



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

March 13, 2019

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released an audit report on the City Traer, Iowa.

The City's receipts totaled \$4,730,855 for the year ended June 30, 2018, a 32.7% decrease from the prior year. The receipts included \$943,708 of property tax, \$3,074,967 of charges for service, \$550,976 of operating grants, contributions and restricted interest, \$98,029 of local option sales tax, \$25,400 of unrestricted interest on investments and \$37,775 of other general receipts. The decrease in receipts was primarily due to the issuance of general obligation notes for the municipal pool project during the prior fiscal year.

Disbursements for the year ended June 30, 2018 totaled \$7,080,288 a 48.1% increase from the prior year, and included \$2,463,865 for capital projects, \$731,933 for public safety and \$414,638 for debt service. Also, disbursements for business type activities totaled \$2,643,762. The increase in disbursements was primarily due to the construction of municipal pool during the fiscal year.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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**CITY OF TRAER**

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

**JUNE 30, 2018**

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## City of Traer and Traer Municipal Utilities

### Officials

#### (Before January 2018)

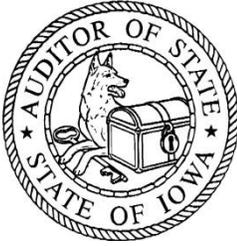
<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Pete Holden	Mayor	Jan 2018
Carri Holst	Mayor Pro Tem	Jan 2020
Steve Foster	Council Member	Jan 2018
Craig Youel	Council Member	Jan 2018
Raymond Mundt	Council Member	(Resigned Aug 2017)
Mark Mason (Appointed Aug 2017)	Council Member	Nov 2017
Dahn Kennedy	Council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

#### (After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Pete Holden	Mayor	Jan 2020
Carri Holst	Mayor Pro Tem	Jan 2020
Dahn Kennedy	Council Member	Jan 2020
Laurie Schafer	Council Member	Jan 2020
Steve Foster	Council Member	Jan 2022
Craig Youel	Council Member	Jan 2022
Jon Panfil	City Clerk/Treasurer	Indefinite
Bruce Reinders	Attorney	Indefinite

**Officials  
(continued)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Anita Dostal	TMU Trustee	Nov 2018
Nick Podhajsky	TMU Trustee	Jan 2020
Eric McEwen	TMU Trustee	Jan 2021
Sandra Whannel	TMU Trustee	Jan 2022
David Barnes	TMU Trustee	Jan 2024
Pat Steif	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Traer, 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, each major fund and the aggregate remaining fund information of the City of Traer 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.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Traer's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2017 and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the eight years ended June 30, 2016 (which are not presented herein) were audited by other auditor who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 9 through 14 and 32 through 38, 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 February 21, 2019 on our consideration of the City of Traer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Traer's internal control over financial reporting and compliance.



ROB SAND  
Auditor of State

February 21, 2019

**City of Traer**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Traer provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 52.9%, or approximately \$2,231,000, from fiscal year 2017 to fiscal year 2018. Note proceeds decreased approximately \$2,505,000 and operating grants, contributions and restricted interest increased approximately \$204,000.
- Disbursements of the City's governmental activities increased 123.0%, or approximately \$2,447,000, in fiscal year 2018 from fiscal year 2017. Capital projects disbursements increased approximately \$2,312,000 due to the construction of a municipal pool.
- The City's total cash basis net position decreased 49.4%, or approximately \$2,350,000, from June 30, 2017 to June 30, 2018. Of this amount, the cash basis net position of the governmental activities decreased approximately \$2,284,000 and the cash basis net position of the business type activities decreased approximately \$66,000.

### 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 as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

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

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

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

## **BASIS OF ACCOUNTING**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Electric, Water, Sewer and Telecommunications Funds, considered to be major funds of the City.

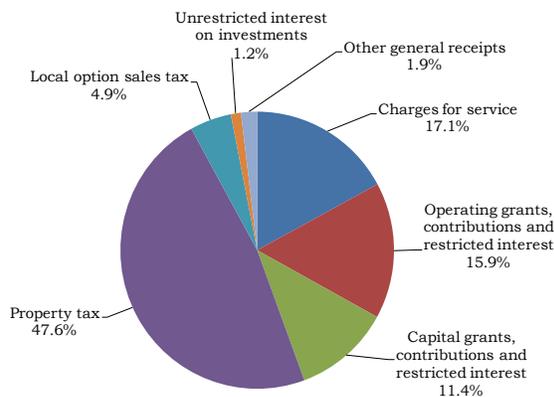
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

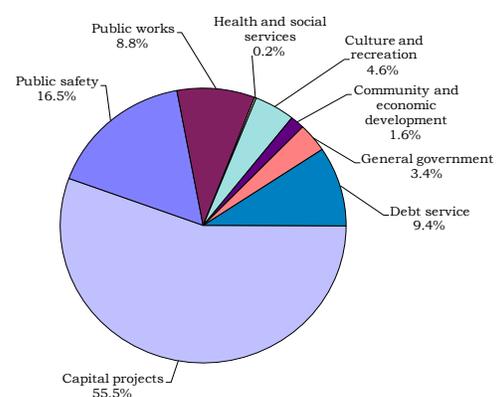
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$4.185 million to approximately \$1.901 million. The analysis that follows focuses on the changes in cash basis net 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	\$ 340	331
Operating grants, contributions and restricted interest	315	338
Capital grants, contributions and restricted interest	227	-
General receipts:		
Property tax	944	853
Local option sales tax	98	116
Unrestricted interest on investments	23	4
Note proceeds	-	2,505
Other general receipts	37	68
<b>Total receipts</b>	<b>1,984</b>	<b>4,215</b>
Disbursements:		
Public safety	732	418
Public works	392	498
Health and social services	9	9
Culture and recreation	205	269
Community and economic development	70	173
General government	150	146
Debt service	415	325
Capital projects	2,464	152
<b>Total disbursements</b>	<b>4,437</b>	<b>1,990</b>
Change in cash basis net position before transfers	(2,453)	2,225
Transfers, net	169	178
Change in cash basis net position	(2,284)	2,403
Cash basis net position beginning of year	4,185	1,782
Cash basis net position end of year	<b>\$ 1,901</b>	<b>4,185</b>

