



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

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NEWS RELEASE

FOR RELEASE

December 26, 2018

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

The City's receipts totaled \$1,624,199 for the year ended June 30, 2016. The receipts included \$31,446 from property tax, \$793,249 from note proceeds, \$134,000 from charges for service, \$69,724 from operating grants, contributions and restricted interest, \$573,977 from capital grants, contributions and restricted interest, \$15,164 from local option sales tax and \$6,639 from other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$1,598,678, and included \$76,345 for public works, \$67,220 for public safety and \$24,468 for general government. Also, disbursements for business type activities totaled \$1,428,114.

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/>.

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CITY OF BARNES CITY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2016

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City of Barnes City

Officials

(Before January 2016)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------------------|----------------------|---------------------|
| Barbara Davis | Mayor | Jan 2016 |
| Don Baker | Council Member | Jan 2016 |
| Virgil Roorda | Council Member | Jan 2016 |
| Gene Davis | Council Member | Jan 2018 |
| Rusty Lindenman | Council Member | Jan 2018 |
| Jennifer Henry | Council Member | (Resigned Jan 2015) |
| Jeff Innis (Elected Nov 2015) | Council Member | Jan 2018 |
| Mollie Loving | City Clerk/Treasurer | Indefinite |
| Phyllis Rauch | Finance Officer | Indefinite |
| Gilbert R. Caldwell III | Attorney | Indefinite |

(After January 2016)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------------|----------------------|---------------------|
| Barbara Davis | Mayor | Jan 2020 |
| Gene Davis | Council Member | Jan 2018 |
| Rusty Lindenman | Council Member | Jan 2018 |
| Jeff Innis | Council Member | Jan 2018 |
| Virgil Roorda | Council Member | Jan 2020 |
| Jennifer McGuire | Council Member | Jan 2020 |
| Mollie Loving | City Clerk/Treasurer | Indefinite |
| Phyllis Rauch | Finance Officer | Indefinite |
| Gilbert R. Caldwell III | Attorney | Indefinite |

City of Barnes City



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Barnes City, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinions.

Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2015

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2015, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund of the City of Barnes City as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Barnes City's basic financial statements. The supplementary information included in Schedules 1 and 2, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), 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, 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 24 through 30, 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 October 29, 2018 on our consideration of the City of Barnes City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Barnes City's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

October 29, 2018

City of Barnes City

Basic Financial Statements

City of Barnes City

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

| | Program Receipts | | | |
|---|------------------|---------------------------|--|--|
| | Disbursements | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 67,220 | - | 27,415 | 12,747 |
| Public works | 76,345 | 75,342 | 13,854 | - |
| Culture and recreation | 2,531 | - | - | - |
| General government | 24,468 | 1,560 | - | - |
| Total governmental activities | 170,564 | 76,902 | 41,269 | 12,747 |
| Business type activities: | | | | |
| Water | 1,428,114 | 57,098 | 28,455 | 561,230 |
| Total | \$ 1,598,678 | 134,000 | 69,724 | 573,977 |
| General Receipts and Transfers: | | | | |
| Property and other city tax levied for: | | | | |
| General purposes | | | | |
| Local option sales tax | | | | |
| Note proceeds | | | | |
| Commercial/industrial tax replacement | | | | |
| Unrestricted interest on investments | | | | |
| Miscellaneous | | | | |
| Transfers | | | | |
| Total general receipts and transfers | | | | |
| Change in cash basis net position | | | | |
| Cash basis net position beginning of year | | | | |
| Cash basis net position end of year | | | | |
| Cash Basis Net Position | | | | |
| Restricted: | | | | |
| Streets | | | | |
| Debt service | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net position | | | | |
| See notes to financial statements. | | | | |

| Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|--|-----------------------------|-----------|
| Governmental Activities | Business Type Activities | Total |
| (27,058) | - | (27,058) |
| 12,851 | - | 12,851 |
| (2,531) | - | (2,531) |
| (22,908) | - | (22,908) |
| (39,646) | - | (39,646) |
| - | (781,331) | (781,331) |
| (39,646) | (781,331) | (820,977) |
| 31,446 | - | 31,446 |
| 15,164 | - | 15,164 |
| - | 793,249 | 793,249 |
| 422 | - | 422 |
| 1,441 | - | 1,441 |
| 4,776 | - | 4,776 |
| 13,900 | (13,900) | - |
| 67,149 | 779,349 | 846,498 |
| 27,503 | (1,982) | 25,521 |
| 226,213 | 88,929 | 315,142 |
| \$ 253,716 | 86,947 | 340,663 |
| \$ 33,665 | - | 33,665 |
| - | 43,415 | 43,415 |
| 46,063 | - | 46,063 |
| 173,988 | 43,532 | 217,520 |
| \$ 253,716 | 86,947 | 340,663 |

