Schedule of Indebtedness | 1 | 42-43 |
| Note Maturities | 2 | 44 |
| Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds | 3 | 45 |
| 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> | | 47-48 |
| Schedule of Findings | | 49-62 |
| Staff | | 63 |

City of Colo

Officials

(Before January 2018)

| <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 |

(After January 2018)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|----------------------|---------------------|
| John Wilson | Mayor | Jan 2020 |
| Earl Otto | Council Member | Jan 2020 |
| Rod Geisinger | Council Member | Jan 2020 |
| Brandon Handsaker | Council Member | Jan 2022 |
| Ben Spalding | Council Member | Jan 2022 |
| Randy Stoeffler | Council Member | Jan 2022 |
| Amy Kohlwes | City Clerk/Treasurer | Indefinite |
| Dario Zaffrano | Attorney | Indefinite |

City of Colo



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Colo, Iowa, as of and for the year ended June 30, 2018, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Colo as of June 30, 2018, 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.

Emphasis of a Matter

As discussed in Note 5 to the financial statements, City of Colo adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. 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 four years ended June 30, 2017 (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 14 and 34 through 40, 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 November 27, 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

November 27, 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, 2018. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 10.4%, or approximately \$89,000, from fiscal year 2017 to fiscal year 2018. Tax increment financing receipts and operating grants and contributions and restricted interest decreased approximately \$109,000 and \$21,000, respectively, while general property tax receipts increased approximately \$43,000.
- Disbursements of the City's governmental activities decreased by less than 1%, or approximately \$5,000, in fiscal year 2018 from fiscal year 2017. Public works and community and economic development disbursements each decreased approximately \$21,000 from the prior year, while public safety disbursements increased approximately \$32,000.
- The City's total cash basis net position increased 4.5%, or approximately \$71,000, from June 30, 2017 to June 30, 2018. Of this amount, the cash basis net position of the governmental activities increased approximately \$35,000 and the cash basis net position of the business type activities increased approximately \$36,000.

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 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.

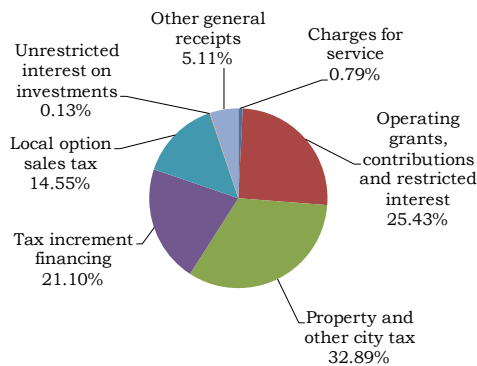
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

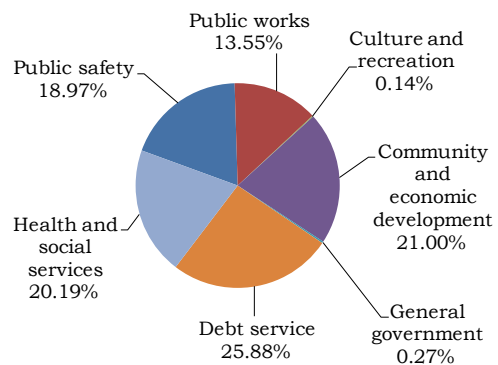
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$1.217 million to approximately \$1.252 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

| Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands) | | |
|---|---------------------|--------------|
| | Year ended June 30, | |
| | 2018 | 2017 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 6 | 11 |
| Operating grants, contributions and restricted interest | 194 | 215 |
| General receipts: | | |
| Property and other city tax | 251 | 208 |
| Tax increment financing | 161 | 270 |
| Local option sales tax | 111 | 121 |
| Unrestricted interest on investments | 1 | 1 |
| Other general receipts | 39 | 26 |
| Total receipts | <u>763</u> | <u>852</u> |
| Disbursements: | | |
| Operating: | | |
| Public safety | 140 | 108 |
| Public works | 100 | 121 |
| Health and social services | 1 | 1 |
| Culture and recreation | 155 | 152 |
| Community and economic development | 2 | 23 |
| General government | 191 | 191 |
| Debt service | <u>149</u> | <u>147</u> |
| Total disbursements | <u>738</u> | <u>743</u> |
| Change in cash basis net position before transfers | 25 | 109 |
| Transfers, net | <u>10</u> | <u>10</u> |
| Change in cash basis net position | 35 | 119 |
| Cash basis net position beginning of year | <u>1,217</u> | <u>1,098</u> |
| Cash basis net position end of year | <u>\$ 1,252</u> | <u>1,217</u> |

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 10.4%, or approximately \$89,000. The total cost of all programs and services decreased approximately \$5,000, or less than 1% from the prior year. The significant decrease in receipts was primarily the result of decreased tax increment financing receipts while the decrease in disbursements was due to less equipment purchases and fewer repairs on roads occurring in fiscal year 2018. In addition, the City didn't make payments to developers under development agreements in fiscal year 2018.