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities decreased 52.9%, or approximately \$2,231,000, from the prior year. The total cost of all programs and services increased approximately \$2,447,000, or 123.0%, with pool construction project creating the large increase.

The City's property tax rates increased \$1.50329 per \$1,000 of assessed valuation compared to fiscal year 2017. Property tax is budgeted to increase approximately \$9,565 in fiscal year 2019 due to an increase in tax levies and a decrease in property valuations.

The cost of all governmental activities this year was approximately \$4.437 million compared to approximately \$1.990 million 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 \$3.555 million because some of the cost was paid by those directly benefited from the programs (approximately \$340,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$542,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2018 from approximately \$669,000 to approximately \$882,000. The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2018	2017
Receipts:		
Program receipts:		
Charges for service:		
Electric	\$ 2,057	2,133
Water	373	371
Sewer	169	164
Telecom	136	140
Operating grants, contributions and restricted interest	9	5
General receipts:		
Unrestricted interest on investments	2	1
Total receipts	<u>2,746</u>	<u>2,814</u>
Disbursements:		
Electric	2,104	2,226
Water	368	376
Sewer	90	92
Telecom	81	96
Total disbursements	<u>2,643</u>	<u>2,790</u>
Change in cash basis net position before transfers	103	24
Transfers, net	<u>(169)</u>	<u>(178)</u>
Change in cash basis net position	(66)	(154)
Cash basis net position beginning of year	<u>568</u>	<u>722</u>
Cash basis net position end of year	<u>\$ 502</u>	<u>568</u>

Total business type activities receipts for the fiscal year were approximately \$2.746 million compared to approximately \$2.814 million last year. The cash balance decreased approximately \$66,000 from the prior year to approximately \$502,000. Total disbursements for the fiscal year decreased 5.3% to approximately \$2.643 million.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Traer completed the year, its governmental funds reported a combined fund balance of \$1,901,304, a decrease of approximately \$2,283,000 below last year's total of \$4,184,659. 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 \$2,167,631 from the prior year to \$1,799,141. Approximately \$2,380,000 of this decrease is due to a transfer of note proceeds to the Capital Projects Fund for pool construction costs.
- The Special Revenue, Road Use Tax Fund cash balance remained at \$1,000, the same as the prior year balance. The City funds public works projects out of this fund and any excess disbursements are funded through a transfer from the General Fund. Disbursements decreased approximately \$92,000, or 26.9%, from the prior year, primarily due to the purchase of an end loader in the prior year.
- The Debt Service Fund cash balance remained at \$1,000, the same as the prior year balance. The City balances this fund with transfers from the General Fund to subsidize the disbursements. Disbursements increased approximately \$90,000, or 27.6%, over the prior year, primarily due to an increase in interest due for the 2017 general obligation municipal pool note.
- The Capital Projects fund cash balance decreased to a zero balance from \$83,870. The fund was used for construction costs for the municipal pool project during the fiscal year. A transfer of approximately \$2,380,000 from the General Fund of note proceeds was made, with approximately \$2,464,000 in construction costs during the current fiscal year.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Electric Fund cash balance decreased \$150,064 to \$159,211, due primarily to a decrease in the sale of electricity from the prior year and decreased in debt service costs.
- The Enterprise, Water Fund cash balance increased 6.9%, or \$6,380, to \$98,842.
- The Enterprise, Sewer Fund cash balance increased \$20,889, or 14.3%, to \$166,608.
- The Enterprise, Telecom Fund cash balance increased \$56,717 to \$76,860, due to an increase in customers receiving services due to expansion completed in the prior year.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 7, 2018 and resulted in an increase in operating disbursements related to the cost of utilities.

The City's receipts were \$50,559 less than budgeted. With the budget amendment, total disbursements were \$1,021,702 less than the amended budget. Actual disbursements for the capital projects function were \$536,135 less than the amended budget. This was primarily due to the timing of work on the pool construction project.

Even with the budget amendment, the City exceeded the amount budgeted in the culture and recreation function at June 30, 2018.

## DEBT ADMINISTRATION

At June 30, 2018, the City had \$4,081,000 of bonds and other long-term debt outstanding, compared to \$4,673,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2018	2017
General obligation bonds	\$ 65	150
General obligation notes	3,310	3,515
Revenue notes	646	848
Lease purchase agreement	-	90
Loan agreement	60	70
Total	\$ 4,081	4,673

Debt decreased as a result of scheduled payments on the general obligation bonds and notes and the revenue notes.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,435,000 is below its constitutional debt limit of approximately \$4 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Traer's elected and appointed officials and citizens considered many factors when setting the fiscal year 2019 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the Tama County now stands at 2.3% versus 3.2% a year ago. This compares with the State's unemployment rate of 2.7% and the national rate of 4.0%.

