



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

March 13, 2020

Contact: Marlys Gaston
515/281-5834

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

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$1,101,219 for the year ended June 30, 2019, a 1.5% increase over the prior year. Disbursements for the year ended June 30, 2019 totaled \$1,264,603, an increase of 24.8% over the prior year. The increase in disbursements is due primarily to the purchase of a utility vehicle, snowplow, a new sewer lift station in fiscal year 2019.

AUDIT FINDINGS:

Sand reported eighteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 42 through 54 of this report. The findings address issues such as a lack of segregation of duties, misposting of material amounts of receipts, transfers and journal entries, the lack of reconciliations of utility billings, collections and delinquent accounts, disbursements exceeding budgeted amounts and incorrect certifications of TIF debt. Sand provided the City with recommendations to address each of the findings.

Sixteen of the eighteen findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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 COLO
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2019

City of Colo



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Rob Sand
Auditor of State

March 10, 2020

Officials of the City of Colo
Colo, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Colo for the year ended June 30, 2019. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Colo throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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City of Colo

Officials

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

City of Colo



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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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Colo, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Colo as of June 30, 2019, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

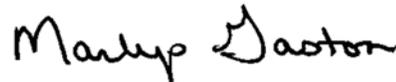
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Colo's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2018 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, 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 28 through 34, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2020 on our consideration of the City of Colo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City of Colo'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 Colo's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

March 10, 2020

City of Colo

Basic Financial Statements

City of Colo

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

	Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Primary Government:			
Governmental activities:			
Public safety	\$ 204,090	-	33,624
Public works	157,936	-	113,710
Health and social services	1,039	-	-
Culture and recreation	193,962	1,935	43,535
Community and economic development	1,500	-	-
General government	220,429	2,269	-
Debt service	147,790	-	-
Total governmental activities	926,746	4,204	190,869
Business type activities:			
Water	148,299	142,215	-
Sewer	108,780	93,717	-
Solid waste	80,778	79,995	-
Total business type activities	337,857	315,927	-
Total Primary Government	\$ 1,264,603	320,131	190,869
Component Unit:			
Colo Volunteer Firefighters Association	\$ 23,323	-	26,164
General Receipts and Transfers:			
Property and other city tax levied for general purposes			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Sale of capital assets			
Transfers			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			
Cash Basis Net Position			
Restricted:			
Streets			
Debt service			
Cemetery			
Library			
Recreation			
Other purposes			
Unrestricted			
Total cash basis net position			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Primary Government			Colo Volunteer Firefighters Association
Governmental Activities	Business Type Activities	Total	
(170,466)	-	(170,466)	
(44,226)	-	(44,226)	
(1,039)	-	(1,039)	
(148,492)	-	(148,492)	
(1,500)	-	(1,500)	
(218,160)	-	(218,160)	
(147,790)	-	(147,790)	
(731,673)	-	(731,673)	
-	(6,084)	(6,084)	
-	(15,063)	(15,063)	
-	(783)	(783)	
-	(21,930)	(21,930)	
(731,673)	(21,930)	(753,603)	
			2,841
270,906	-	270,906	-
142,924	-	142,924	-
115,588	-	115,588	-
3,680	4,971	8,651	-
22,830	220	23,050	-
19,100	-	19,100	-
10,000	(10,000)	-	-
585,028	(4,809)	580,219	-
(146,645)	(26,739)	(173,384)	2,841
1,251,960	411,219	1,663,179	15,000
\$ 1,105,315	384,480	1,489,795	17,841
\$ 78,202	-	78,202	-
2,278	29,123	31,401	-
316,118	-	316,118	-
194,997	-	194,997	-
7,718	-	7,718	-
53,270	-	53,270	17,841
452,732	355,357	808,089	-
\$ 1,105,315	384,480	1,489,795	17,841