City of Barnes City

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

As of and for the year ended June 30, 2016

| | Special Revenue | | |
|--|-------------------|--------------------|-------------------------------|
| | General | Road Use Tax | Fire Department Capital |
| Receipts: | | | |
| Property tax | \$ 28,876 | - | - |
| Other city tax | 2,570 | - | - |
| Local option sales tax | 15,164 | - | - |
| Licenses and permits | 1,560 | - | - |
| Use of money and property | 179 | 7 | 5 |
| Intergovernmental | 422 | 13,854 | 12,160 |
| Charges for service | 73,975 | - | - |
| Special assessments | 707 | - | - |
| Miscellaneous | 5,436 | - | - |
| Total receipts | <u>128,889</u> | <u>13,861</u> | <u>12,165</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 11,021 | - | 8,313 |
| Public works | 73,946 | 2,399 | - |
| Culture and recreation | 2,531 | - | - |
| General government | 24,468 | - | - |
| Total disbursements | <u>111,966</u> | <u>2,399</u> | <u>8,313</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>16,923</u> | <u>11,462</u> | <u>3,852</u> |
| Other financing sources (uses): | | | |
| Transfers in | 13,900 | - | 4,686 |
| Transfers out | (4,686) | - | - |
| Total other financing sources (uses) | <u>9,214</u> | <u>-</u> | <u>4,686</u> |
| Change in cash balances | 26,137 | 11,462 | 8,538 |
| Cash balances beginning of year | <u>147,851</u> | <u>22,203</u> | <u>16,925</u> |
| Cash balances end of year | <u>\$ 173,988</u> | <u>33,665</u> | <u>25,463</u> |
| Cash Basis Fund Balances | | | |
| Restricted for: | | | |
| Streets | \$ - | 33,665 | - |
| Other purposes | - | - | 25,463 |
| Unassigned | 173,988 | - | - |
| Total cash basis fund balances | <u>\$ 173,988</u> | <u>33,665</u> | <u>25,463</u> |

See notes to financial statements.

| <u>Special Revenue</u> | |
|------------------------|----------------|
| <u>Volunteer</u> | |
| <u>Fire and Rescue</u> | <u>Total</u> |
| - | 28,876 |
| - | 2,570 |
| - | 15,164 |
| - | 1,560 |
| 1,250 | 1,441 |
| 3,000 | 29,436 |
| 587 | 74,562 |
| - | 707 |
| 24,415 | 29,851 |
| <u>29,252</u> | <u>184,167</u> |
| 47,886 | 67,220 |
| - | 76,345 |
| - | 2,531 |
| - | 24,468 |
| <u>47,886</u> | <u>170,564</u> |
| <u>(18,634)</u> | <u>13,603</u> |
| - | 18,586 |
| - | (4,686) |
| - | 13,900 |
| <u>(18,634)</u> | <u>27,503</u> |
| <u>39,234</u> | <u>226,213</u> |
| <u>20,600</u> | <u>253,716</u> |
| - | 33,665 |
| 20,600 | 46,063 |
| - | 173,988 |
| <u>20,600</u> | <u>253,716</u> |

City of Barnes City

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

As of and for the year ended June 30, 2016

| | <u>Enterprise</u> |
|--|--------------------|
| | <u>Water</u> |
| Operating receipts: | |
| Charges for service | \$ 53,921 |
| Miscellaneous | 3,177 |
| Total operating receipts | <u>57,098</u> |
| Operating disbursements: | |
| Business type activities | <u>32,270</u> |
| Excess of operating receipts over operating disbursements | <u>24,828</u> |
| Non-operating receipts (disbursements): | |
| Note proceeds | 793,249 |
| USDA grant | 589,685 |
| Capital projects | <u>(1,395,844)</u> |
| Net non-operating receipts (disbursements) | <u>(12,910)</u> |
| Excess of receipts over disbursements | 11,918 |
| Transfers out | <u>(13,900)</u> |
| Change in cash balances | (1,982) |
| Cash balances beginning of year | <u>88,929</u> |
| Cash balances end of year | <u>\$ 86,947</u> |
| Cash Basis Fund Balances | |
| Restricted for debt service | \$ 43,415 |
| Unrestricted | <u>43,532</u> |
| Total cash basis fund balances | <u>\$ 86,947</u> |

See notes to financial statements.