The cost of all governmental activities this year was approximately \$738,000 compared to approximately \$743,000 last year. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$538,000 because some of the cost was paid by those directly benefitting from the programs (approximately \$6,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$194,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and 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, | |
| | 2018 | 2017 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 148 | 140 |
| Sewer | 96 | 97 |
| Solid waste | 74 | 79 |
| General receipts: | | |
| Unrestricted interest on investments | 4 | 4 |
| Total receipts | <u>322</u> | <u>320</u> |
| Disbursements: | | |
| Water | 137 | 124 |
| Sewer | 62 | 74 |
| Solid waste | 77 | 80 |
| Total disbursements | <u>276</u> | <u>278</u> |
| Change in cash basis net position before transfers | 46 | 42 |
| Transfers, net | <u>(10)</u> | <u>(10)</u> |
| Change in cash basis net position | 36 | 32 |
| Cash basis net position beginning of year | <u>375</u> | <u>343</u> |
| Cash basis net position end of year | <u>\$ 411</u> | <u>375</u> |

Total business type activities receipts for the fiscal year were approximately \$322,000 compared to approximately \$320,000 last year, an increase of less than 1%. Total disbursements for the fiscal year were approximately \$276,000, a decrease of approximately \$2,000 from the prior year. The cash balance increased approximately \$36,000 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 \$1,251,960, an increase of more than \$35,000 above last year's total of \$1,216,536. 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 \$38,026 from the prior year to \$1,013,805. Public works and community and economic development disbursements decreased the most, while public safety disbursements increased in fiscal year 2018.
- The Special Revenue, Road Use Tax Fund cash balance increased \$44,352 to \$93,887. Receipts remained consistent, increasing only 2.5%, while disbursements decreased approximately \$6,000, or 9.5%, when compared to the prior year.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$11,113 to a negative cash balance of \$(47,946). The increase is due to the City receiving more in tax increment financing receipts than was necessary to cover the required current year debt principal and interest payments.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$1,480 to \$25,971.
- The Debt Service Fund cash balance increased \$10,233 to \$150,038. Property tax of approximately \$9,700 was collected during fiscal year 2018 while funds to service general obligation debt were transferred from the Special Revenue, Urban Renewal Tax Increment Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$7,842 to \$217,202. Receipts increased approximately \$8,000 over the prior year due to an increase in customers and water usage in fiscal year 2018. Water Fund disbursements increased approximately \$13,000 when compared to the prior year, due primarily to an increase in water purchases and salaries charged to the Water Fund in fiscal year 2018.
- The Enterprise, Sewer Fund cash balance increased \$31,087 to \$193,789, due primarily to receipts outpacing disbursements in the current year. Sewer Fund disbursements decreased from the prior year due to less storm sewer repairs occurring in fiscal year 2018.
- The Enterprise, Solid Waste Fund cash balance decreased \$2,814 to \$228. Receipts and disbursements decreased slightly in fiscal year 2018. Receipts decreased due to lower sales of garbage bags in fiscal year 2018.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on March 12, 2018 and resulted in an increase in operating disbursements of \$142,000.

The City's receipts were \$35,145 less than budgeted. This was primarily due to the City receiving less in charges for service than anticipated.

Total disbursements were \$205,405 less than the amended budget. This was primarily due to the City spending less on costs for recreation, street and storm sewer improvements than anticipated. In addition, the City budgeted more for payments to developers than was necessary. However, actual disbursements for the debt service function were \$250 more than the amended budgeted.

DEBT ADMINISTRATION

At June 30, 2018, the City had approximately \$1,491,000 of notes outstanding, compared to approximately \$1,620,000 last year, as shown below.

| Outstanding Debt at Year-End Expressed in Thousands | | |
|--|----------|-------|
| | June 30, | |
| | 2018 | 2017 |
| General obligation capital loan notes | \$ 1,040 | 1,160 |
| Revenue notes | 451 | 460 |
| Total | \$ 1,491 | 1,620 |

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 \$1,046,000, including developer agreements of \$6,000, is below its constitutional debt limit of approximately \$2 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 2019 budget. The City had a valuation increase of \$1,812,124 for fiscal year 2019.

Amounts levied in fiscal year 2019 for property tax totaled \$261,902, an increase of \$21,283 over fiscal year 2018. Total receipts and other financial resources in the fiscal year 2019 budget increased \$40,028 over the fiscal year 2018 budget.

Fiscal year 2019 budgeted disbursements are \$16,637 more than the fiscal year 2018 budgeted disbursements, which will be funded through the anticipated increase in property tax and other receipts.

If these estimates are realized, the City’s budgetary operating balance is expected to be \$1,638,536 by the close of fiscal year 2019.

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.