City of Colo

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

As of and for the year ended June 30, 2019

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 230,237	-	-
Tax increment financing	-	-	142,924
Other city tax	-	-	-
Licenses and permits	4,983	-	-
Use of money and property	14,593	-	-
Intergovernmental	64,075	113,167	-
Charges for service	1,935	-	-
Miscellaneous	22,830	-	-
Total receipts	<u>338,653</u>	<u>113,167</u>	<u>142,924</u>
Disbursements:			
Operating:			
Public safety	203,573	-	-
Public works	21,866	128,852	-
Health and social services	1,039	-	-
Culture and recreation	191,804	-	-
Community and economic development	1,500	-	-
General government	203,138	-	-
Debt service	-	-	-
Total disbursements	<u>622,920</u>	<u>128,852</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(284,267)</u>	<u>(15,685)</u>	<u>142,924</u>
Other financing sources (uses):			
Sale of capital assets	19,100	-	-
Transfers in	127,949	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>147,049</u>	<u>-</u>	<u>-</u>
Change in cash balances	(137,218)	(15,685)	142,924
Cash balances (deficit) beginning of year	<u>1,013,805</u>	<u>93,887</u>	<u>(47,946)</u>
Cash balances end of year	<u>\$ 876,587</u>	<u>78,202</u>	<u>94,978</u>
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	78,202	-
Debt service	-	-	94,978
Cemetery	316,118	-	-
Library	194,997	-	-
Recreation	7,718	-	-
Other purposes	-	-	-
Unassigned	<u>357,754</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 876,587</u>	<u>78,202</u>	<u>94,978</u>

See notes to financial statements.

Local Option Sales Tax	Debt Service	Nonmajor - Employee Benefits	Total
-	30	40,639	270,906
-	-	-	142,924
115,588	-	-	115,588
-	-	-	4,983
-	-	-	14,593
-	-	-	177,242
-	-	-	1,935
-	-	-	22,830
115,588	30	40,639	751,001
-	-	517	204,090
-	-	7,218	157,936
-	-	-	1,039
-	-	2,158	193,962
-	-	-	1,500
-	-	17,291	220,429
-	147,790	-	147,790
-	147,790	27,184	926,746
115,588	(147,760)	13,455	(175,745)
-	-	-	19,100
-	-	-	127,949
(117,949)	-	-	(117,949)
(117,949)	-	-	29,100
(2,361)	(147,760)	13,455	(146,645)
25,971	150,038	16,205	1,251,960
23,610	2,278	29,660	1,105,315
-	-	-	78,202
-	2,278	-	97,256
-	-	-	316,118
-	-	-	194,997
-	-	-	7,718
23,610	-	29,660	53,270
-	-	-	357,754
23,610	2,278	29,660	1,105,315

City of Colo

City of Colo

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

As of and for the year ended June 30, 2019

	Enterprise			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 142,215	93,717	79,995	315,927
Operating disbursements:				
Business type activities	119,176	78,394	80,778	278,348
Excess (deficiency) of operating receipts over (under) operating disbursements	23,039	15,323	(783)	37,579
Non-operating receipts (disbursements):				
Interest on investments	2,773	2,198	-	4,971
Miscellaneous	220	-	-	220
Debt service	(29,123)	-	-	(29,123)
Capital outlay	-	(30,386)	-	(30,386)
Net nonoperating receipts (disbursements)	(26,130)	(28,188)	-	(54,318)
Excess of disbursements over receipts	(3,091)	(12,865)	(783)	(16,739)
Transfers out	(5,000)	(5,000)	-	(10,000)
Change in cash balances	(8,091)	(17,865)	(783)	(26,739)
Cash balances beginning of year	217,202	193,789	228	411,219
Cash balances (deficit) end of year	\$ 209,111	175,924	(555)	384,480
Cash Basis Fund Balances				
Restricted for debt service	\$ 31,552	-	-	31,552
Unrestricted	177,559	175,924	(555)	352,928
Total cash basis fund balances	\$ 209,111	175,924	(555)	384,480

See notes to financial statements.