City of Barnes City

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Barnes City is a political subdivision of the State of Iowa located in Mahaska and Poweshiek Counties. It was first incorporated in 1899 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Barnes City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

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

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

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

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

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

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

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 Fire Department Capital Fund is used to account for township payments for fire protection and is used for fire department expenses.

The Volunteer Fire and Rescue Fund is used to account for donations and grants for the fire department.

The City reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

(2) Cash and Pooled Investments

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

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

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

(3) Long-Term Debt

Water Revenue Loan Anticipation Project Note

On June 19, 2015, the City entered into a water revenue loan anticipation project note for \$835,000 to provide funds for constructing improvements and extensions to the municipal waterworks system. The note was issued pursuant to Chapter 76.13 of the Code of Iowa in anticipation of the receipt of and is payable solely from future proceeds of an authorized loan agreement and a corresponding issuance of water revenue bonds or notes in a principal amount not to exceed \$835,000. The anticipation project note had an interest rate of 2.95% per annum and matured on January 1, 2017. At June 30, 2016, the City had drawn \$835,000 against the anticipation project note.

(4) Pension Plan

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

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

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

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

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

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

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

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

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%.

The City’s contributions to IPERS for the year ended June 30, 2016 totaled \$783.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$5,841 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City’s proportion was 0.000118%, which was an increase of 0.000030% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$493, \$1,123 and \$1,359, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

| | |
|--|---|
| Rate of inflation (effective June 30, 2014) | 3.00% per annum. |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 17.00% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 1996) | 7.50% compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 1990) | 4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation. |

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

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

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

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|---|
| Core plus fixed income | 28% | 2.04% |
| Domestic equity | 24 | 6.29 |
| International equity | 16 | 6.75 |
| Private equity/debt | 11 | 11.32 |
| Real estate | 8 | 3.48 |
| Credit opportunities | 5 | 3.63 |
| U.S. TIPS | 5 | 1.91 |
| Other real assets | 2 | 6.24 |
| Cash | 1 | (0.71) |
| Total | <u>100%</u> | |

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

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

| | <u>1% Decrease (6.50%)</u> | <u>Discount Rate (7.50%)</u> | <u>1% Increase (8.50%)</u> |
|---|----------------------------|------------------------------|----------------------------|
| City's proportionate share of the net pension liability | \$ 10,227 | 5,841 | 2,139 |

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) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|-------------------------------------|----------------------|------------------|
| General | Enterprise: | |
| | Water | \$ 13,900 |
| Fire Department Capital Improvement | General | <u>4,686</u> |
| Total | | <u>\$ 18,586</u> |

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

(6) Risk Management

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

(7) Subsequent Event

In June 2015, the City approved an \$835,000 water revenue loan agreement with the USDA. In July 2017, the City received the note proceeds and paid off the water revenue project anticipation note. The loan has a forty year life and the first payment was made in August 2017.