Basic Financial Statements

City of Colo

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2018

| | Disbursements | Program Receipts | |
|---|---------------------|---------------------|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | |
| Primary Government: | | | |
| Governmental activities: | | | |
| Public safety | \$ 140,261 | - | 45,610 |
| Public works | 99,777 | - | 111,769 |
| Health and social services | 1,039 | - | - |
| Culture and recreation | 154,625 | 1,949 | 36,381 |
| Community and economic development | 1,600 | - | - |
| General government | 191,456 | 4,204 | - |
| Debt service | 149,190 | - | - |
| Total governmental activities | 737,948 | 6,153 | 193,760 |
| Business type activities: | | | |
| Water | 136,583 | 147,537 | - |
| Sewer | 62,216 | 95,688 | - |
| Solid waste | 76,910 | 74,096 | - |
| Total business type activities | 275,709 | 317,321 | - |
| Total Primary Government | \$ 1,013,657 | 323,474 | 193,760 |
| Component Unit: | | | |
| Colo Volunteer Firefighters Association | \$ 18,864 | - | 19,717 |
| 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 | | | |
| Sale of property | | | |
| 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 |
|--|-----------------------------|-----------|--|
| Primary Government | | | Colo Volunteer Firefighters Association |
| Governmental Activities | Business Type Activities | Total | |
| (94,651) | - | (94,651) | |
| 11,992 | - | 11,992 | |
| (1,039) | - | (1,039) | |
| (116,295) | - | (116,295) | |
| (1,600) | - | (1,600) | |
| (187,252) | - | (187,252) | |
| (149,190) | - | (149,190) | |
| (538,035) | - | (538,035) | |
| - | 10,954 | 10,954 | |
| - | 33,472 | 33,472 | |
| - | (2,814) | (2,814) | |
| - | 41,612 | 41,612 | |
| (538,035) | 41,612 | (496,423) | |
| | | | 853 |
| 251,473 | - | 251,473 | - |
| 160,803 | - | 160,803 | - |
| 110,885 | - | 110,885 | - |
| 1,568 | 4,503 | 6,071 | - |
| 14,730 | - | 14,730 | - |
| 24,000 | - | 24,000 | - |
| 10,000 | (10,000) | - | - |
| 573,459 | (5,497) | 567,962 | - |
| 35,424 | 36,115 | 71,539 | 853 |
| 1,216,536 | 375,104 | 1,591,640 | 14,147 |
| \$ 1,251,960 | 411,219 | 1,663,179 | 15,000 |
| \$ 93,887 | - | 93,887 | - |
| 150,038 | 29,123 | 179,161 | - |
| 324,166 | - | 324,166 | - |
| 237,671 | - | 237,671 | - |
| 2,380 | - | 2,380 | - |
| 42,176 | - | 42,176 | 15,000 |
| 401,642 | 382,096 | 783,738 | - |
| \$ 1,251,960 | 411,219 | 1,663,179 | 15,000 |

City of Colo

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

As of and for the year ended June 30, 2018

| | Special Revenue | | |
|---|---------------------|--------------------|-----------------------------------|
| | General | Road Use Tax | Urban Renewal Tax Increment |
| Receipts: | | | |
| Property tax | \$ 205,892 | - | - |
| Tax increment financing | - | - | 160,803 |
| Other city tax | - | - | - |
| Licenses and permits | 5,584 | - | - |
| Use of money and property | 8,288 | - | - |
| Intergovernmental | 72,865 | 111,769 | - |
| Charges for service | 1,949 | - | - |
| Miscellaneous | 15,756 | - | - |
| Total receipts | <u>310,334</u> | <u>111,769</u> | <u>160,803</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 139,080 | - | - |
| Public works | 25,537 | 67,417 | - |
| Health and social services | 1,039 | - | - |
| Culture and recreation | 152,500 | - | - |
| Community and economic development | 1,600 | - | - |
| General government | 174,969 | - | - |
| Debt service | - | - | - |
| Total disbursements | <u>494,725</u> | <u>67,417</u> | <u>-</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>(184,391)</u> | <u>44,352</u> | <u>160,803</u> |
| Other financing sources (uses): | | | |
| Sale of property | 24,000 | - | - |
| Transfers in | 122,365 | - | - |
| Transfers out | - | - | (149,690) |
| Total other financing sources (uses) | <u>146,365</u> | <u>-</u> | <u>(149,690)</u> |
| Change in cash balances | (38,026) | 44,352 | 11,113 |
| Cash balances beginning of year | <u>1,051,831</u> | <u>49,535</u> | <u>(59,059)</u> |
| Cash balances end of year | <u>\$ 1,013,805</u> | <u>93,887</u> | <u>(47,946)</u> |
| Cash Basis Fund Balances | | | |
| Restricted for: | | | |
| Streets | \$ - | 93,887 | - |
| Debt service | - | - | - |
| Cemetery | 324,166 | - | - |
| Library | 237,671 | - | - |
| Recreation | 2,380 | - | - |
| Other purposes | - | - | - |
| Unassigned | <u>449,588</u> | <u>-</u> | <u>(47,946)</u> |
| Total cash basis fund balances | <u>\$ 1,013,805</u> | <u>93,887</u> | <u>(47,946)</u> |

See notes to financial statements.

