



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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

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

**NEWS RELEASE**

FOR RELEASE

March 26, 2021

Contact: Marlys Gaston  
515/281-5835

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

**FINANCIAL HIGHLIGHTS:**

The City's receipts totaled \$4,460,088 for the year ended June 30, 2020, a 7.3% decrease from the prior year. Disbursements for the year ended June 30, 2020 totaled \$4,176,930 a 10.5% decrease from the prior year. The significant decrease in disbursements is due primarily to the city pool construction occurring in the prior fiscal year.

**AUDIT FINDINGS:**

Sand reported eighteen findings related to the receipt and disbursement of taxpayer funds and one finding pertaining to the Traer Fire Department Fundraiser, Inc., a blended component unit. They are found on pages 50 through 62 of this report. The findings address issues such as a lack of segregation of duties, inadequate monthly financial reporting to the City Council, the lack of a credit card policy and enforcement of established vacation accrual policies and disbursements exceeding budgeted amounts. Sand provided the City and the Traer Fire Department Fundraiser, Inc. with recommendations to address each of the findings.

Fourteen of the eighteen findings discussed above for the City and one finding pertaining to the Traer Fire Department Fundraiser, Inc. are repeated from the prior year. The City Council and the Traer Fire Department Fundraiser, Inc. have a fiduciary responsibility to provide oversight of the City's and the Traer Fire Department Fundraiser, Inc. 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/>.

###

**CITY OF TRAER**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2020**

**City of Traer**



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March 16, 2021

Officials of the City of Traer  
Traer, 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 Traer for the year ended June 30, 2020. 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 Traer 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 that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand  
Auditor of State

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**City of Traer and Traer Municipal Utilities**

**Officials**

**(Before January 2020)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Pete Holden	Mayor	Jan 2020
Carri Holst	Mayor Pro Tem	Jan 2020
Dahn Kennedy	Council Member	Jan 2020
Laurie Schafer	Council Member	Jan 2020
Steve Foster	Council Member	Jan 2022
Craig Youel	Council Member	Jan 2022
Jon Panfil	City Clerk/Treasurer	Indefinite
Bruce Reinders	Attorney	Indefinite
Nick Podhajsky	TMU Trustee	Jan 2020
David Barnes	TMU Trustee	Jan 2021
Eric McEwen	TMU Trustee	Jan 2021
Sandra Whannel	TMU Trustee	Jan 2022
Anita Dostal	TMU Trustee	Jan 2025
Pat Steif	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite

**(After January 2020)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Pete Holden	Mayor	Jan 2022
Carri Holst	Mayor Pro Tem	Jan 2024
Steve Foster	Council Member	Jan 2022
Craig Youel	Council Member	(Resigned Jan 2020)
Laurie Schafer (Appointed Feb 2020)	Council Member	Nov 2021
Patrisha Kennedy	Council Member	Jan 2024
Matt Rausch	Council Member	Jan 2024
Jon Panfil	City Clerk/Treasurer	Retired Feb 2020
Haley Blaine (Appointed Jan 2020)	City Clerk/Treasurer	Indefinite
Bruce Reinders	Attorney	Indefinite
Eric McEwen	TMU Trustee	Jan 2021
Sandra Whannel	TMU Trustee	Jan 2022
David Barnes	TMU Trustee	Jan 2025
Anita Dostal	TMU Trustee	Jan 2025
Nick Podhajsky	TMU Trustee	Jan 2026
Pat Steif	General Manager	Indefinite
Jon Panfil	Office Manager	Retired Feb 2020
Haley Blaine (Appointed Jan 2020)	Office Manager	Indefinite

**City of Traer**



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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 Traer, Iowa, as of and for the year ended June 30, 2020, 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 Traer as of June 30, 2020, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

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

## Other Matters

### *Supplementary and Other Information*

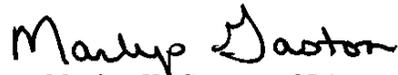
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Traer's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the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

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

The other information, 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 32 through 37, 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 16, 2021 on our consideration of the City of Traer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Traer's internal control over financial reporting and compliance.