City of Barnes City

Other Information

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

Other Information

Year ended June 30, 2016

| | Governmental Funds Actual | Proprietary Funds Actual | Total |
|--|---------------------------------|--------------------------------|------------------|
| Receipts: | | | |
| Property tax | \$ 28,876 | - | 28,876 |
| Other city tax | 17,734 | - | 17,734 |
| Licenses and permits | 1,560 | - | 1,560 |
| Use of money and property | 1,441 | - | 1,441 |
| Intergovernmental | 29,436 | 589,685 | 619,121 |
| Charges for service | 74,562 | 53,921 | 128,483 |
| Special assessments | 707 | - | 707 |
| Miscellaneous | 29,851 | 3,177 | 33,028 |
| Total receipts | <u>184,167</u> | <u>646,783</u> | <u>830,950</u> |
| Disbursements: | | | |
| Public safety | 67,220 | - | 67,220 |
| Public works | 76,345 | - | 76,345 |
| Culture and recreation | 2,531 | - | 2,531 |
| General government | 24,468 | - | 24,468 |
| Capital projects | - | - | - |
| Business type activities | - | 1,428,114 | 1,428,114 |
| Total disbursements | <u>170,564</u> | <u>1,428,114</u> | <u>1,598,678</u> |
| Excess (deficiency) of receipts over (under) disbursements | 13,603 | (781,331) | (767,728) |
| Other financing sources, net | <u>13,900</u> | <u>779,349</u> | <u>793,249</u> |
| Excess of receipts and other financing sources over disbursements and other financing uses | 27,503 | (1,982) | 25,521 |
| Balances beginning of year | <u>226,213</u> | <u>88,929</u> | <u>315,142</u> |
| Balances end of year | <u>\$ 253,716</u> | <u>86,947</u> | <u>340,663</u> |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|------------------|------------------|------------------|
| Original | Final | Total |
| | | Variance |
| 27,575 | 27,575 | 1,301 |
| 17,562 | 17,562 | 172 |
| 565 | 565 | 995 |
| 85 | 85 | 1,356 |
| 189,342 | 189,342 | 429,779 |
| 149,160 | 149,160 | (20,677) |
| - | - | 707 |
| 12,500 | 12,500 | 20,528 |
| <u>396,789</u> | <u>396,789</u> | <u>434,161</u> |
| 15,715 | 15,715 | (51,505) |
| 111,800 | 111,800 | 35,455 |
| 3,500 | 3,500 | 969 |
| 31,300 | 31,300 | 6,832 |
| 167,342 | 1,002,342 | 1,002,342 |
| 62,000 | 62,000 | (1,366,114) |
| <u>391,657</u> | <u>1,226,657</u> | <u>(372,021)</u> |
| 5,132 | (829,868) | 62,140 |
| - | - | 793,249 |
| 5,132 | (829,868) | 855,389 |
| <u>199,798</u> | <u>1,034,798</u> | <u>(719,656)</u> |
| <u>204,930</u> | <u>204,930</u> | <u>135,733</u> |

City of Barnes City

Notes to Other Information – Budgetary Reporting

June 30, 2016

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Enterprise Fund. 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 \$835,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

City of Barnes City

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

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

Other Information

| | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| City's proportion of the net pension liability | 0.000118% | 0.000088% |
| City's proportionate share of the net pension liability | \$ 5,841 | 3,470 |
| City's covered payroll | \$ 8,100 | 5,725 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 72.11% | 60.61% |
| IPERS' net position as a percentage of the total pension liability | 85.19% | 87.61% |

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

See accompanying independent auditor's report.

City of Barnes City

Schedule of City Contributions

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

Other Information

| | 2016 | 2015 | 2014 | 2013 |
|---|----------|-------|-------|-------|
| Statutorily required contribution | \$ 783 | 723 | 511 | 417 |
| Contributions in relation to the statutorily required contribution | (783) | (723) | (511) | (417) |
| Contribution deficiency (excess) | \$ - | - | - | - |
| City's covered payroll | \$ 8,800 | 8,100 | 5,725 | 4,810 |
| Contributions as a percentage of covered payroll | 8.93% | 8.93% | 8.93% | 8.67% |

See accompanying independent auditor's report.

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

| 2012 | 2011 | 2010 | 2009 |
|-------|-------|-------|-------|
| 344 | 287 | 246 | 236 |
| (344) | (287) | (246) | (236) |
| - | - | - | - |
| 4,260 | 3,700 | 3,700 | 3,720 |
| 8.08% | 7.76% | 6.65% | 6.34% |

City of Barnes City

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

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

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

Changes of assumptions:

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

Supplementary Information

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

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|--|------------------|-------------------|--------------------------------|
| Water Revenue Project anticipation note | Jun 19, 2015 | 2.95% | \$ 835,000 |

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 41,751 | 793,249 | - | 835,000 | - |

Schedule 2

City of Barnes City

Schedule of Expenditures of Federal Awards

June 30, 2016

| Grantor/Program | CFDA Number | Agency Pass-through Number | Program Expenditures |
|--|----------------|----------------------------------|-------------------------|
| Direct: | | | |
| U.S. Department of Agriculture: | | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | | \$ 1,300,356 |
| Indirect: | | | |
| U.S. Department of Housing and Urban Development: | | | |
| Iowa Economic Development Authority: | | | |
| Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii | 14.228 | 13-WS-026 | 95,488 |
| Total | | | \$ 1,395,844 |

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Barnes City under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Barnes City, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Barnes City.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Barnes City has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

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

City of Barnes City



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities and each major fund of the City of Barnes City, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 29, 2018. The financial statements were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed modified opinions on the governmental activities, the business type activities and each major fund since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance of July 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Barnes City'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 Barnes City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Barnes City'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 and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Barnes City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-16 through II-D-16 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-E-16 and II-F-16 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Barnes City's Responses to the Findings

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

October 29, 2018



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

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Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Barnes City, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City of Barnes City's major federal program for the year ended June 30, 2016. The City of Barnes City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Barnes City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Barnes City's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Barnes City's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Barnes City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The management of the City of Barnes City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Barnes City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Barnes City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-16 to be a material weakness.