| Local Option Sales Tax | Debt Service | Nonmajor - Employee Benefits | Total |
|---------------------------|-----------------|------------------------------------|-----------|
| - | 9,733 | 35,848 | 251,473 |
| - | - | - | 160,803 |
| 110,885 | - | - | 110,885 |
| - | - | - | 5,584 |
| - | - | - | 8,288 |
| - | - | - | 184,634 |
| - | - | - | 1,949 |
| - | - | - | 15,756 |
| 110,885 | 9,733 | 35,848 | 739,372 |
| - | - | 1,181 | 140,261 |
| - | - | 6,823 | 99,777 |
| - | - | - | 1,039 |
| - | - | 2,125 | 154,625 |
| - | - | - | 1,600 |
| - | - | 16,487 | 191,456 |
| - | 149,190 | - | 149,190 |
| - | 149,190 | 26,616 | 737,948 |
| 110,885 | (139,457) | 9,232 | 1,424 |
| - | - | - | 24,000 |
| - | 149,690 | - | 272,055 |
| (112,365) | - | - | (262,055) |
| (112,365) | 149,690 | - | 34,000 |
| (1,480) | 10,233 | 9,232 | 35,424 |
| 27,451 | 139,805 | 6,973 | 1,216,536 |
| 25,971 | 150,038 | 16,205 | 1,251,960 |
| - | - | - | 93,887 |
| - | 150,038 | - | 150,038 |
| - | - | - | 324,166 |
| - | - | - | 237,671 |
| - | - | - | 2,380 |
| 25,971 | - | 16,205 | 42,176 |
| - | - | - | 401,642 |
| 25,971 | 150,038 | 16,205 | 1,251,960 |

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, 2018

| | Enterprise | | | |
|---|------------|---------|-------------|----------|
| | Water | Sewer | Solid Waste | Total |
| Operating receipts: | | | | |
| Charges for service | \$ 146,937 | 95,042 | 74,096 | 316,075 |
| Operating disbursements: | | | | |
| Business type activities | 107,460 | 62,216 | 76,910 | 246,586 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | 39,477 | 32,826 | (2,814) | 69,489 |
| Non-operating receipts (disbursements): | | | | |
| Interest on investments | 1,888 | 2,615 | - | 4,503 |
| Miscellaneous | 600 | 646 | - | 1,246 |
| Debt service | (29,123) | - | - | (29,123) |
| Net nonoperating receipts (disbursements) | (26,635) | 3,261 | - | (23,374) |
| Excess (deficiency) of receipts over (under) disbursements | 12,842 | 36,087 | (2,814) | 46,115 |
| Transfers out | (5,000) | (5,000) | - | (10,000) |
| Change in cash balances | 7,842 | 31,087 | (2,814) | 36,115 |
| Cash balances beginning of year | 209,360 | 162,702 | 3,042 | 375,104 |
| Cash balances end of year | \$ 217,202 | 193,789 | 228 | 411,219 |
| Cash Basis Fund Balances | | | | |
| Restricted for debt service | \$ 29,123 | - | - | 29,123 |
| Unrestricted | 188,079 | 193,789 | 228 | 382,096 |
| Total cash basis fund balances | \$ 217,202 | 193,789 | 228 | 411,219 |

See notes to financial statements.

City of Colo

Notes to Financial Statements

June 30, 2018

(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.

Discretely Presented Component Unit

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 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 receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The 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 classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2018, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2018 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 |
| 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 | 130,000 | 16,500 | 11,663 | 17,460 | 141,663 | 33,960 |
| 2024-2028 | 420,000 | 25,500 | 66,185 | 79,430 | 486,185 | 104,930 |
| 2029-2033 | - | - | 81,497 | 64,118 | 81,497 | 64,118 |
| 2034-2038 | - | - | 100,350 | 45,264 | 100,350 | 45,264 |
| 2039-2043 | - | - | 123,567 | 22,048 | 123,567 | 22,048 |
| 2044 | - | - | 25,531 | 1,171 | 25,531 | 1,171 |
| Total | \$ 1,040,000 | 136,535 | 450,880 | 303,896 | 1,490,880 | 440,431 |

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 74% net receipts. The total principal and interest remaining to be paid on the note is \$754,776. For the current year, principal and interest paid and total customer net receipts were \$29,123 and \$39,477, respectively.

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

- 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.
- Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making principal and interest payments when due.
- Additional monthly transfers shall be made to a water reserve account until a maximum balance of \$29,123 has been accumulated.
- An improvement account shall be established and maintained with a minimum amount to be determined between the City and the Lender.
- 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, 2018, 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 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 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 2018, 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, 2018 were \$14,836.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the City reported a liability of \$145,550 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, the City’s proportion was 0.002185%, which was an increase of 0.000021% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$20,021, \$53,053 and \$29,208, respectively.

There were no non-employee contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

| | |
|--|---|
| Rate of inflation (effective June 30, 2017) | 2.60% per annum. |
| Rates of salary increase (effective June 30, 2017) | 3.25 to 16.25% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 2017) | 7.00% compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 2017) | 3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation. |

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience study dated March 24, 2017.