  
Marlys K. Gaston, CPA  
Deputy Auditor of State

March 16, 2021

**City of Traer**

## **Basic Financial Statements**

City of Traer

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2020

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 702,673	143,818	93,369	-
Public works	455,338	162,613	218,901	-
Health and social services	15,252	-	9,596	-
Culture and recreation	319,845	44,676	41,776	46,500
Community and economic development	62,329	1,313	-	-
General government	153,953	6,897	-	-
Debt service	448,157	-	-	-
Capital projects	73,313	-	-	-
Total governmental activities	2,230,860	359,317	363,642	46,500
Business type activities:				
Electric	1,368,172	1,799,140	2,010	-
Water	325,912	401,784	-	-
Sewer	136,180	172,860	-	-
Telecom	107,865	111,386	4,583	-
Gas	7,941	-	-	-
Total business type activities	1,946,070	2,485,170	6,593	-
<b>Total Primary Government</b>	\$ 4,176,930	2,844,487	370,235	46,500
<b>Component Unit</b>				
Traer Public Library Foundation	\$ 4,605	-	12,271	-
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Note proceeds				
Sale of capital assets				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Streets				
Debt service				
Insurance				
Employee benefits				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component
Primary Government			Unit
Governmental Activities	Business Type Activities	Total	Traer Public Library Foundation
(465,486)	-	(465,486)	
(73,824)	-	(73,824)	
(5,656)	-	(5,656)	
(186,893)	-	(186,893)	
(61,016)	-	(61,016)	
(147,056)	-	(147,056)	
(448,157)	-	(448,157)	
(73,313)	-	(73,313)	
<u>(1,461,401)</u>	<u>-</u>	<u>(1,461,401)</u>	
-	432,978	432,978	
-	75,872	75,872	
-	36,680	36,680	
-	8,104	8,104	
-	(7,941)	(7,941)	
-	<u>545,693</u>	<u>545,693</u>	
<u>(1,461,401)</u>	<u>545,693</u>	<u>(915,708)</u>	
			<u>7,666</u>
691,393	-	691,393	-
266,900	-	266,900	-
111,460	-	111,460	-
14,996	-	14,996	-
20,237	7,528	27,765	-
48,886	-	48,886	-
36,700	-	36,700	-
766	-	766	-
245,935	(245,935)	-	-
<u>1,437,273</u>	<u>(238,407)</u>	<u>1,198,866</u>	-
(24,128)	307,286	283,158	7,666
<u>1,773,459</u>	<u>774,064</u>	<u>2,547,523</u>	<u>288,071</u>
<u>\$ 1,749,331</u>	<u>1,081,350</u>	<u>2,830,681</u>	<u>295,737</u>
\$ 257,751	-	257,751	-
8,367	61,778	70,145	-
10,597	-	10,597	-
105,314	-	105,314	-
56,825	-	56,825	-
<u>1,310,477</u>	<u>1,019,572</u>	<u>2,330,049</u>	<u>295,737</u>
<u>\$ 1,749,331</u>	<u>1,081,350</u>	<u>2,830,681</u>	<u>295,737</u>

City of Traer

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

As of and for the year ended June 30, 2020

	<u>Special Revenue</u>		
	General	Road Use Tax	Debt Service
Receipts:			
Property tax	\$ 475,641	-	266,296
Local option sales tax	-	-	-
Other city tax	1,076	-	604
Licenses and permits	5,679	-	-
Use of money and property	20,237	-	-
Intergovernmental	77,410	218,901	4,180
Charges for service	351,107	-	-
Miscellaneous	81,169	-	-
Total receipts	<u>1,012,319</u>	<u>218,901</u>	<u>271,080</u>
Disbursements:			
Operating:			
Public safety	625,191	-	-
Public works	170,825	284,513	-
Health and social services	15,252	-	-
Culture and recreation	319,845	-	-
Community and economic development	62,329	-	-
General government	153,953	-	-
Debt service	-	-	448,157
Capital projects	-	-	-
Total disbursements	<u>1,347,395</u>	<u>284,513</u>	<u>448,157</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(335,076)</u>	<u>(65,612)</u>	<u>(177,077)</u>
Other financing sources (uses):			
Sale of capital assets	36,700	-	-
Note proceeds	48,886	-	-
Transfers in	468,979	241,079	178,723
Transfers out	(433,531)	-	-
Total other financing sources (uses)	<u>121,034</u>	<u>241,079</u>	<u>178,723</u>
Change in cash balances	(214,042)	175,467	1,646
Cash balances beginning of year	<u>1,535,116</u>	<u>82,284</u>	<u>6,721</u>
Cash balances end of year	<u>\$ 1,321,074</u>	<u>257,751</u>	<u>8,367</u>
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Streets	\$ -	257,751	-
Debt service	-	-	8,367
Insurance	10,597	-	-
Employee benefits	-	-	-
Other purposes	-	-	-
Unassigned	<u>1,310,477</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 1,321,074</u>	<u>257,751</u>	<u>8,367</u>

See notes to financial statements.