City of Colo

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Discretely Presented Component Unit

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

Expendable 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.

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2019, disbursements exceeded the amount budgeted in the health and social services, culture and recreation, community and economic development, general government, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2019 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 120,000	24,970	10,294	18,829	130,294	43,799
2021	125,000	22,750	10,731	18,392	135,731	41,142
2022	125,000	19,625	11,188	17,935	136,188	37,560
2023	130,000	16,500	11,663	17,460	141,663	33,960
2024	135,000	12,600	12,159	16,964	147,159	29,564
2025-2029	285,000	12,900	68,998	76,617	353,998	89,517
2030-2034	-	-	84,960	60,655	84,960	60,655
2035-2039	-	-	104,615	40,999	104,615	40,999
2040-2044	-	-	126,260	16,797	126,260	16,797
Total	\$ 920,000	109,345	440,868	284,648	1,360,868	393,993

Revenue Note

The City has pledged future water customer receipts, net of specified operating disbursements, to repay a \$550,000 water revenue note issued in September 2004. Proceeds from the note provided financing for the improvement and extensions to the water distribution system and refunding the City’s outstanding \$750,000 water loan note. The note is payable solely from water customer net receipts and is payable through 2044. Annual principal and interest payments on the note are expected to require 126% net receipts. The total principal and interest remaining to be paid on the note is \$725,516. For the current year, principal and interest paid and total customer net receipts were \$29,123 and \$23,039, respectively.

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

- The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the fund.
- Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making principal and interest payments when due.

- Additional monthly transfers shall be made to a water reserve account until a maximum balance of \$29,123 has been accumulated.
- An improvement account shall be established and maintained with a minimum amount to be determined between the City and the Lender.
- User rates shall be established and charged to customers of the Utility, including the City, at a level sufficient to pay the expenses and operation and maintenance of the utility and to leave a balance of net receipts at a level not less than 120% of the amount of principal and interest on all notes falling due in the next succeeding fiscal year.

At June 30, 2019, the City had not established the required sinking and improvement accounts, the City does not pay for water usage, and net receipts are not at least 120% of the amount of principal and interest due in the next succeeding fiscal year, as required.

General Obligation Notes

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

(4) Pension Plan

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

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

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

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

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

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

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

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

In fiscal year 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%.

The City's contributions to IPERS for the year ended June 30, 2019 totaled \$15,478.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported a liability of \$139,879 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 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, 2018, the City's proportion was 0.002210%, which was an increase of 0.000025% over its proportion measured as of June 30, 2017.

For the year ended June 30, 2019 the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$18,952, \$37,020 and \$23,303, respectively.

There were no non-employee contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core plus fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 237,402	139,879	58,071

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

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the City and the plan members is \$1,071 for family coverage. For the year ended June 30, 2019, the City contributed \$9,750 and plan members eligible for benefits contributed \$6,295 to the plan. At June 30, 2019, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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

Retired participants must be age 55 or older at retirement. At June 30, 2019, the following employees were covered by the benefit terms:

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

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2019, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 9,000
Sick leave	4,000
Total	<u>\$ 13,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2019.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 117,949
	Enterprise:	
	Water	5,000
	Sewer	5,000
Total		<u>\$ 127,949</u>

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

(8) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 778 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2019 were \$16,242.

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

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

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

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

(9) Development Agreements

The City entered into a development agreement with McKinney Seed in May 2013. Under the terms of the agreement, McKinney Seed agreed to purchase and develop two lots in the business park, constructing warehouse and adjoining office space. In addition, the developer is to employ no less than two full-time equivalent employees at the project. In return, and upon proof that the developer has paid all ad valorem taxes owed with respect to the project, the City will make semi-annual grants to the developer, payable from Tax Increment Project revenues. The amount of the grant is limited to \$3,000 annually and \$15,000 over the life of the agreement. During the year ended June 30, 2019, the City did not make any payments to the developer. The balance remaining under the agreement at June 30, 2019 is \$6,000.