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

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

| Asset Class | Asset Allocation | Long-Term Expected Real Rate of Return |
|------------------------|------------------|--|
| Domestic equity | 24.0% | 6.25% |
| International equity | 16.0 | 6.71 |
| Core plus fixed income | 27.0 | 2.25 |
| Public credit | 3.5 | 3.46 |
| Public real assets | 7.0 | 3.27 |
| Cash | 1.0 | (0.31) |
| Private equity | 11.0 | 11.15 |
| Private real assets | 7.5 | 4.18 |
| Private credit | 3.0 | 4.25 |
| Total | <u>100.0%</u> | |

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. 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 7.00%, 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 (6.00%) or 1% higher (8.00%) than the current rate.

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|--|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability | \$ 239,807 | 145,550 | 66,355 |

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

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the City and the plan members is \$1,173 for family coverage. For the year ended June 30, 2018, the City contributed \$9,750 and plan members eligible for benefits contributed \$5,495 to the plan. At June 30, 2018, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the City of Colo and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2018, the following employees were covered by the benefit terms:

| | |
|--|-----------------|
| Inactive employees or beneficiaries currently receiving benefit payments | - |
| Active employees | <u>1</u> |
| Total | <u><u>1</u></u> |

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City’s approximate liability for earned vacation and sick leave payable to employees at June 30, 2018, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-----------------|-----------------|
| Vacation | \$ 6,000 |
| Sick leave | 3,000 |
| Total | <u>\$ 9,000</u> |

This liability has been computed based on rates of pay in effect at June 30, 2018.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|-----------------------------|-------------------|
| General | Special Revenue: | |
| | Local Option Sales Tax | \$ 112,365 |
| | Enterprise: | |
| | Water | 5,000 |
| | Sewer | <u>5,000</u> |
| | | 122,365 |
| Debt Service | Special Revenue: | |
| | Urban Renewal Tax Increment | <u>149,690</u> |
| Total | | <u>\$ 272,055</u> |

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

(8) Risk Management

The City is 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 775 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, 2018 were \$16,508.

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.

(9) Development Agreements

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, 2018, the City did not make any payments to the developer. The balance remaining under the agreement at June 30, 2018 is \$6,000.

(10) Deficit Balance

At June 30, 2018, the Special Revenue, Urban Renewal Tax Increment Fund (TIF) had a deficit balance of \$47,946. The deficit balance will be eliminated with future TIF receipts.

(11) 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 receipts 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, 2018, the City abated no property tax under the urban renewal and economic development agreements.

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, 2018

| | Governmental Funds Actual | Proprietary Funds Actual | Total |
|---|---------------------------------|--------------------------------|------------------|
| Receipts: | | | |
| Property tax | \$ 251,473 | - | 251,473 |
| Tax increment financing | 160,803 | - | 160,803 |
| Other city tax | 110,885 | - | 110,885 |
| Licenses and permits | 5,584 | - | 5,584 |
| Use of money and property | 8,288 | 4,503 | 12,791 |
| Intergovernmental | 184,634 | - | 184,634 |
| Charges for service | 1,949 | 316,075 | 318,024 |
| Miscellaneous | 15,756 | 1,246 | 17,002 |
| Total receipts | <u>739,372</u> | <u>321,824</u> | <u>1,061,196</u> |
| Disbursements: | | | |
| Public safety | 140,261 | - | 140,261 |
| Public works | 99,777 | - | 99,777 |
| Health and social services | 1,039 | - | 1,039 |
| Culture and recreation | 154,625 | - | 154,625 |
| Community and economic development | 1,600 | - | 1,600 |
| General government | 191,456 | - | 191,456 |
| Debt service | 149,190 | - | 149,190 |
| Business type activities | - | 275,709 | 275,709 |
| Total disbursements | <u>737,948</u> | <u>275,709</u> | <u>1,013,657</u> |
| Excess (deficiency) of receipts over (under) disbursements | 1,424 | 46,115 | 47,539 |
| Other financing sources (uses), net | 34,000 | (10,000) | 24,000 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 35,424 | 36,115 | 71,539 |
| Balances beginning of year | <u>1,216,536</u> | <u>375,104</u> | <u>1,591,640</u> |
| Balances end of year | <u>\$ 1,251,960</u> | <u>411,219</u> | <u>1,663,179</u> |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|------------------|------------------|------------------|
| Original | Final | Total |
| | | Variance |
| 240,619 | 240,619 | 10,854 |
| 171,940 | 171,940 | (11,137) |
| 114,832 | 114,832 | (3,947) |
| 6,250 | 6,250 | (666) |
| 12,700 | 12,700 | 91 |
| 182,500 | 182,500 | 2,134 |
| 350,250 | 350,250 | (32,226) |
| 17,250 | 17,250 | (248) |
| <u>1,096,341</u> | <u>1,096,341</u> | <u>(35,145)</u> |
| 132,704 | 161,704 | 21,443 |
| 132,784 | 136,784 | 37,007 |
| 1,039 | 1,039 | - |
| 147,318 | 175,318 | 20,693 |
| 24,100 | 24,100 | 22,500 |
| 149,129 | 230,129 | 38,673 |
| 148,940 | 148,940 | (250) |
| 341,048 | 341,048 | 65,339 |
| <u>1,077,062</u> | <u>1,219,062</u> | <u>205,405</u> |
| 19,279 | (122,721) | 170,260 |
| - | - | 24,000 |
| 19,279 | (122,721) | 194,260 |
| <u>2,474,973</u> | <u>2,474,973</u> | <u>(883,333)</u> |
| <u>2,494,252</u> | <u>2,352,252</u> | <u>(689,073)</u> |

City of Colo

Notes to Other Information – Budgetary Reporting

June 30, 2018

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 increased budgeted disbursements by \$142,000.