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Capital Projects	Nonmajor	Total
-	214,190	956,127
-	111,460	111,460
-	486	2,166
-	-	5,679
-	183	20,420
-	3,365	303,856
-	-	351,107
-	43,227	124,396
-	372,911	1,875,211
-	77,482	702,673
-	-	455,338
-	-	15,252
-	-	319,845
-	-	62,329
-	-	153,953
-	-	448,157
73,313	-	73,313
73,313	77,482	2,230,860
(73,313)	295,429	(355,649)
-	-	36,700
-	-	48,886
73,313	-	962,094
-	(282,628)	(716,159)
73,313	(282,628)	331,521
-	12,801	(24,128)
-	149,338	1,773,459
-	162,139	1,749,331
-	-	257,751
-	-	8,367
-	-	10,597
-	105,314	105,314
-	56,825	56,825
-	-	1,310,477
-	162,139	1,749,331

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**City of Traer**

City of Traer

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

As of and for the year ended June 30, 2020

	Enterprise					Total
	Electric	Water	Sewer	Telecom	Gas	
Operating receipts:						
Charges for service	\$ 1,799,140	401,784	172,860	115,969	-	2,489,753
Operating disbursements:						
Business type activities	1,368,172	310,532	91,960	107,865	7,941	1,886,470
Excess (deficiency) of operating receipts over (under) operating disbursements	430,968	91,252	80,900	8,104	(7,941)	603,283
Non-operating receipts (disbursements):						
Interest on investments	4,314	452	1,516	1,246	-	7,528
Miscellaneous	2,010	-	-	-	-	2,010
Garbage fees collected for the City	156,948	-	-	-	-	156,948
Garbage fees remitted to the City	(156,948)	-	-	-	-	(156,948)
Capital outlay	-	-	(44,220)	-	-	(44,220)
Debt service	-	(15,380)	-	-	-	(15,380)
Net non-operating receipts (disbursements)	6,324	(14,928)	(42,704)	1,246	-	(50,062)
Excess (deficiency) of receipts over (under) disbursements	437,292	76,324	38,196	9,350	(7,941)	553,221
Transfers in	-	-	48,886	-	-	48,886
Transfers out	(145,095)	(47,970)	(101,756)	-	-	(294,821)
Total transfers	(145,095)	(47,970)	(52,870)	-	-	(245,935)
Change in cash balances	292,197	28,354	(14,674)	9,350	(7,941)	307,286
Cash balances beginning of year	452,725	34,965	175,405	110,969	-	774,064
Cash balances (deficits) end of year	\$ 744,922	63,319	160,731	120,319	(7,941)	1,081,350
<b>Cash Basis Fund Balances (Deficits)</b>						
Restricted for debt service	\$ -	1,278	60,500	-	-	61,778
Unrestricted	744,922	62,041	100,231	120,319	(7,941)	1,019,572
Total cash basis fund balances (deficits)	\$ 744,922	63,319	160,731	120,319	(7,941)	1,081,350

See notes to financial statements.

Notes to Financial Statements

City of Traer

June 30, 2020

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

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

A. Reporting Entity

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

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

Blended Component Units

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

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

### Discretely Presented Component Unit

The Traer Public Library Foundation was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. Its purpose is to benefit the City of Traer (the primary government) by soliciting contributions and managing those funds. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Traer Public Library Foundation meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Traer Public Library Foundation are substantially for the direct benefit of the City of Traer Library.

### Jointly Governed Organizations

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

## B. Basis of Presentation

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

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

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 and proprietary funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

#### D. Property Taxes and Governmental Cash Basis Fund Balances

The following accounting policies are followed in preparing the financial statements:

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2018 assessed property valuations; is for the tax accrual period July 1, 2019 through June 30, 2020 and reflects tax asking contained in the budget certified to the City Council in March 2019.

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

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

Unassigned – All amounts not included in the preceding classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. At June 30, 2020, disbursements in the public safety and general government functions exceeded the amounts budgeted. In addition, disbursements exceeded the amounts budgeted prior to the budget amendment in the health and social services, culture and recreation and the community and economic development functions.

**(2) Cash and Pooled Investments**

The City’s deposits in banks at June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,466,977 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City’s investment in the Iowa Public Agency Investment Trust is unrated.

**(3) Notes Payable**

A summary of changes in notes payable for the year ended June 30, 2020 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 3,080,000	-	295,000	2,785,000	285,000
Loan agreement - direct borrowing	50,000		5,000	45,000	10,000
Governmental activities total	<u>\$ 3,130,000</u>	<u>-</u>	<u>300,000</u>	<u>2,830,000</u>	<u>295,000</u>
Business type activities:					
Water revenue notes	\$ 409,000	-	-	409,000	14,000
Sewer revenue notes	183,000	-	56,000	127,000	59,000
Sewer revenue anticipation project note	9,717	48,886	-	58,603	-
Business-type activities total	<u>\$ 601,717</u>	<u>48,886</u>	<u>56,000</u>	<u>594,603</u>	<u>73,000</u>

General Obligation Notes

A summary of the City’s June 30, 2020 general obligation notes payable is as follows:

Year	Refunding GO Debt			Bridge Repairs and Improvements		
	Issued May 3, 2011			Issued May 1, 2013		
Ending June 30,	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2021	3.40%	\$ 35,000	1,190	2.00%	\$ 100,000	2,000
2022		-	-		-	-
2023		-	-		-	-
2024		-	-		-	-
2025		-	-		-	-
2025-2029		-	-		-	-
2030-2034		-	-		-	-
2035-2036		-	-		-	-
Total		<u>\$ 35,000</u>	<u>1,190</u>		<u>\$ 100,000</u>	<u>2,000</u>

Year Ending June 30,	Street Repairs and Reconstruction			Municipal Pool Construction		
	Issued June 16, 2014			Issued April 20, 2017		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2021	2.10%	\$ 150,000	3,150	3.75%	\$ -	79,793
2022		-	-	3.75	135,000	79,792
2023		-	-	3.75	140,000	77,093
2024		-	-	3.75	140,000	74,153
2025		-	-	3.75	145,000	70,722
2025-2029		-	-	3.75	800,000	292,650
2030-2034		-	-	3.75	930,000	153,325
2035-2036		-	-	3.75	210,000	8,400
Total		<u>\$ 150,000</u>	<u>3,150</u>		<u>\$ 2,500,000</u>	<u>835,928</u>

Year Ending June 30,	Total		
	Principal	Interest	Total
2021	\$ 285,000	86,133	371,133
2022	135,000	79,792	214,792
2023	140,000	77,093	217,093
2024	140,000	74,153	214,153
2025	145,000	70,722	215,722
2025-2029	800,000	292,650	1,092,650
2030-2034	930,000	153,325	1,083,325
2035-2036	210,000	8,400	218,400
Total	<u>\$ 2,785,000</u>	<u>842,268</u>	<u>3,627,268</u>

On May 3, 2011, the City issued \$660,000 of general obligation refunding capital loan notes with interest rates ranging from 1% to 3.40% per annum. The notes were issued for the refunding of 2003 general obligation debt and refunding 1982 water revenue debt. During the year ended June 30, 2020, the City paid \$45,000 of principal and \$2,720 of interest on the notes.

On May 1, 2013, the City issued \$830,000 of general obligation capital loan notes with interest rates ranging from 0.45% to 2.00% per annum. The notes were issued for the refunding of 2005 general obligation capital loan notes and for bridge repairs and improvements. During the year ended June 30, 2020, the City paid \$100,000 of principal and \$4,000 of interest on the notes.

On June 16, 2014, the City issued \$520,000 of general obligation capital loan notes with interest rates ranging from 1.50% to 2.10% per annum. The notes were issued for construction, reconstruction and repair of streets. During the year ended June 30, 2020, the City paid \$150,000 of principal and \$6,300 of interest on the notes.

On April 20, 2017, the City entered into a loan agreement for a general obligation capital loan note, series 2018, to borrow \$2,500,000 to pay the costs of constructing a new municipal pool in Taylor Park, including the demolition and removal of the existing swimming pool. The note bears interest at 3.75% per annum and matures in varying annual amounts ranging from \$135,000 to \$210,000, with a final maturity date of June 1, 2036. For the current year, interest of \$79,793 was paid on the notes.

Revenue Notes

A summary of the City's June 30, 2020 revenue notes payable is as follows:

Year Ending June 30,	Sewer Issued Aug 19, 2001			Sewer Issued May 5, 2003		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2021	1.75%	\$ 53,000	1,890	1.75%	\$ 6,000	333
2022	1.75	55,000	963	1.75	6,000	227
2023				1.75	7,000	122
2024						
2025						
2026-2030						
Total		<u>\$ 108,000</u>	<u>2,853</u>		<u>\$ 19,000</u>	<u>682</u>

Year Ending June 30,	Water Issued Apr 27, 2016			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
2021	3.75%	\$ 14,000	15,338	\$ 73,000	17,561	90,561
2022	3.75	51,000	14,812	112,000	16,002	128,002
2023	3.75	52,000	12,900	59,000	13,022	72,022
2024	3.75	54,000	10,950	54,000	10,950	64,950
2025	3.75	56,000	8,925	56,000	8,925	64,925
2026-2030	3.75	182,000	13,838	182,000	13,838	195,838
Total		<u>\$ 409,000</u>	<u>76,763</u>	<u>\$ 536,000</u>	<u>80,298</u>	<u>616,298</u>