The City of Barnes City's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City of Barnes City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



MARY MOSIMAN, CPA
Auditor of State

October 29, 2018

City of Barnes City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part I: Summary of the Independent Auditor's Results:

- (a) Modified opinions were issued on the financial statements of the governmental activities, the business type activities and each major fund which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Barnes City did not qualify as a low-risk auditee.

City of Barnes City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-16 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 individual has control over the following areas for which no compensating controls exist:

- (1) Accounting system – performing all general accounting functions, including journal entries and controlling all data input and output.
- (2) Cash and investments – handling, reconciling and recording.
- (3) Long-term debt – recording and reconciling.
- (4) Receipts – opening mail, collecting, depositing, recording, posting and reconciling.
- (5) Utility receipts – billing, collecting, depositing, posting and entering rates.
- (6) Disbursements – purchasing, invoice processing, signing, mailing and recording.
- (7) Payroll – recordkeeping, preparing checks, distributing, entering pay rates and adding and removing employees from payroll.

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

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

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response – The City Clerk is still performing many of these duties, however the Finance Officer will be involved with respect to balancing the checking accounts. The City Clerk has also made some changes to the billing system by taking advantage of the automated features of the SUMMIT system so that meter readings are now uploaded automatically when meters are read. (no longer manually entered).

City of Barnes City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Conclusion – Response acknowledged. The City should utilize current personnel, including elected official, to provide additional control.

II-B-16 Reconciliation of Utility Billings, Collections and Delinquent Accounts

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

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

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

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

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

Response – The City Clerk is currently using an excel spreadsheet to show all accounts with prior and current charges, total paid, and final amount due for each month. This has helped me understand the process much better. When all the deposits are entered in the system and when all the reconnect fees charge automatically, our SUMMIT system balances should be 100% correct. At this time, most of the deposits are not in the system and, prior to last month, the \$50 reconnect fee did not get automatically charged – it had to be added on manually. The City Clerk is on track to implement these changes. The excel spreadsheet will show all delinquent accounts.

Conclusion – Response accepted.

City of Barnes City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

II-C-16 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. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including property tax levied for specific purposes, road use tax and bond, note and loan proceeds.

Condition – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. In addition, the City has not implemented the Uniform Chart of Accounts (COA) for Iowa City Governments recommended by the City Finance Committee.

Cause – City policies do not require and procedures have not been established to require use of fund accounting or the COA for coding, or for accounting records to be reviewed by an independent person.

Effect – Lack of policies and procedures resulted in City employees not detecting errors in the normal course of performing their assigned functions. As a result, we identified material amounts of receipts and disbursements coded incorrectly or recorded in incorrect accounts in the City's general ledger. Adjustments were subsequently made by the City to properly report the amounts.

Recommendation – The City should implement a financial reporting system and establish procedures to ensure records are maintained to facilitate fund accounting and the use of the COA or its equivalent.

Response – The City Clerk has reviewed Clerk Books (by Intuit) and the accounting package offered by SUMMIT. Both are costly, but the plan is to present these to the City Council for approval to purchase one.

Conclusion – Response accepted.

II-D-16 Bank Reconciliations

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

Condition – Bank reconciliations were performed for some accounts but not for all bank accounts. In addition, there was no evidence of independent review of the reconciliations.

Cause – Procedures have not been designed and implemented to ensure all accounts are reconciled and the amounts recorded in the books and bank accounts are complete and accurate to ensure proper accounting for all funds.

City of Barnes City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

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

Recommendation – The City should prepare monthly bank reconciliations, including all bank accounts, and variances between book and bank balances should be investigated and resolved in a timely manner to improve financial accountability and control. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the signature or initials of the independent reviewer and the date of review.