During the year ended June 30, 2018, disbursements exceeded the amount budgeted in the debt service function.

City of Colo

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

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

Other Information

| | 2018 | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|-----------|
| City's proportion of the net pension liability | 0.002185% | 0.002164% | 0.002509% | 0.002719% |
| City's proportionate share of the net pension liability | \$ 146 | 136 | 124 | 108 |
| City's covered payroll | \$ 168 | 160 | 168 | 179 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 86.90% | 85.00% | 73.81% | 60.34% |
| IPERS' net position as a percentage of the total pension liability | 82.21% | 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 Ten Years
(In Thousands)

Other Information

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|
| Statutorily required contribution | \$ 15 | 15 | 14 | 15 |
| Contributions in relation to the statutorily required contribution | <u>(15)</u> | <u>(15)</u> | <u>(14)</u> | <u>(15)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| City's covered payroll | \$ 159 | 168 | 160 | 168 |
| Contributions as a percentage of covered payroll | 8.93% | 8.93% | 8.93% | 8.93% |

See accompanying independent auditor's report.

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|-------|-------|-------|-------|-------|-------|
| 16 | 15 | 13 | 11 | 11 | 10 |
| (16) | (15) | (13) | (11) | (11) | (10) |
| - | - | - | - | - | - |
| 179 | 173 | 161 | 158 | 165 | 157 |
| 8.94% | 8.67% | 8.07% | 6.96% | 6.67% | 6.37% |

City of Colo

Notes to Other Information – Pension Liability

Year ended June 30, 2018

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.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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, 2015. 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, 2018

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|-------------------------------|------------------|-------------------|--------------------------------|
| General obligation notes: | | | |
| 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 |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 1,160,000 | - | 120,000 | 1,040,000 | 28,690 |
| 460,486 | - | 9,606 | 450,880 | 19,517 |

Schedule 2

City of Colo
Note Maturities
June 30, 2018

| Year Ending June 30, | General Obligation Note Capital Loan Note Series 2014 Issued Jul 15, 2014 | | Revenue Note Water Issued Sep 28, 2004 | |
|----------------------------|--|---------------------|--|-------------------|
| | Interest | | Interest | |
| | Rates | Amount | Rates | Amount |
| 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 | 25,531 |
| Total | | <u>\$ 1,040,000</u> | | <u>\$ 450,880</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 Five Years

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|------------------------------------|------------|---------|---------|-----------|-----------|
| Receipts: | | | | | |
| Property tax | \$ 251,473 | 207,688 | 237,444 | 211,191 | 206,719 |
| Tax increment financing | 160,803 | 270,201 | 79,905 | 150,334 | 153,734 |
| Other city tax | 110,885 | 120,503 | 116,983 | 117,832 | 100,495 |
| Licenses and permits | 5,584 | 7,557 | 1,490 | 995 | 635 |
| Use of money and property | 8,288 | 8,951 | 11,096 | 12,140 | 7,234 |
| Intergovernmental | 184,634 | 187,808 | 221,946 | 149,915 | 165,695 |
| Charges for service | 1,949 | 2,009 | 2,719 | 3,089 | 4,687 |
| Miscellaneous | 15,756 | 27,277 | 42,255 | 60,910 | 710,898 |
| Total | \$ 739,372 | 831,994 | 713,838 | 706,406 | 1,350,097 |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public safety | \$ 140,261 | 108,014 | 171,293 | 153,746 | 120,593 |
| Public works | 99,777 | 120,711 | 210,277 | 1,236,617 | 154,316 |
| Health and social services | 1,039 | 750 | 8,133 | 8,133 | 10,404 |
| Culture and recreation | 154,625 | 152,020 | 131,262 | 115,713 | 129,032 |
| Community and economic development | 1,600 | 22,957 | 1,500 | 1,600 | 19,403 |
| General government | 191,456 | 191,203 | 136,145 | 142,428 | 126,626 |
| Debt service | 149,190 | 147,105 | 172,203 | 150,361 | 165,363 |
| Total | \$ 737,948 | 742,760 | 830,813 | 1,808,598 | 725,737 |

See accompanying independent auditor's report.

City of Colo



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Colo, Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 27, 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 (D) 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 (E) through (K) 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, 2018 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

November 27, 2018

City of Colo

Schedule of Findings

Year ended June 30, 2018

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

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

Condition – 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 and recording.
- (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 recording.

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 and should be documented by the signature or initials of the reviewer and the date of the review. This is a repeat comment.