(10) Deficit Balance

At June 30, 2019, the Solid Waste Enterprise Fund had a deficit balance of \$555. The deficit balance will be eliminated with future receipts.

(11) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 84, Fiduciary Activities. This statement will be implemented for the fiscal year ending June 30, 2020. The revised requirements of this statement will enhance the consistency and comparability of fiduciary activity reporting by state and local governments by establishing specific criteria for identifying fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities.

Other Information

City of Colo

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2019

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 270,906	-	270,906
Tax increment financing	142,924	-	142,924
Other city tax	115,588	-	115,588
Licenses and permits	4,983	-	4,983
Use of money and property	14,593	4,971	19,564
Intergovernmental	177,242	-	177,242
Charges for service	1,935	315,927	317,862
Miscellaneous	22,830	220	23,050
Total receipts	751,001	321,118	1,072,119
Disbursements:			
Public safety	204,090	-	204,090
Public works	157,936	-	157,936
Health and social services	1,039	-	1,039
Culture and recreation	193,962	-	193,962
Community and economic development	1,500	-	1,500
General government	220,429	-	220,429
Debt service	147,790	-	147,790
Business type activities	-	337,857	337,857
Total disbursements	926,746	337,857	1,264,603
Excess (deficiency) of receipts over (under) disbursements	(175,745)	(16,739)	(192,484)
Other financing sources (uses), net	29,100	(10,000)	19,100
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(146,645)	(26,739)	(173,384)
Balances beginning of year	1,251,960	411,219	1,663,179
Balances end of year	\$ 1,105,315	384,480	1,489,795

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
261,902	261,902	9,004
150,440	150,440	(7,516)
124,727	124,727	(9,139)
6,600	6,600	(1,617)
20,500	20,500	(936)
198,700	198,700	(21,458)
355,350	355,350	(37,488)
18,150	18,150	4,900
1,136,369	1,136,369	(64,250)
148,652	213,652	9,562
157,122	174,122	16,186
1,039	-	(1,039)
156,993	3,000	(190,962)
4,600	-	(1,500)
151,533	47,900	(172,529)
147,440	37,000	(110,790)
326,320	4,199	(333,658)
1,093,699	479,873	(784,730)
42,670	656,496	(848,980)
-	382,609	(363,509)
42,670	1,039,105	(1,212,489)
1,595,866	-	1,663,179
1,638,536	1,039,105	450,690

City of Colo

Notes to Other Information – Budgetary Reporting

June 30, 2019

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments decreased budgeted disbursements by \$613,826.

During the year ended June 30, 2019, disbursements exceeded the amount budgeted in the health and social services, culture and recreation, community and economic development, general government, debt service and business type activities functions.

City of Colo

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

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

Other Information

	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.002210%	0.002185%	0.002164%	0.002509%	0.002719%
City's proportionate share of the net pension liability	\$ 140	146	136	124	108
City's covered payroll	\$ 159	168	160	168	179
City's proportionate share of the net pension liability as a percentage of its covered payroll	88.05%	86.90%	85.00%	73.81%	60.34%
IPERS' net position as a percentage of the total pension liability	83.62%	82.21%	81.82%	85.19%	87.61%

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

See accompanying independent auditor's report.

City of Colo

Schedule of City Contributions

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

Other Information

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 15	15	15	14
Contributions in relation to the statutorily required contribution	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(14)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 164	159	168	160
Contributions as a percentage of covered payroll	9.44%	8.93%	8.93%	8.93%

* Amounts reported do not agree with the calculated amounts due to rounding required contributions and covered payroll to nearest thousandth.

See accompanying independent auditor's report.