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$757,000 of sewer revenue notes issued in August 2001 and \$101,000 of sewer revenue notes issued in May 2003. Proceeds from the notes provided financing for the construction of improvements to and conversion of the discharge lagoon treatment system. The notes are payable solely from sewer customer net receipts and are payable through 2023. Annual principal and interest payments on the notes are expected to require in excess of 100% of net receipts. During the year ended June 30, 2020, the City paid \$50,000 and \$6,000 of principal and \$2,844 and \$500 of interest, respectively, on the 2001 and the 2003 notes. The total principal and interest remaining to be paid on the notes is \$130,535. For the current year, principal and interest paid and total customer net receipts were \$59,344 and \$80,900, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$409,000 of water revenue capital loan notes issued in April 2016. Proceeds from the notes provided financing for the purpose of paying costs or repairing and refurbishment of the Jordan Well. The notes are payable solely from water customer net receipts and are payable through 2028. Annual principal and interest payments on the notes are expected to require 16.8% of net receipts. During the year ended June 30, 2020, the City paid \$15,338 of interest on the notes. The total principal and interest remaining to be paid on the notes is \$485,763. For the current year, interest paid, and total customer net receipts were \$15,338 and \$91,252, respectively.

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

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

The Sewer Revenue Notes are issued in the name of the City which the City pays the obligations from the Debt Service Fund. Traer Municipal Utilities transfers funds to the Debt Service fund for those obligations.

The City has not established the required revenue reserve account.

Sewer Revenue Capital Loan Anticipation Project Note

On November 30, 2018 the City entered into a loan anticipation project note agreement with the Iowa Finance Authority to borrow \$500,000 to pay the costs of acquisition, construction, reconstruction, extending, remodeling, improving, repairing, and equipping all or part of the Municipal Sewer System. The note is payable from the proceeds of an authorized loan agreement and a corresponding issuance of sewer revenue capital loan notes in an amount sufficient to repay the note. During the year ended June 30, 2020, the City drew down \$48,886 on the note. At June 30, 2020, the City had drawn \$58,603 against the anticipation note and \$58,603 remains outstanding at that date. This anticipation note matures on November 30, 2021.

Loan Agreements – Direct Borrowing

On August 5, 2014, the City borrowed \$100,000 from the Iowa Department of Public Safety for the purchase of a fire truck. The loan is interest free and matures July 1, 2024. The City’s loan includes a provision that in an event of default the outstanding amounts plus any penalty interest accrued may become immediate due. For the current year, the City paid \$5,000 of principal on the loan. The principal balance at June 30, 2020 was \$45,000.

A summary of the annual principal requirements to maturity by year is as follows:

Year Ending June 30,	Principal
2021	\$ 10,000
2022	10,000
2023	10,000
2024	10,000
2025	5,000
Total	<u>\$ 45,000</u>

#### **(4) Pension Plan**

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

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

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

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

Protection occupation members may retire at normal retirement age, which is generally age 55 and may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

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

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

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

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

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

In fiscal year 2020, 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%. Protection occupation members contributed 6.61% of covered payroll and the City contributed 9.91% of covered payroll, for a total rate of 16.52%.

The City’s contributions to IPERS for the year ended June 30, 2019 totaled \$80,950.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2020, the City reported a liability of \$485,593 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 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, 2019, the City’s proportion was 0.008386%, which was a decrease of 0.000957% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$106,673, \$93,303 and \$116,593, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2019 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, 2019 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 2019 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%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
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 City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 952,645	485,593	93,947

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

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City’s approximate liability for earned vacation and sick leave payable to employees at June 30, 2020, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 66,000
Sick leave	61,000
Total	<u>\$ 127,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2020.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2020 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 218,041
	Local Option Sales Tax	64,587
	Enterprise:	
	Sewer	41,256
	Electric	145,095
		<u>468,979</u>
Special Revenue:		
Road Use Tax	General	<u>241,079</u>
Debt Service	General	70,253
	Enterprise:	
	Sewer	60,500
	Water	47,970
		<u>178,723</u>
Capital Projects	General	<u>73,313</u>
Enterprise:		
Sewer	General	<u>48,886</u>
Total		<u>\$ 1,010,980</u>

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

**(7) Risk Management**

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

**(8) COVID-19**

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including the City of Traer, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the City. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the City of Traer's operations and finances.

**(9) 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, 2021. 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.

**City of Traer**

## **Other Information**

City of Traer  
 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, 2020

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 956,127	-	-
Other city tax	113,626	-	-
Licenses and permits	5,679	-	-
Use of money and property	20,420	7,528	46
Intergovernmental	303,856	-	-
Charges for service	351,107	2,489,753	-
Miscellaneous	124,396	2,010	22,167
Total receipts	1,875,211	2,499,291	22,213
Disbursements:			
Public safety	702,673	-	17,909
Public works	455,338	-	-
Health and social services	15,252	-	-
Culture and recreation	319,845	-	-
Community and economic development	62,329	-	-
General government	153,953	-	-
Debt service	448,157	-	-
Capital projects	73,313	-	-
Business type activities	-	1,946,070	-
Total disbursements	2,230,860	1,946,070	17,909
Excess (deficiency) of receipts over (under) disbursements	(355,649)	553,221	4,304
Other financing sources, net	331,521	(245,935)	-
Change in balances	(24,128)	307,286	4,304
Balances beginning of year	1,773,459	774,064	25,794
Balances end of year	\$ 1,749,331	1,081,350	30,098

See accompanying independent auditor's report.