City of Colo

Schedule of Findings

Year ended June 30, 2018

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) 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 journal entries 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 ensure 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 journal entries are properly recorded in the City's accounting records and financial statements. This is a repeat comment.

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

Conclusion – Response accepted.

(C) 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.

City of Colo

Schedule of Findings

Year ended June 30, 2018

Written policies and procedures have not been 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.

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 will establish procedures to document reconciliations of utility billings, collections and delinquent accounts for each billing period. An independent person will review the utility reconciliation and document the review by signing or initialing and dating the reconciliation. The City will retain a copy of the monthly delinquent utility listing.

Written policies for penalty, shut off and write-off of uncollectible accounts will be established.

Conclusion – Response accepted.

(D) 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. In addition, the Association should prepare a monthly bank reconciliation.

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.

City of Colo

Schedule of Findings

Year ended June 30, 2018

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. In addition, procedures have not been developed for the preparation of a monthly bank reconciliation.

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. The lack of a complete bank to book reconciliation can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

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. This is a repeat comment.

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 – 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 review the reconciliations. The City Clerk will receive copies of monthly bank reconciliations.

Conclusion – Response accepted.

(E) Disbursements

Criteria – Disbursements should be properly supported by invoice or other supporting documentation. Supporting documentation should be canceled to prevent reuse. Disbursements should be recorded to the proper fund and paid timely. In addition, checks should be signed by two approved signers.

Condition – We noted the following:

- Five disbursements were not properly supported by invoice or other documentation.
- Fourteen disbursements did not contain dual signatures on the checks.
- Supporting documentation for twelve disbursements was not canceled to prevent reuse.
- One transaction was charged to the incorrect fund.

City of Colo

Schedule of Findings

Year ended June 30, 2018

- One transaction was not paid timely, which resulted in the payment of late fees and interest by the City.

Cause – The City’s policies and procedures do not require proper documentation be maintained for disbursements or invoices be cancelled upon payment. Procedures were not in place to ensure all disbursements were properly recorded and payments were processed timely to avoid late fees. 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. Lack of cancelation could lead to invoices being paid more than once. Lack of policies and procedures could result in improper recording of disbursements to an incorrect fund and unnecessary late fees and interest charges.

Recommendation – The City should maintain support for all disbursements in the future. Supporting documentation should be canceled to prevent reuse. 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. Payment should be made timely to avoid late fees and interest charges. Policies and procedures should be developed to ensure disbursements are recorded to the correct fund. This is a repeat comment.

Response – The City will maintain documentation for all disbursements. Supporting documentation will be canceled to prevent reuse. All disbursements will be reviewed and the City plans to work with the Library and Recreation Department to obtain dual signatures or eliminate the outside accounts. Payments will be made timely to avoid late fees and interest charges. Policies and procedures will be developed to ensure disbursements are recorded to the correct fund.

Conclusion – Response accepted.

(F) Computer System

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 and help ensure the 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.

Also, the City doesn’t have a written disaster recovery plan and 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.

City of Colo

Schedule of Findings

Year ended June 30, 2018

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

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer system. This is a repeat comment.

Response – The City will develop written policies requiring password changes every 60 days, maintaining password privacy and confidentiality, and ensuring only software licensed to only the City is installed on computers. The City is working on a disaster recovery plan and an audit trail for deleted transactions.

Conclusion – Response accepted.

(G) 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.

Cause – The City did not 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 – A detailed record of investment transactions will be maintained. Investment transactions are now updated monthly stating the investment number, purchase date, redemption date, interest rate, principal amount and interest received.

Conclusion – Response accepted.

(H) 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 polices 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.

City of Colo

Schedule of Findings

Year ended June 30, 2018

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

Effect – Lack of written policies and procedures to regulate the use of credit cards and lack of dual signatures on checks 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. This is a repeat comment.

Response – The City will adopt a formal written policy regulating the use of credit cards.

Conclusion – Response accepted.

(I) Receipts

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. Undeposited receipts should be secured until time of deposit to eliminate risk of misappropriation.

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. Undeposited receipts are not properly secured until they are deposited.

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

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. Undeposited receipts could be misappropriated if not properly secured. Lack of prenumbered receipts could result in misappropriation of receipts.

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. Undeposited receipts should be properly secured until the time of deposit,

Response – The City issues prenumbered receipts for all payments made by customers for utility bills, garbage bags, permits, etc. which are paid in cash. We will review our procedures for checks and money orders and establish procedures for an independent receipt to deposit reconciliation. This is a repeat comment.

Undeposited receipts will be properly secured in the vault until the time of deposit.

Conclusion – Response accepted.

City of Colo

Schedule of Findings

Year ended June 30, 2018

(J) 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 – 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 recording by the City Clerk.

Cause – Supervisors have not prioritized approval of timesheets or sick leave and vacation usage prior to recording by the City Clerk.

Effect – Lack of approval of timesheets and usage of sick leave and vacation could lead to improper accrual or usage of leave balances and errors in payroll hours recorded and paid.

Recommendation – Supervisors should review and approve timesheets for accuracy and leave time should be approved by a supervisor in advance of payment. This is a repeat comment.