These indicators were taken into account when adopting the budget for fiscal year 2019. Amounts available for appropriation in the operating budget are approximately \$4.652 million, a decrease of 2.3% from the final fiscal year 2018 budget. Charges for services are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer. Budgeted disbursements decreased approximately \$2,953,000 due to the pool construction project being primarily completed during fiscal year 2018.

If these estimates are realized, the City's cash balance is expected to decrease approximately \$450,000 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 Jon Panfil, City Clerk, 649 Second Street, Traer, Iowa 50675-1230.

## **Basic Financial Statements**

City of Traer

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	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 731,933	140,606	69,107	-
Public works	391,672	152,183	218,802	-
Health and social services	9,178	-	5,138	-
Culture and recreation	205,365	38,272	22,193	-
Community and economic development	70,163	1,013	-	-
General government	149,712	7,533	-	-
Debt service	414,638	-	-	-
Capital projects	2,463,865	-	-	226,893
Total governmental activities	4,436,526	339,607	315,240	226,893
Business type activities:				
Electric	2,103,998	2,056,966	6,418	-
Water	367,808	373,327	799	-
Sewer	90,557	168,621	-	-
Telecom	81,399	136,446	1,626	-
Total business type activities	2,643,762	2,735,360	8,843	-
Total	\$ 7,080,288	3,074,967	324,083	226,893
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Sale of capital assets				
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				
<b>Cash Basis Net Position</b>				
Restricted:				
Streets				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(522,220)	-	(522,220)
(20,687)	-	(20,687)
(4,040)	-	(4,040)
(144,900)	-	(144,900)
(69,150)	-	(69,150)
(142,179)	-	(142,179)
(414,638)	-	(414,638)
<u>(2,236,972)</u>	<u>-</u>	<u>(2,236,972)</u>
<u>(3,554,786)</u>	<u>-</u>	<u>(3,554,786)</u>
-	(40,614)	(40,614)
-	6,318	6,318
-	78,064	78,064
-	56,673	56,673
-	100,441	100,441
<u>(3,554,786)</u>	<u>100,441</u>	<u>(3,454,345)</u>
658,322	-	658,322
285,386	-	285,386
98,029	-	98,029
23,130	2,270	25,400
17,500	-	17,500
20,275	-	20,275
<u>168,789</u>	<u>(168,789)</u>	<u>-</u>
<u>1,271,431</u>	<u>(166,519)</u>	<u>1,104,912</u>
<u>(2,283,355)</u>	<u>(66,078)</u>	<u>(2,349,433)</u>
<u>4,184,659</u>	<u>567,599</u>	<u>4,752,258</u>
<u>\$ 1,901,304</u>	<u>501,521</u>	<u>2,402,825</u>
\$ 1,000	-	1,000
1,000	40,776	41,776
100,163	-	100,163
<u>1,799,141</u>	<u>460,745</u>	<u>2,259,886</u>
<u>\$ 1,901,304</u>	<u>501,521</u>	<u>2,402,825</u>

**Exhibit B**

## City of Traer

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

As of and for the year ended June 30, 2018

	<u>Special Revenue</u>					Total
	General	Road Use Tax	Debt Service	Capital Projects	Nonmajor	
<b>Receipts:</b>						
Property tax	\$ 484,962	-	285,386	-	173,360	943,708
Other city tax	-	-	-	-	98,029	98,029
Licenses and permits	5,089	-	-	-	-	5,089
Use of money and property	23,130	-	-	-	163	23,293
Intergovernmental	131,416	217,286	-	-	-	348,702
Charges for service	328,743	-	-	-	-	328,743
Miscellaneous	186,347	-	-	-	32,971	219,318
Total receipts	1,159,687	217,286	285,386	-	304,523	1,966,882
<b>Disbursements:</b>						
Operating:						
Public safety	666,945	-	-	-	64,988	731,933
Public works	141,987	249,685	-	-	-	391,672
Health and social services	9,178	-	-	-	-	9,178
Culture and recreation	205,365	-	-	-	-	205,365
Community and economic development	70,163	-	-	-	-	70,163
General government	149,712	-	-	-	-	149,712
Debt service	-	-	414,638	-	-	414,638
Capital projects	-	-	-	2,463,865	-	2,463,865
Total disbursements	1,243,350	249,685	414,638	2,463,865	64,988	4,436,526
Excess (deficiency) of receipts over (under) disbursements	(83,663)	(32,399)	(129,252)	(2,463,865)	239,535	(2,469,644)
<b>Other financing sources (uses):</b>						
Sale of capital assets	17,500	-	-	-	-	17,500
Transfers in	382,902	32,399	129,252	2,379,995	-	2,924,548
Transfers out	(2,484,370)	-	-	-	(271,389)	(2,755,759)
Total other financing sources (uses)	(2,083,968)	32,399	129,252	2,379,995	(271,389)	186,289
Change in cash balances	(2,167,631)	-	-	(83,870)	(31,854)	(2,283,355)
Cash balances beginning of year	3,966,772	1,000	1,000	83,870	132,017	4,184,659
Cash balances end of year	\$ 1,799,141	1,000	1,000	-	100,163	1,901,304
<b>Cash Basis Fund Balances</b>						
Restricted for:						
Streets	\$ -	1,000	-	-	-	1,000
Debt service	-	-	1,000	-	-	1,000
Other purposes	-	-	-	-	100,163	100,163
Unassigned	1,799,141	-	-	-	-	1,799,141
Total cash basis fund balances	\$ 1,799,141	1,000	1,000	-	100,163	1,901,304

See notes to financial statements.