2015	2014	2013	2012	2011	2010
15	16	15	13	11	11
(15)	(16)	(15)	(13)	(11)	(11)
-	-	-	-	-	-
168	179	173	161	158	165
8.93%	8.93%	8.67%	8.07%	6.96%	6.67%

City of Colo

Notes to Other Information – Pension Liability

Year ended June 30, 2019

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 2018 valuation implemented the following refinements as a result of a demographic assumption study date June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale P-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive deferred benefits.
- Adjusted the merit component of the salary increase assumption.

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 closed 20-year period.

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

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

Supplementary Information

City of Colo
Schedule of Indebtedness
Year ended June 30, 2019

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Capital loan note series 2014	Jul 15, 2014	1.25-3.00%	\$ 1,250,000
Revenue note:			
Water revenue note	Sep 28, 2004	4.25%	\$ 550,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
1,040,000	-	120,000	920,000	27,690
450,880	-	10,012	440,868	19,111

Schedule 2

City of Colo
Note Maturities
June 30, 2019

Year Ending June 30,	General Obligation Note		Revenue Note	
	Capital Loan Note		Water	
	Series 2014		Issued Sep 28, 2004	
	Issued Jul 15, 2014		Interest	
	Interest Rates	Amount	Rates	Amount
2020	1.85%	\$ 120,000	4.25%	\$ 10,294
2021	2.50	125,000	4.25	10,731
2022	2.50	125,000	4.25	11,188
2023	3.00	130,000	4.25	11,663
2024	3.00	135,000	4.25	12,159
2025	3.00	140,000	4.25	12,675
2026	3.00	145,000	4.25	13,214
2027		-	4.25	13,776
2028		-	4.25	14,361
2029		-	4.25	14,972
2030		-	4.25	15,607
2031		-	4.25	16,271
2032		-	4.25	16,963
2033		-	4.25	17,684
2034		-	4.25	18,435
2035		-	4.25	19,218
2036		-	4.25	20,035
2037		-	4.25	20,887
2038		-	4.25	21,775
2039		-	4.25	22,700
2040		-	4.25	23,665
2041		-	4.25	24,671
2042		-	4.25	25,719
2043		-	4.25	26,812
2044		-	4.25	25,393
Total		<u>\$ 920,000</u>		<u>\$ 440,868</u>

See accompanying independent auditor's report.

City of Colo

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

For the Last Five Years

	2019	2018	2017	2016	2015
Receipts:					
Property tax	\$ 270,906	251,473	207,688	237,444	211,191
Tax increment financing	142,924	160,803	270,201	79,905	150,334
Other city tax	115,588	110,885	120,503	116,983	117,832
Licenses and permits	4,983	5,584	7,557	1,490	995
Use of money and property	14,593	8,288	8,951	11,096	12,140
Intergovernmental	177,242	184,634	187,808	221,946	149,915
Charges for service	1,935	1,949	2,009	2,719	3,089
Miscellaneous	22,830	15,756	27,277	42,255	60,910
Total	\$ 751,001	739,372	831,994	713,838	706,406
Disbursements:					
Operating:					
Public safety	\$ 204,090	140,261	108,014	171,293	153,746
Public works	157,936	99,777	120,711	210,277	1,236,617
Health and social services	1,039	1,039	750	8,133	8,133
Culture and recreation	193,962	154,625	152,020	131,262	115,713
Community and economic development	1,500	1,600	22,957	1,500	1,600
General government	220,429	191,456	191,203	136,145	142,428
Debt service	147,790	149,190	147,105	172,203	150,361
Total	\$ 926,746	737,948	742,760	830,813	1,808,598

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Colo, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 10, 2020. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

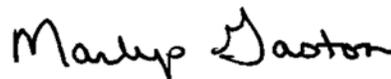
The City of Colo's Responses to the Findings

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

Purpose of this Report

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

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



Marlys K. Gaston, CPA
Deputy Auditor of State

March 10, 2020

City of Colo

Schedule of Findings

Year ended June 30, 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 – One person has control over each of the following areas of the City:

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

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

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

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

City of Colo

Schedule of Findings

Year ended June 30, 2019

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

Conclusion – Response accepted.