Response – Bank reconciliations are currently prepared and the Finance Officer now reviews these and ‘signs off’ each month to indicate she has reviewed/approved each month’s reconciliation and statements.

Conclusion – Response accepted.

II-E-16 Monthly Treasurer Reports

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

Condition – The monthly City Clerk’s financial reports to the City Council included cash balances and month to date receipts and disbursements, but did not include beginning and ending balances by fund or comparisons to the certified budget by function.

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

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

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include beginning and ending balances by fund and comparisons to the certified budget by function.

Response – It was recently explained to the Mayor and the City Clerk how the budget actually works to control spending. The City Clerk has not implemented any significant changes yet but hopes to be able to do so in the near future.

Conclusion – Response accepted.

City of Barnes City

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Year ended June 30, 2016

II-F-16 Change Fund

Criteria – The change fund should be maintained on an imprest basis and the City should have an approved authorized amount of cash to be maintained in the change fund.

Condition – The City has not approved an authorized amount of cash to be maintained in the change fund.

Cause – Procedures have not been implemented to approve an authorized amount of cash to be maintained in the change fund.

Effect – Lack of an authorized amount can result in the ability to maintain an appropriate amount of funds.

Recommendation – The change fund should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the fund.

Response – The change fund will be eliminated. It is still in existence but is not being used. It's a matter of depositing the cash to the General Fund.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Barnes City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.760: Water and Waste Disposal Systems for Rural Communities

Federal Award Year: 2016

Prior Year Finding Number: NA

U.S. Department of Agriculture

III-A-16 Segregation of Duties over Federal Receipts and Disbursements – The
(2016-001) City did not properly segregate custody, record-keeping and reconciling
functions for receipts and disbursements, including those related to
federal programs. See item II-A-16.

City of Barnes City

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Year ended June 30, 2016

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-16 Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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 – As mentioned previously, the Mayor and the City Clerk now understand how the budgeted amounts control spending and that we cannot exceed these amounts as was done last fiscal year. We plan to pay close attention to this year’s budget and not overspend.

Conclusion – Response accepted.

IV-B-16 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979.

IV-C-16 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-16 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|---|--------------------------------------|--------|
| Don Baker, City Council Member, Owner of Linden Welding | Water reconnection and disconnection | \$ 170 |

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Don Baker do not appear to represent conflicts of interest since total transactions with the individual were less than \$2,500 during the fiscal year.

IV-E-16 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.

IV-F-16 Deposits and Investments – Except as noted below, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.

The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Also, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

City of Barnes City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. Also, a resolution establishing amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Response – The City does not currently have ‘investments’. However, if an investment policy is required in the event the City does hold investments, we will comply. Our official depository is the County Bank in Gibson, IA. The City Clerk will prepare a resolution and present it to the City Council to approve at the September City Council meeting.

Conclusion – Response accepted.

IV-G-16 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-H-16 Revenue Notes – No instances of non-compliance with the revenue note resolution were noted.

IV-I-16 Unclaimed Property – Chapter 556.11 of the Code of Iowa requires entities to annually report and remit obligations, including checks outstanding for more than two years to the Office of Treasurer of State. The City did not remit all covered obligations, as required.

Recommendation – The outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State annually, as required.

Response – The City Clerk will be sending this money to the State next month, after the August statements are balanced.

Conclusion – Response accepted.

IV-J-16 Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...”

The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records. In addition, the AFR was not approved by the City Council.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records and are properly reviewed and approved.

Response – The City Clerk will obtain assistance in completion of this report to ensure it agrees with City records and is reviewed and approved.

Conclusion – Response accepted.

City of Barnes City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- IV-K-16 Separately Maintained Records – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.”

The City Volunteer Fire and Rescue Department maintains a bank account for activity separate from the City Clerk’s accounting records. While this Department is part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Report.

In addition, the transactions and resulting balances of this account are not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of the account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Volunteer Fire and Rescue Department’s separate accounts should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in this account should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of the account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

Response – The City Clerk will work with the prior City Clerk to obtain an understanding of this account.

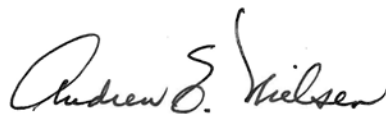
Conclusion – Response acknowledged. The financial transactions of the Volunteer Fire and Rescue Department’s separate account should be integrated with the City’s accounting records in the City Clerk’s office.

City of Barnes City

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Erin J. Sietstra, Senior 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 initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State