Response – The City will ensure all timesheets are properly reviewed and vacation or sick leave taken is included on the timesheet.

Conclusion – Response accepted.

(K) Petty Cash

Criteria – An effective internal control system provides for internal controls related to the establishment of a petty cash fund at an authorized amount. Periodic reimbursements should be made to bring the amount maintained in line with authorized amounts. Surprise counts should be performed to ensure petty cash reconciles to the authorized amount.

Condition – The petty cash fund used by Library employees did not reconcile to an authorized amount.

Cause – Personnel were not aware petty cash should be maintained in an authorized amount. Surprise counts of the petty cash are not performed.

Effect – Since personnel were not aware of the established amount and periodic surprise counts are not performed, petty cash funds could be susceptible to accounting errors or misappropriation.

City of Colo

Schedule of Findings

Year ended June 30, 2018

Recommendation – Petty cash funds should be established and maintained at an authorized amount. The authorized amounts should be communicated to City employees. Periodic reimbursements should be made to bring the amount maintained in line with authorized amounts. Surprise counts should be performed to ensure petty cash reconciles to the authorized amount.

Response – The City will make sure petty cash funds are maintained at an authorized amount. The authorized amounts will be communicated to City employees. Periodic reimbursements will be made to bring the amount maintained in line with authorized amounts. Surprise counts will be performed to ensure the petty cash reconciles to the authorized amounts.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Colo

Schedule of Findings

Year ended June 30, 2018

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

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

Conclusion – Response accepted.

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

| <u>Paid to</u> | <u>Purpose</u> | <u>Amount</u> |
|--------------------------|----------------|---------------|
| Colo Food Bank | Donation | \$ 750 |
| Colo Crossroads Festival | Donation | 1,500 |
| Colo-Nesco After Prom | Donation | 100 |
| Colo Senior Citizens | Donation | 289 |

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

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

Response – The Council will determine and document the public purpose served by the disbursements before authorizing further payments.

Conclusion – Response accepted.

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

- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.

City of Colo

Schedule of Findings

Year ended June 30, 2018

- (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.

Thirteen of thirty 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, the publications 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. Disbursements and transfers should be approved by the City Council.

Response – The City will ensure all disbursements and transfers are approved by the City Council and total disbursements from each fund are 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 within 90 days after the end of the fiscal year, as required.

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

Conclusion – Response accepted.

City of Colo

Schedule of Findings

Year ended June 30, 2018

- (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:

- Based on a review of the County Auditor TIF reconciliation dated December 2017, the City has under-certified its 2014 general obligation note by \$23,421.
- Maximum payments under the McKinney Seed development agreement were \$3,000 per year for a maximum of \$15,000. Actual payments made under the agreement through June 30, 2018 were \$8,000. Based on our review of the City's TIF certifications and the County Auditor's TIF reconciliations it appears the City has certified only \$3,000 for the development agreement as of December 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. The City has not approved and recorded a corrective transfer to return the excess transferred to Debt Service back to the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund).

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 a corrective transfer to return the excess transferred to Debt Service back to the TIF Fund. The City will consult with the proper individuals and use the necessary forms to ensure TIF obligations are certified in the correct amounts.

Conclusion – Response accepted.

City of Colo

Schedule of Findings

Year ended June 30, 2018

- (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 \$253,676. 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 amounts reported in the City’s Urban Renewal Report materially agree with the City’s records.

Conclusion – Response accepted.

- (11) 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 Colo Volunteer Firefighters Association does not receive an image of the front and back of each cancelled check for the Fire Department.

Recommendation – The Colo Volunteer Firefighters Association 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 City will advise the Firefighters Association to obtain and retain images of both the front and back of cancelled checks.

Conclusion – Response accepted.

- (12) 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 or LOST balances to demonstrate compliance with the specific criteria of the LOST ballot.

Recommendation – The City Council should ensure local option sales tax collections, disbursements and balances are tracked to document compliance with the specific criteria of the LOST ballot.

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

Conclusion – Response accepted.

City of Colo

Schedule of Findings

Year ended June 30, 2018

- (13) TIF Indebtedness Certification – Based on the review of the City’s budgets for fiscal years ending June 30, 2017 and June 30, 2018, the City levied a debt service levy totaling \$36,255 to pay a portion of general obligation debt which had been previously certified to the County as TIF indebtedness. As a result, the City has certified in excess of the amount needed to pay the TIF indebtedness.

Recommendation – The City should decertify the portion of TIF indebtedness which has been paid from the debt service levy.

Response – The City will decertify the portion of TIF indebtedness which has been paid out of the debt service levy.

Conclusion – Response accepted.

- (14) Financial Condition – The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of \$47,946 at June 30, 2018.

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.

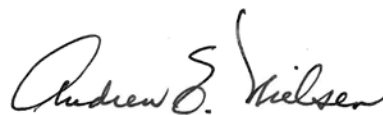
Conclusion – Response accepted.

City of Colo

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Jenna M. Paysen, Senior Auditor
Ian N. Judson, Staff Auditor
Elin M. Landgren, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State