(B) Financial Reporting

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

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

Cause – City policies do not require review and procedures have not been established to ensure independent review of receipts, transfers and journal entries to ensure the City's financial statements are accurate and reliable.

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

Recommendation – The City should implement procedures to ensure receipts, transfers and journal entries are properly recorded in the City's accounting records and financial statements. This is a repeat comment.

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

Conclusion – Response accepted.

(C) Utility Reconciliation and Policies

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

Condition – Reconciliations of utility billings, collections, and delinquent accounts are not prepared, and the City does not retain a monthly delinquent utility listing.

City of Colo

Schedule of Findings

Year ended June 30, 2019

Written policies and procedures have not been established for the assessment of penalties, shut-off procedures for delinquent accounts or for the write-off of uncollectible accounts.

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

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

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

Recommendation – Procedures should be established to ensure monthly delinquent utility listings are retained and to reconcile utility billings, collections and delinquent accounts for each billing period. The City should establish policies for the assessment of late payment penalties, shut-off procedures for delinquent accounts and the write-off of uncollectible accounts.

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

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

Conclusion – Response accepted.

(D) Colo Volunteer Firefighters Association, Inc.

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

Condition – Generally, one individual has control over collecting, depositing, posting, disbursing and reconciling for the Association for which no compensating controls exist. In addition, the Association does prepare monthly bank reconciliations, but they are not reviewed by an individual independent of the reconciliation process.

City of Colo

Schedule of Findings

Year ended June 30, 2019

Cause – The Association has a limited number of employees and procedures have not been implemented to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes. In addition, procedures have not been developed for the independent review of the monthly bank reconciliation.

Effect – Inadequate segregation of duties could adversely affect the Association’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions. The lack of an independent review of the bank reconciliation could cause an opportunity for an undetected misappropriation.

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

Response – Operating procedures will be reviewed to obtain the maximum internal control possible. An independent person will provide additional control through reviewing all transactions and will sign and date. Monthly bank reconciliations will be performed, and an independent person will review the reconciliations. The City Clerk will receive copies of monthly bank reconciliations.

Conclusion – Response accepted.

(E) Disbursements

Criteria – Disbursements should be properly supported by an invoice or other supporting documentation. Supporting documentation should be canceled to prevent reuse. Disbursements should be approved by the City Council prior to payment and should be paid timely.

Condition – We noted the following:

- Ten disbursements were not properly supported by invoice or other documentation.
- Supporting documentation for five disbursements was not canceled to prevent reuse.
- Four transactions were not approved by City Council.
- One transaction was not paid timely, which resulted in the payment of late fees and interest of \$26 by the City.
- Also, a payment of \$63 was made to IPERS for late fees and penalties.

City of Colo

Schedule of Findings

Year ended June 30, 2019

Cause – The City’s policies and procedures do not require proper documentation be maintained for disbursements or invoices be canceled upon payment. Procedures were not in place to ensure all disbursements were approved by the City Council. Also, procedures were not in place to ensure payments were processed timely to avoid late fees.

Effect – Lack of supporting documentation for all disbursements could result in unauthorized transactions and the opportunity for misappropriation. Lack of cancellation could lead to invoices being paid more than once. Lack of policies and procedures requiring timely payment could result in unnecessary late fees and interest charges.

Recommendation – The City should maintain support for all disbursements in the future. Supporting documentation should be canceled to prevent reuse. Disbursements should not be approved unless adequate supporting documentation is available. All disbursements should be reviewed and approved by the City council prior to payment. Payments should be made timely to avoid late fees and interest charges.

Response – The City will maintain documentation for all disbursements. Supporting documentation will be canceled to prevent reuse. All disbursements will be reviewed and approved by the City council prior to payment and the City plans to work with the Library and Recreation Department to obtain dual signatures or eliminate the outside accounts. Payments will be made timely to avoid late fees and interest charges.

Conclusion – Response accepted.