## City of Traer

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

As of and for the year ended June 30, 2018

	Enterprise				
	Electric	Water	Sewer	Telecom	Total
Operating receipts:					
Charges for service	\$ 2,056,966	373,327	168,621	136,446	2,735,360
Operating disbursements:					
Business type activities	1,859,523	301,505	90,557	81,399	2,332,984
Excess of operating receipts over operating disbursements	197,443	71,822	78,064	55,047	402,376
Non-operating receipts (disbursements):					
Interest on investments	2,063	62	101	44	2,270
Miscellaneous	6,418	799	-	1,626	8,843
Debt service	(244,475)	(66,303)	-	-	(310,778)
Net non-operating receipts (disbursements)	(235,994)	(65,442)	101	1,670	(299,665)
Excess (deficiency) of receipts over (under) disbursements	(38,551)	6,380	78,165	56,717	102,711
Transfers in	-	-	6,324	-	6,324
Transfers out	(111,513)	-	(63,600)	-	(175,113)
Total transfers	(111,513)	-	(57,276)	-	(168,789)
Change in cash balances	(150,064)	6,380	20,889	56,717	(66,078)
Cash balances beginning of year	309,275	92,462	145,719	20,143	567,599
Cash balances end of year	\$ 159,211	98,842	166,608	76,860	501,521
<b>Cash Basis Fund Balances</b>					
Restricted for debt service	\$ -	1,275	39,501	-	40,776
Unrestricted	159,211	97,567	127,107	76,860	460,745
Total cash basis fund balances	\$ 159,211	98,842	166,608	76,860	501,521

See notes to financial statements.

**City of Traer**

City of Traer

Notes to Financial Statements

June 30, 2018

**(1) Summary of Significant Accounting Policies**

The City of Traer is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides electric, water, sewer and telecom utilities for its citizens.

A. Reporting Entity

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

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

Blended Component Units

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

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

### Jointly Governed Organizations

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

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

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

The Capital Projects Fund is utilized to account for resources used in the acquisition and construction of capital facilities with the exception of those finances through enterprise funds.

The City reports the following major proprietary funds:

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

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

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

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2018, disbursements exceeded the amount budgeted in the culture and recreation 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 investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,129,965 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

**(3) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 295,000	99,613	54,000	19,486	349,000	119,099
2020	295,000	92,812	56,000	18,540	351,000	111,352
2021	285,000	86,133	73,000	17,561	358,000	103,694
2022	135,000	79,792	112,000	16,002	247,000	95,794
2023	140,000	77,093	59,000	13,022	199,000	90,115
2024-2028	750,000	334,385	292,000	33,713	1,042,000	368,098
2029-2033	875,000	216,065	-	-	875,000	216,065
2034-2036	600,000	48,800	-	-	600,000	48,800
Total	\$ 3,375,000	1,034,693	646,000	118,324	4,021,000	1,153,017

### General Obligation Capital Loan Notes

On April 20, 2017, the City entered into a loan agreement for a general obligation capital loan note, series 2018, to borrow \$2,500,000 to pay the costs of constructing a new municipal pool in Taylor Park, including the demolition and removal of the existing swimming pool. The note bears interest at 3.75% per annum and matures in varying annual amounts ranging from \$135,000 to \$210,000, with a final maturity date of June 1, 2036. For the current year, interest of \$88,880 was paid.

### Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$757,000 of sewer revenue notes issued in August 2001 and \$101,000 of sewer revenue notes issued in May 2003. Proceeds from the notes provided financing for the construction of improvements to and conversion of the discharge lagoon treatment system. The notes are payable solely from sewer customer net receipts and are payable through 2023. Annual principal and interest payments on the notes are expected to require 70% of net receipts. The total principal and interest remaining to be paid on the notes is \$247,885. For the current year, principal and interest paid and total customer net receipts were \$54,529 and \$78,064 respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$409,000 of water revenue capital loan notes issued in April 2016. Proceeds from the notes provided financing for the purpose of paying costs or repairing and refurbishment of the Jordan Well. The notes are payable solely from water customer net receipts and are payable through 2028. Annual principal and interest payments on the notes are expected to require 21% of net receipts. The total principal and interest remaining to be paid on the notes is \$516,438. For the current year, interest paid and total customer net receipts were \$15,338 and \$71,822, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required in the sewer sinking fund shall be made to a revenue reserve account until specific minimum balances have been accumulated.

#### **(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](http://www.ipers.org).

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

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

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

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

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

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

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

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

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

In fiscal year 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%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2018 totaled \$74,418.

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 \$645,934 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 0.009697, which was a decrease of 0.000057% 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 \$96,300, \$109,749 and \$6,602, respectively.

There were no non-employer 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, as follows:

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 an 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:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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
	<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 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 that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
City's proportionate share of the net pension liability	\$ 1,109,931	645,934	256,136

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](http://www.ipers.org).