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Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
956,127	969,312	969,312	(13,185)
113,626	123,136	123,136	(9,510)
5,679	4,470	4,470	1,209
27,902	12,000	12,000	15,902
303,856	489,802	489,802	(185,946)
2,840,860	2,996,430	2,996,430	(155,570)
104,239	26,400	26,400	77,839
<u>4,352,289</u>	<u>4,621,550</u>	<u>4,621,550</u>	<u>(269,261)</u>
684,764	497,110	627,110	(57,654)
455,338	440,150	460,150	4,812
15,252	7,600	17,600	2,348
319,845	295,507	345,507	25,662
62,329	75,200	125,200	62,871
153,953	151,540	151,540	(2,413)
448,157	448,500	448,500	343
73,313	728,000	728,000	654,687
<u>1,946,070</u>	<u>2,481,610</u>	<u>2,481,610</u>	<u>535,540</u>
<u>4,159,021</u>	<u>5,125,217</u>	<u>5,385,217</u>	<u>1,226,196</u>
193,268	(503,667)	(763,667)	956,935
85,586	360,000	360,000	(274,414)
278,854	(143,667)	(403,667)	682,521
<u>2,521,729</u>	<u>2,190,361</u>	<u>2,190,361</u>	<u>331,368</u>
<u>2,800,583</u>	<u>2,046,694</u>	<u>1,786,694</u>	<u>1,013,889</u>

City of Traer

Notes to Other Information – Budgetary Reporting

June 30, 2020

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 Traer Fire Department Fundraiser, Inc., a blended component unit, and 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, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$260,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2020, disbursements in the public safety and general government functions exceeded the amounts budgeted. In addition, disbursements exceeded the amounts budgeted prior to the budget amendment in the health and social services, culture and recreation and the community and economic development functions.

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City of Traer

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

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

Other Information

	2020	2019	2018	2017
City's proportion of the net pension liability	0.008386%	0.009343%	0.009699	0.009754%
City's proportionate share of the net pension liability	\$ 486	591	646	614
City's covered payroll	\$ 786	821	803	773
City's proportionate share of the net pension liability as a percentage of its covered payroll	61.83%	71.99%	80.45%	79.43%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%

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

See accompanying independent auditor's report.

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City of Traer

Schedule of City Contributions

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

Other Information

	2020	2019	2018	2017	2016
Statutorily required contribution	\$ 81	75	74	72	70
Contributions in relation to the statutorily required contribution	(81)	(75)	(74)	(72)	(70)
Contribution deficiency (excess)	\$ -	-	-	-	-
City's covered payroll	\$ 850	786	821	803	773
Contributions as a percentage of covered payroll	9.53%	9.54%	9.01%	8.97%	9.06%

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

See accompanying independent auditor's report.

City of Traer

Notes to Other Information – Pension Liability

Year ended June 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

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

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- 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.
- 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.

**City of Traer**

**Supplementary Information**

City of Traer

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

As of and for the year ended June 30, 2020

	Employee Benefits	Local Option Sales Tax	Special Traer Volunteer Ambulance Fundraiser
Receipts:			
Property tax	\$ 214,190	-	-
Local option sales tax	-	111,460	-
Other city tax	486	-	-
Use of money and property	-	-	137
Intergovernmental	3,365	-	-
Miscellaneous	-	-	21,060
Total receipts	<u>218,041</u>	<u>111,460</u>	<u>21,197</u>
Disbursements:			
Operating:			
Public safety	-	-	59,573
Excess (deficiency) of receipts over (under) disbursements	218,041	111,460	(38,376)
Other financing uses:			
Transfers out	<u>(171,168)</u>	<u>(111,460)</u>	-
Change in cash balances	46,873	-	(38,376)
Cash balances beginning of year	9,952	-	113,592
Cash balances end of year	<u>\$ 56,825</u>	<u>-</u>	<u>75,216</u>
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Employee benefits	\$ 56,825	-	-
Other purposes	-	-	75,216
Total cash basis fund balances	<u>\$ 56,825</u>	<u>-</u>	<u>75,216</u>

See accompanying independent auditor's report.