(F) Computer System

Criteria – A disaster recovery plan for financial continuity should include the following elements:

- Identification of critical applications.
- Identification of staff responsibilities.
- Identification of steps for recovery of systems critical to City operations.
- Identification of computer equipment needed for temporary processing.
- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the location(s).
- Requirement to keep a copy of the disaster recovery plan off site.
- Requirement to keep system backups current and off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedures manuals be located off site.
- A requirement for an extra stock of paper supplies, such as checks, warrants, purchase orders, etc., to be located off site.
- A requirement outlining the frequency of testing or review of the disaster recovery plan.

City of Colo

Schedule of Findings

Year ended June 30, 2019

Condition – The City does not have a written disaster recovery plan for its computer system.

Cause – Management has not required a written disaster recovery plan for its computer system.

Effect – 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.

Recommendation – The City should develop a written disaster recovery plan.

Response – The City is working on a disaster recovery plan.

Conclusion – Response accepted.

(G) Credit Cards

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

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

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 credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

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

Conclusion – Response accepted.

City of Colo

Schedule of Findings

Year ended June 30, 2019

(H) Receipts

Criteria – An effective internal control system provides for internal controls related to an independent mail opener reconciling an initial listing of receipts to deposits to ensure the accuracy of recorded collections. Pre-numbered receipts should be issued for collections. Undeposited receipts should be secured until time of deposit to eliminate risk of misappropriation.

Condition – The City did not have procedures in place requiring mail to be opened by an independent person and that independent opener reconciling an initial listing of receipts to deposits. Pre-numbered receipts were not issued for collections. Undeposited receipts are not properly secured until they are deposited.

Cause – Policies have not been established and procedures have not been implemented to require the use of pre-numbered receipts, require someone independent of recording receipts to open the mail and to reconcile an initial listing of receipts to deposit. Policies and procedures to properly safeguard undeposited receipts have not been implemented.

Effect – Since mail is not opened by an independent person and an initial listing of receipts to deposits reconciliation was not performed by the independent mail opener, misstatements of collections may not be prevented or detected and corrected on a timely basis in the normal course of operations. Undeposited receipts could be misappropriated if not properly secured. Lack of prenumbered receipts and accounting for the numerical sequence of the receipts could result in misappropriation of receipts.

Recommendation – The City should require someone independent of recording receipts to open the mail and perform a reconciliation of recorded receipts to an initial listing. The independent review should be evidenced by initials or signature of the reviewer and date of review. Pre-numbered receipts should be issued for collections. Undeposited receipts should be properly secured until the time of deposit.

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

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

Conclusion – Response acknowledged. The City should require someone independent of recording receipts to open the mail and to create an initial listing of mail receipts. The independent mail opener should then reconcile the initial receipts listing to recorded receipts on a test basis. The independent review should be evidenced by initials or signature of the reviewer and date of review. Pre-numbered receipts should be issued for collections. Undeposited receipts should be properly secured until the time of deposit.

City of Colo

Schedule of Findings

Year ended June 30, 2019

(I) Payroll

Criteria – An effective internal control system provides for internal controls related to the processing and approval of payroll for employees of the City and policies regarding supervisory approval of payment of sick leave and vacation time.

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

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

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

Recommendation – Leave time should be approved by a supervisor in advance of payment.

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

Conclusion – Response accepted.

(J) Petty Cash

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

Condition – The petty cash fund used by the City and the Library employees did not reconcile to an authorized amount. Surprise counts of the petty cash are not performed.

Cause – Personnel were not aware petty cash should be maintained in an authorized amount.

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

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

City of Colo

Schedule of Findings

Year ended June 30, 2019

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

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Colo

Schedule of Findings

Year ended June 30, 2019

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – 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.” Because of errors when preparing the final budget amendment, disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the health and social services, culture and recreation, community and economic development, general government, debt service and business type activities functions.

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

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

Conclusion – Response accepted.

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

Four of thirty disbursement transactions tested were not approved by the City Council.