**(5) Compensated Absences**

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

Type of Benefit	Amount
Vacation	\$ 48,000
Sick leave	57,000
Total	<u>\$ 105,000</u>

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

**(6) 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:	
	Employee Benefits	\$ 173,360
	Local Option Sales Tax	98,029
	Enterprise:	
	Electric	111,513
		<u>382,902</u>
Special Revenue:		
Road Use Tax	General	32,399
Debt Service	General	65,652
	Enterprise:	
	Sewer	63,600
		<u>129,252</u>
Capital Projects	General	<u>2,379,995</u>
Enterprise:		
Sewer	General	6,324
Total		<u>\$ 2,930,872</u>

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

**(7) Risk Management**

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

**(8) Development Agreement**

The City has entered into a development agreement, in accordance with Chapter 15A of the Code of Iowa, with Randolph's Trucking Company for the construction of new buildings and structures. The City agreed to rebate a decreasing percentage of additional taxes on the new construction over five years, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2018, the City rebated \$3,822 to the developer. At June 30, 2018, the remaining balance to be paid on the agreement was \$1,912.

**(9) Construction Commitments**

The City has entered into construction contracts totaling \$2,781,128 for the construction of a municipal pool. As of June 30, 2018, costs of \$2,500,156 have been paid on the contracts. The remaining \$280,972 will be paid as work on the project progresses.

**(10) Subsequent Event**

On November 5, 2018, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of \$500,000 sewer revenue capital loan notes for the purpose of paying the costs of planning, designing and constructing improvements and extensions to the municipal sanitary sewer system.

## **Other Information**

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

Other Information

Year ended June 30, 2018

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 943,708	-	-
Other city tax	98,029	-	-
Licenses and permits	5,089	-	-
Use of money and property	23,293	2,270	16
Intergovernmental	348,702	-	-
Charges for service	328,743	2,735,360	-
Miscellaneous	219,318	8,843	674
Total receipts	1,966,882	2,746,473	690
Disbursements:			
Public safety	731,933	-	27,200
Public works	391,672	-	-
Health and social services	9,178	-	-
Culture and recreation	205,365	-	-
Community and economic development	70,163	-	-
General government	149,712	-	-
Debt service	414,638	-	-
Capital projects	2,463,865	-	-
Business type activities	-	2,643,762	-
Total disbursements	4,436,526	2,643,762	27,200
Excess (deficiency) of receipts over (under) disbursements	(2,469,644)	102,711	(26,510)
Other financing sources, net	186,289	(168,789)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,283,355)	(66,078)	(26,510)
Balances beginning of year	4,184,659	567,599	27,212
Balances end of year	\$ 1,901,304	501,521	702

See accompanying independent auditor's report.

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Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
943,708	928,205	928,205	15,503
98,029	122,892	122,892	(24,863)
5,089	4,575	4,575	514
25,547	1,200	16,200	9,347
348,702	483,898	483,898	(135,196)
3,064,103	3,174,854	3,174,854	(110,751)
227,487	32,600	32,600	194,887
<u>4,712,665</u>	<u>4,748,224</u>	<u>4,763,224</u>	<u>(50,559)</u>
704,733	788,270	788,270	83,537
391,672	452,600	452,600	60,928
9,178	9,500	12,000	2,822
205,365	186,830	186,830	(18,535)
70,163	90,500	90,500	20,337
149,712	151,590	156,590	6,878
414,638	475,000	480,000	65,362
2,463,865	3,085,000	3,000,000	536,135
<u>2,643,762</u>	<u>2,808,000</u>	<u>2,908,000</u>	<u>264,238</u>
<u>7,053,088</u>	<u>8,047,290</u>	<u>8,074,790</u>	<u>1,021,702</u>
(2,340,423)	(3,299,066)	(3,311,566)	971,143
17,500	2,820,000	820,000	(802,500)
(2,322,923)	(479,066)	(2,491,566)	168,643
<u>4,725,046</u>	<u>1,953,916</u>	<u>4,053,916</u>	<u>671,130</u>
<u>2,402,123</u>	<u>1,474,850</u>	<u>1,562,350</u>	<u>839,773</u>

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City of Traer

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 blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$27,500. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2018, disbursements exceeded amount budgeted in the culture and recreation function.

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City of Traer

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

	2018	2017
City's proportion of the net pension liability	0.0096969%	0.009754%
City's proportionate share of the net pension liability	\$ 646	614
City's covered payroll	\$ 803	773
City's proportionate share of the net pension liability as a percentage of its covered payroll	80.45%	79.43%
IPERS' net position as a percentage of the total pension liability	82.21%	81.82%

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

See accompanying independent auditor's report.

**City of Traer**

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City of Traer

Schedule of City Contributions

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

Other Information

	2018	2017	2016
Statutorily required contribution	\$ 74	72	70
Contributions in relation to the statutorily required contribution	(74)	(72)	(70)
Contribution deficiency (excess)	\$ -	-	-
City's covered payroll	\$ 821	803	773
Contributions as a percentage of covered payroll	9.01%	8.97%	9.06%

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

See accompanying independent auditor's report.