Revenue	
Traer Fire Department Fundraiser, Inc.	Total
-	214,190
-	111,460
-	486
46	183
-	3,365
22,167	43,227
22,213	372,911
17,909	77,482
4,304	295,429
-	(282,628)
4,304	12,801
25,794	149,338
30,098	162,139
-	56,825
30,098	105,314
30,098	162,139

City of Traer  
 Schedule of Indebtedness  
 Year ended June 30, 2020

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Refunding	May 3, 2011	1.00-3.40%	\$ 660,000
Refunding and bridge repairs	May 1, 2013	0.45-2.00	830,000
Street improvements	Jun 16, 2014	1.50-2.10	520,000
Municipal pool	Apr 20, 2017	3.75	2,500,000
Total			
Revenue Notes:			
Sewer	Aug 19, 2001	1.75%	\$ 757,000
Sewer	May 5, 2003	1.75	101,000
Water	Apr 27, 2016	3.75	409,000
Total			
Sewer Revenue Capital Loan Anticipation Project Note	Nov 30, 2018	0.00%	\$ 58,603
Loan agreement:			
Fire truck	Aug 5, 2014	0.00%	\$ 100,000
See accompanying independent auditor's report.			

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
80,000	-	45,000	35,000	2,720
200,000	-	100,000	100,000	4,000
300,000	-	150,000	150,000	6,300
2,500,000	-	-	2,500,000	79,793
<b>\$ 3,080,000</b>	<b>-</b>	<b>295,000</b>	<b>2,785,000</b>	<b>92,813</b>
158,000	-	50,000	108,000	2,844
25,000	-	6,000	19,000	500
409,000	-	-	409,000	15,338
<b>\$ 592,000</b>	<b>-</b>	<b>56,000</b>	<b>536,000</b>	<b>18,682</b>
9,717	48,886	-	58,603	-
50,000	-	5,000	45,000	-

City of Traer  
 Note Maturities  
 June 30, 2020

Year Ending June 30,	General					
	Refunding Notes		Refunding and Bridge Repair Notes		Street Improvement Notes	
	Issued May 3, 2011		Issued May 1, 2013		Issued Jun 16, 2014	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2021	3.40%	\$ 35,000	2.00%	\$ 100,000	2.10%	\$ 150,000
2022		-		-		-
2023		-		-		-
2024		-		-		-
2025		-		-		-
2026		-		-		-
2027		-		-		-
2028		-		-		-
2029		-		-		-
2030		-		-		-
2031		-		-		-
2032		-		-		-
2033		-		-		-
2034		-		-		-
2035		-		-		-
2036		-		-		-
Total		<u>\$ 35,000</u>		<u>\$ 100,000</u>		<u>\$ 150,000</u>

Year Ending June 30,	Revenue			
	Sewer		Sewer	
	Issued Aug 19, 2001		Issued May 5, 2003	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2021	1.75%	\$ 53,000	1.75%	\$ 6,000
2022	1.75	55,000	1.75	6,000
2023		-	1.75	7,000
2024		-		-
2025		-		-
2026		-		-
2027		-		-
2028		-		-
Total		<u>\$ 108,000</u>		<u>\$ 19,000</u>

See accompanying independent auditor's report.

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Obligation Notes

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Municipal Pool Notes

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Issued Apr 20, 2017

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Interest		
Rates	Amount	Total
3.75%	\$ -	285,000
3.75	135,000	135,000
3.75	140,000	140,000
3.75	140,000	140,000
3.75	145,000	145,000
3.75	150,000	150,000
3.75	155,000	155,000
3.75	160,000	160,000
3.75	165,000	165,000
3.75	170,000	170,000
3.75	175,000	175,000
3.75	180,000	180,000
3.75	185,000	185,000
3.75	190,000	190,000
3.75	200,000	200,000
3.75	210,000	210,000
	<u>\$ 2,500,000</u>	<u>2,785,000</u>

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Notes

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Water

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Issued Apr 27, 2016

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Interest		
Rates	Amount	Total
3.75%	\$ 14,000	73,000
3.75	51,000	112,000
3.75	52,000	59,000
3.75	54,000	54,000
3.75	56,000	56,000
3.75	58,000	58,000
3.75	61,000	61,000
3.75	63,000	63,000
	<u>\$ 409,000</u>	<u>536,000</u>

City of Traer

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

For the Last Ten Years

	2020	2019	2018	2017
<b>Receipts:</b>				
Property tax	\$ 956,127	963,285	943,708	852,591
Local option sales tax	111,460	122,977	98,029	116,225
Other city tax	2,166	-	-	-
Licenses and permits	5,679	3,922	5,089	4,513
Use of money and property	20,420	25,939	23,293	4,631
Intergovernmental	303,856	263,187	348,702	246,572
Charges for service	351,107	351,448	328,743	322,452
Miscellaneous	124,396	280,345	219,318	108,951
<b>Total</b>	<b>\$ 1,875,211</b>	<b>2,011,103</b>	<b>1,966,882</b>	<b>1,655,935</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 702,673	466,638	731,933	418,161
Public works	455,338	492,278	391,672	498,654
Health and social services	15,252	9,652	9,178	8,813
Culture and recreation	319,845	276,151	205,365	268,711
Community and economic development	62,329	74,821	70,163	172,942
General government	153,953	145,519	149,712	145,927
Debt service	448,157	455,541	414,638	324,880
Capital projects	73,313	452,251	2,463,865	152,230
<b>Total</b>	<b>\$ 2,230,860</b>	<b>2,372,851</b>	<b>4,436,526</b>	<b>1,990,318</b>

See accompanying independent auditor's report.