Eight transfers between funds were not approved by the City Council.

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

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

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

Conclusion – Response accepted.

City of Colo

Schedule of Findings

Year ended June 30, 2019

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Revenue Note – The following instances of non-compliance with the water revenue note were noted:
- The City has not established a water revenue note sinking or water improvement account.
 - The City is not paying for water usage as required by the note resolution.
 - The water revenue note resolution states the City will set utility rates “determined to be sufficient to produce net revenues for the next succeeding fiscal year adequate to pay principal and interest requirements and create reserves as provided in the resolution but not less than 120 percent of the principal and interest requirement of the fiscal year.” The City has not complied with this provision.

Recommendation – The City should establish the required accounts and make the necessary transfers required by the note resolution. In addition, the City should pay for water usage, as required, and ensure an annual audit is performed within 90 days after the end of the fiscal year, as required. Also, the City should review the utility rates and make appropriate adjustments to ensure sufficient net revenues are produced to pay principal and interest requirements and create reserves as provided in the resolution.

Response – The City will discuss and act on the Auditor’s recommendations.

Conclusion – Response accepted.

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

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

- Based on a review of the County Auditor TIF reconciliation dated December 2018, the City has under-certified its 2014 general obligation note by \$23,421.
- Per review of TIF Reconciliation dated December 2018, the City has over-certified the debt for the McKinney Seed Rebate Agreement by \$4,000.

Recommendation – The City should consult the County Auditor and TIF legal counsel to determine the propriety of the City’s TIF certifications and the City’s TIF debt to be certified or decertified, if any. The City should use Form 1 to certify portions of TIF obligations which have not been certified and use Form 3 to decertify amounts which have been over certified.

City of Colo

Schedule of Findings

Year ended June 30, 2019

Response – The City will consult with the proper individuals and use the necessary forms to ensure TIF obligations are certified in the correct amounts.

Conclusion – Response accepted.

- (10) Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1. However, the City understated the amount reported as TIF debt outstanding by \$172,225. In addition, the amounts reported on the Levy Authority Summary for fund balances, receipts and disbursements did not reconcile to the City’s Special Revenue, Tax Increment Financing Fund. Also, the City Council did not approve the Annual Urban Renewal Report in the minutes or a resolution.

Recommendation – The City should ensure the debt outstanding and TIF Fund amounts reported on the Levy Authority Summary agree with the City’s records. Also, the City Council should approve the Annual Urban Renewal Report, as required.

Response – The City will ensure amounts reported in the City’s Annual Urban Renewal Report materially agree with the City’s records. The City Council will approve the Annual Urban Renewal Report.

Conclusion – Response accepted.

- (11) Annual financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City and all expenditures...” We noted certain receipts did not agree with the City’s records. Total receipts were \$10,127 overstated and transfers in and transfers out did not agree with City records.

Recommendation – The City should establish procedures to ensure the receipts reported on the AFR and transfers in and transfers out are properly supported and reported.

Response – The City will establish procedures to ensure the AFR and transfers in and transfers out are properly supported and reported the same.

Conclusion – Response accepted.

- (12) Financial Condition – The Enterprise, Water Fund had a deficit balance of \$555 at June 30, 2019.

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

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

Conclusion – Response accepted.

City of Colo

Schedule of Findings

Year ended June 30, 2019

- (13) Payroll Taxes – The City did not make the March 2019 payment to the IRS for employee payroll taxes, causing late fees and penalties.

Recommendation – The City should establish policies that ensure monthly payments to the IRS are made timely for employee payroll taxes.

Response – The City will establish policies to ensure that all tax payments are made timely. The City will also work the IRS to resolve this issue.

Conclusion – Response accepted.

City of Colo

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Janet K. Mortvedt, CPA, Manager
Brett S. Gillen, CPA, Staff Auditor
Drake J. Caple, Assistant Auditor
Joseph G. Timmons, Assistant Auditor