City of Traer

Notes to Other Information – Pension Liability

Year ended June 30, 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, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate

## **Supplementary Information**

City of Traer

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

As of and for the year ended June 30, 2018

		Local Option Sales Tax	Special Traer Volunteer Ambulance Fundraiser
Receipts:			
Property tax	\$ 173,360	-	-
Other city tax	-	98,029	-
Use of money and property	-	-	147
Miscellaneous	-	-	32,297
Total receipts	173,360	98,029	32,444
Disbursements:			
Operating:			
Public safety	-	-	37,788
Excess (deficiency) of receipts over (under) disbursements	173,360	98,029	(5,344)
Other financing uses:			
Transfers out	(173,360)	(98,029)	-
Change in cash balances	-	-	(5,344)
Cash balances beginning of year	-	-	104,805
Cash balances end of year	\$ -	-	99,461
<b>Cash Basis Fund Balances</b>			
Restricted for other purposes	\$ -	-	99,461

See accompanying independent auditor's report.

Revenue	
Traer Fire Department Fundraiser	Total
-	173,360
-	98,029
16	163
674	32,971
690	304,523
27,200	64,988
(26,510)	239,535
-	(271,389)
(26,510)	(31,854)
27,212	132,017
702	100,163
702	100,163

City of Traer  
Schedule of Indebtedness  
Year ended June 30, 2018

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Street improvements	Aug 20, 2007	3.90-4.30%	\$ 750,000
Refunding	May 3, 2011	1.00-3.40	660,000
Refunding and bridge repairs	May 1, 2013	0.45-2.00	830,000
Street improvements	Jun 16, 2014	1.50-2.10	520,000
Municipal pool	Apr 20, 2017	3.75	2,500,000
Total			
Revenue Notes:			
Sewer	Aug 19, 2001	1.75%	\$ 757,000
Sewer	May 5, 2003	1.75	101,000
Electric	Jul 6, 2011	0.85-2.65	980,000
Water	Apr 27, 2016	3.75	409,000
Total			
Lease purchase agreement:			
Wind turbine	Aug 12, 2010	0.00%	\$ 1,080,000
Loan agreement:			
Fire truck	Aug 5, 2014	0.00%	\$ 100,000

\* The fire truck loan was omitted from prior year's audit.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
150,000	-	85,000	65,000	6,408
170,000	-	45,000	125,000	5,465
400,000	-	100,000	300,000	6,400
445,000	-	60,000	385,000	8,475
2,500,000	-	-	2,500,000	88,880
<b>\$ 3,665,000</b>	<b>-</b>	<b>290,000</b>	<b>3,375,000</b>	<b>115,628</b>
252,000	-	46,000	206,000	4,410
37,000	-	6,000	31,000	648
150,000	-	150,000	-	3,975
409,000	-	-	409,000	15,338
<b>\$ 848,000</b>	<b>-</b>	<b>202,000</b>	<b>646,000</b>	<b>24,371</b>
90,000	-	90,000	-	-
70,000 *	-	10,000	60,000	-

City of Traer  
Bond and Note Maturities  
June 30, 2018

Year Ending June 30,	General Obligation					
	Street Improvements Bonds		Refunding Notes		Refunding and Bridge Repair Notes	
	Issued Aug 20, 2007		Issued May 3, 2011		Issued May 1, 2013	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2019	4.30%	\$ 65,000	3.40%	\$ 45,000	1.20%	\$ 100,000
2020		-	3.40	45,000	2.00	100,000
2021		-	3.40	35,000	2.00	100,000
2022		-		-		-
2023		-		-		-
2024		-		-		-
2025		-		-		-
2026		-		-		-
2027		-		-		-
2028		-		-		-
2029		-		-		-
2030		-		-		-
2031		-		-		-
2032		-		-		-
2033		-		-		-
2034		-		-		-
2035		-		-		-
2036		-		-		-
Total		<u>\$ 65,000</u>		<u>\$ 125,000</u>		<u>\$ 300,000</u>

Year Ending June 30,	Revenue Notes						
	Sewer		Sewer		Water		Total
	Issued Aug 19, 2001		Issued May 3, 2003		Issued Apr 27, 2016		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2019	1.75%	\$ 48,000	1.75%	\$ 6,000	3.75%	\$ -	
2020	1.75	50,000	1.75	6,000	3.75	-	56,000
2021	1.75	53,000	1.75	6,000	3.75	14,000	73,000
2022	1.75	55,000	1.75	6,000	3.75	51,000	112,000
2023		-	1.75	7,000	3.75	52,000	59,000
2024		-		-	3.75	54,000	54,000
2025		-		-	3.75	56,000	56,000
2026		-		-	3.75	58,000	58,000
2027		-		-	3.75	61,000	61,000
2028		-		-	3.75	63,000	63,000
Total		<u>\$ 206,000</u>		<u>\$ 31,000</u>		<u>\$ 409,000</u>	<u>646,000</u>

See accompanying independent auditor's report.

Bonds and Notes				
Street				
Improvement Notes		Municipal Pool Notes		
Issued Jun 16, 2014		Issued Apr 20, 2017		
Interest		Interest		
Rates	Amount	Rates	Amount	Total
1.97%	\$ 85,000	3.75%	\$ -	295,000
2.10	150,000	3.75	-	295,000
2.10	150,000	3.75	-	285,000
-	-	3.75	135,000	135,000
-	-	3.75	140,000	140,000
-	-	3.75	140,000	140,000
-	-	3.75	145,000	145,000
-	-	3.75	150,000	150,000
-	-	3.75	155,000	155,000
-	-	3.75	160,000	160,000
-	-	3.75	165,000	165,000
-	-	3.75	170,000	170,000
-	-	3.75	175,000	175,000
-	-	3.75	180,000	180,000
-	-	3.75	185,000	185,000
-	-	3.75	190,000	190,000
-	-	3.75	200,000	200,000
-	-	3.75	210,000	210,000
	<u>\$ 385,000</u>		<u>\$ 2,500,000</u>	<u>3,375,000</u>

City of Traer

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

For the Last Ten Years

	2018	2017	2016	2015
<b>Receipts:</b>				
Property tax	\$ 943,708	852,591	842,089	815,962
Other city tax	98,029	116,225	129,615	115,890
Licenses and permits	5,089	4,513	1,428	1,413
Use of money and property	23,293	4,631	7,704	6,261
Intergovernmental	348,702	246,572	310,901	515,414
Charges for service	328,743	322,452	322,960	314,827
Miscellaneous	219,318	108,951	40,463	68,275
<b>Total</b>	<b>\$ 1,966,882</b>	<b>1,655,935</b>	<b>1,655,160</b>	<b>1,838,042</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 731,933	418,161	345,958	509,965
Public works	391,672	498,654	435,514	400,699
Health and social services	9,178	8,813	8,795	4,482
Culture and recreation	205,365	268,711	196,934	209,237
Community and economic development	70,163	172,942	100,717	102,326
General government	149,712	145,927	137,320	147,098
Debt service	414,638	324,880	339,350	279,128
Capital projects	2,463,865	152,230	91,173	533,622
<b>Total</b>	<b>\$ 4,436,526</b>	<b>1,990,318</b>	<b>1,655,761</b>	<b>2,186,557</b>

See accompanying independent auditor's report.

2014	2013	2012	2011	2010	2009
795,209	751,740	733,854	693,194	678,331	654,765
113,930	127,561	96,253	103,577	101,763	100,986
1,497	890	640	1,183	465	3,250
6,003	7,319	7,054	8,084	7,969	22,421
676,368	452,674	265,870	226,485	312,496	196,741
290,792	286,311	279,459	328,700	320,441	308,275
30,202	498,792	15,759	16,175	54,032	36,365
<u>1,914,001</u>	<u>2,125,287</u>	<u>1,398,889</u>	<u>1,377,398</u>	<u>1,475,497</u>	<u>1,322,803</u>
408,067	314,309	288,831	395,845	417,896	273,554
434,333	423,777	358,508	433,608	440,949	359,911
4,917	1,802	6,204	9,438	7,772	7,302
205,883	239,617	194,485	227,952	176,831	168,456
60,824	95,314	95,064	116,794	167,571	107,527
149,260	145,636	142,597	133,710	131,271	132,973
271,102	886,618	282,929	528,436	371,082	360,438
698,441	283,099	146,581	171,280	290,022	221,407
<u>2,232,827</u>	<u>2,390,172</u>	<u>1,515,199</u>	<u>2,017,063</u>	<u>2,003,394</u>	<u>1,631,568</u>

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



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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Traer, 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 February 21, 2019. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Traer's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Traer's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Traer's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

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

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

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Traer's Responses to the Findings

The City of Traer's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Traer's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Traer during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



ROB SAND  
Auditor of State

February 21, 2019

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties

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

Condition – Generally, one or two individuals may have control over the following areas for which no compensating controls exist:

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

The Traer Volunteer Fire Department Fundraiser (Fire Department) and Traer Ambulance (Ambulance):

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling
- (3) Cash – handling, recording and reconciling.

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2018

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

Responses –

City – All City departments will review procedures and see where additional review can be performed to minimize the risk. Some reviews that are already being performed will be better documented, and the City will investigate where it is possible to have review by City Council and/or Mayor of transactions and reconciliations.

Fire Department – The Fire Department requires two signatures for all disbursements, one by the Fire Chief and one by the Treasurer. Donations are received by the Fire Chief and Treasurer and are read aloud at the monthly business meetings. Upon receipt of the monthly bank statement, the current balance is verified by the Fire Chief and the Treasurer. Finally, once per year the Department puts together a committee of Department members other than the Fire Chief and the Treasurer to review the financials.

Ambulance – Traer Ambulance receipts are handled by the City Clerk's office and all disbursements are required to have dual signatures. In addition, a committee reviews the books at least once per year, where ambulance members other than the authorized signers review the checks/invoices. We will make sure this review is properly documented.

Conclusion – Responses accepted.

(B) Monthly City Clerk's Report

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

Condition – The City Clerk's monthly financial reports to the City Council included cash balances and monthly receipts and disbursements in total, but did not include a summary of beginning balance, receipts, disbursement, transfers and ending balances by fund.

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

Effect – The City Council is not provided with complete financial information on a monthly basis which is needed to make informed decisions regarding the City.

Recommendation – To provide better financial information, the monthly reports provided to the City Council should include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

City of Traer

Schedule of Findings

Year ended June 30, 2018

Response – The City Clerk will revise the monthly reporting to the City Council to include more information, as recommended. Some of this reporting will need to be on a month delay because meetings are held the first Monday of each month, before all reconciliations have been completed.

Conclusion – Response accepted.

(C) Credit Cards

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

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

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

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

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

Response – The City feels the employees with credit card access have a good understanding of the use and authorization of the Mastercard. With that in mind, we will attempt to document the policies/procedures in a more formal “policy” to be approved by the City Council.

Conclusion – Response accepted.

(D) Timesheets

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

Condition – Timesheets prepared by hourly employees are not reviewed and approved by supervisory personnel.

City of Traer

Schedule of Findings

Year ended June 30, 2018

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

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

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

Response – We will formalize the procedures for reviewing/approving time sheets, and document the review on a regular basis.

Conclusion – Response accepted.

(E) Compensated Absences

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

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

Cause – Established vacation accrual policies have not been enforced.

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

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

Response – We will work to be sure policies are enforced, and will consider adding benefit time status to the monthly City Council reporting.

Conclusion – Response accepted.

(F) Bank Reconciliations and Voided Receipts

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

City of Traer

Schedule of Findings

Year ended June 30, 2018

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

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

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

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

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

Response – We will document the review of bank reconciliations and look at an efficient way to review cash collections to deposits.

Conclusion – Response accepted.

(G) Journal Entries and Transfers

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

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

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2018

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

Response – Many of the journal entries currently manually entered will be eliminated within the next few months when the accounting system is revised to integrate the billing function with the General ledger. Journal entries for deposits are reconciled in the bank reconciliation process. The majority of other entries is for simple reclassification of expenses/revenues between accounts and are documented in the description of the entry. All transfers will be properly documented and included in the City Council monthly reporting for approval.

Conclusion – Response accepted.

(H) Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the City's computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and helps ensure compliance with applicable laws and regulations.

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

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

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

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

Effect – Lack of written policies for computer based systems could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption. Storing backup tapes off-site helps ensure financial and other information is readily available in the case of a disaster or emergency.

City of Traer

Schedule of Findings

Year ended June 30, 2018

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer system. A written disaster recovery plan should also be developed and back-up tapes should be stored offsite daily in a fireproof vault or safe.

Response – The City will attempt to document policies as recommended in a formal policy to be approved by the City Council. We are currently working on the most efficient/effective method of offsite backup storage, including daily cloud-based backup.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Traer

Schedule of Findings

Year ended June 30, 2018

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements in the culture and recreation function exceeded the amount budgeted. 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 – We attempt to ensure that budgets are properly amended as needed. The fiscal year 2018 budget erroneously amended the culture and recreation function for swimming pool costs which were paid from the capital projects functions.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

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

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dahn Kennedy, Council Member, Office Manager of A.W.E. Auto Service	Repairs and paint	\$ 4,325

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with AWE Auto Service appear to represent a conflict of interest since the total transactions exceeded \$1,500 during the fiscal year and were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – There are two businesses in town that provide auto/truck service. The City and Utility both keep as much of the maintenance business in town as possible, as we feel it is our responsibility to support local businesses (plus any potential savings in “shopping for a price” in Waterloo would be more than offset by the inconvenience and the wage costs it would take to drive vehicles 30 miles and wait for service). Dahn Kennedy has no ownership interest in A.W.E., and it is generally used for all the fire trucks and ambulance service, since it is better suited for the large vehicles. We will discuss the issue with the City Attorney and determine if he feels we should change our current policy.

Conclusion – Response accepted.

City of Traer

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 Meeting Minutes – Except as noted below, no transactions were found that we believe should have been approved in the City Council minutes but were not.

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

The minutes for the May 7, 2018 City Council meeting were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.

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

Recommendation – The City Council should approve all interfund transfers and the action should be recorded in the City Council minutes. Also, the City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days, as required. The City should comply with Chapter 380.7 of the Code of Iowa and ensure all minutes are signed, as required.

Response – Approval of transfers will be properly recorded in the minutes. The Mayor will sign all minutes after approval by the City Council. Due to the newspaper being a weekly paper, timely publication of minutes can be an issue. We will attempt to get the minutes to the paper more timely going forward.

Conclusion – Response accepted. To clarify, Chapter 380.7 requires the City Clerk to sign City Council minutes.

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

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

Response – The City does not invest cash anywhere but IPAIT and FDIC insured banks. We will document an investment policy.

Conclusion – Response accepted. To clarify, Chapter 12B.10B of the Code of Iowa requires a written investment policy, regardless of whether or not the City invested any funds during the fiscal year. Also, IPAIT is an investment which should be covered in a written investment policy.

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

- (9) Telecommunications Services – No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.

City of Traer

Schedule of Findings

Year ended June 30, 2018

- (10) Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Enterprise Water Fund. Chapter 384.4 of the Code of Iowa states in part that “Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the Debt Service Fund.”

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

Response – The funds for repayment of the Traer Municipal Utility (TMU) portion of the General Obligation Bond will be transferred to the City and paid out of the Debt Service Fund, rather than being paid directly by TMU.

Conclusion – Response accepted.

- (11) 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The Traer Ambulance 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 Reports.

In addition, the transactions and resulting balances of this account were not reported to the City Council and disbursements from the account 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 Ambulance Department separate account 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 Traer Ambulance service has historically been a separate “Volunteer” organization, with fundraising dollars under their control, and not included in the City’s balances. As a result of recent changes to the structure of the organization to be more of a “City Department”, we will work with the Ambulance staff/management to coordinate moving funds under City control, while still giving them the autonomy of the decision making for spending the funds.

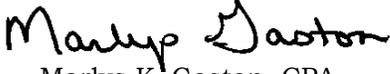
Conclusion – Response accepted.

City of Traer

Staff

This audit was performed by:

Katherine L. Rupp, CPA, Manager  
Jonathan M. Mader, CPA, Staff Auditor  
Molly N. Kalkwarf, Staff Auditor  
Ethan M. Snedigar, Assistant Auditor

  
Marlys K. Gaston, CPA  
Deputy Auditor of State