2016	2015	2014	2013	2012	2011
842,089	815,962	795,209	751,740	733,854	693,194
120,203	106,690	104,811	120,732	87,572	95,024
9,412	9,200	9,119	6,829	8,681	8,553
1,428	1,413	1,497	890	640	1,183
7,704	6,261	6,003	7,319	7,054	8,084
310,901	515,414	676,368	452,674	265,870	226,485
322,960	314,827	290,792	286,311	279,459	328,700
40,463	68,275	30,202	498,792	15,759	16,175
<u>1,655,160</u>	<u>1,838,042</u>	<u>1,914,001</u>	<u>2,125,287</u>	<u>1,398,889</u>	<u>1,377,398</u>
345,958	509,965	408,067	314,309	288,831	395,845
435,514	400,699	434,333	423,777	358,508	433,608
8,795	4,482	4,917	1,802	6,204	9,438
196,934	209,237	205,883	239,617	194,485	227,952
100,717	102,326	60,824	95,314	95,064	116,794
137,320	147,098	149,260	145,636	142,597	133,710
339,350	279,128	271,102	886,618	282,929	528,436
91,173	533,622	698,441	283,099	146,581	171,280
<u>1,655,761</u>	<u>2,186,557</u>	<u>2,232,827</u>	<u>2,390,172</u>	<u>1,515,199</u>	<u>2,017,063</u>



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

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unity, each major fund and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 16, 2021. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Traer's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (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 Traer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

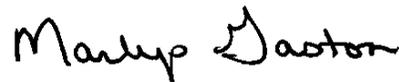
### The City of Traer's Responses to the Findings

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

### Purpose of this Report

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

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



Marlys K. Gaston, CPA  
Deputy Auditor of State

March 16, 2021

City of Traer

Schedule of Findings

Year ended June 30, 2020

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties

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

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

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

For the Traer Ambulance separately maintained bank account, one individual has control over each of the following areas:

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

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2020

Recommendation – The City should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. The reviews should be documented by the signature or initials of the independent reviewer and the date of the review.

Response – The offices at the City/TMU run with very limited staff. We will continue to do our best to make certain changes to keep things as controlled as possible.

Conclusion – Response acknowledged. The City should continue to review procedures to provide additional control through independent review of financial transactions, reconciliations and reports. The reviews performed by an independent person should be documented by the signature or initials of the reviewer and the date of the review.

(B) Independent Review of Bank Reconciliations and Voided Receipts

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

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

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

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

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

Recommendation – To improve financial accountability and control, the monthly reconciliations of the book and bank balances should be reviewed by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review. The bank reconciliation review should include evidence the bank balances and reconciling items were verified by the independent reviewer.

An independent review of the reconciliation of daily collections to deposit and voided receipts should be performed periodically. This review should be documented by the signature or initials of the reviewer and the date of the review.

City of Traer

Schedule of Findings

Year ended June 30, 2020

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

Conclusion – Response acknowledged. In addition, voided receipts should be periodically reviewed by an independent person with this review documented.

(C) Segregation of Duties for the Traer Fire Department Fundraiser, 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 non-profit corporation's financial statements.

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

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

Cause – The Traer Fire Department Fundraiser, Inc. has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes. Procedures have also not been implemented to require a pre-numbered receipts book.

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

Recommendation – The Traer Fire Department Fundraiser, Inc. should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff or City personnel to provide additional control through review of financial transactions, reconciliations and reports.

Response – All receipts are received by the Secretary/Treasurer and the Chief and read aloud at the monthly meeting of members. Deposits are shown on the monthly bank reconciliation that is reviewed by all 5 officers. Disbursements are collected and read aloud monthly for all members to vote on for approval and payment, payments are signed by both the Treasurer and the Chief. Cash is not used.

City of Traer

Schedule of Findings

Year ended June 30, 2020

Conclusion – Response acknowledged. The Fire Department should continue to review procedures to provide additional control through independent review of financial transactions, reconciliations and reports. The reviews performed by an independent person should be documented by the signature or initials of the reviewer and the date of the review.

(D) 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 – The City incorrectly recorded utility excise tax and mobile home tax as property tax rather than other city tax. In addition, commercial/industrial replacement tax was recorded as property tax rather than as intergovernmental receipts. Also, the City does not record all transfers in the general ledger and some transfers are recorded as disbursements. Adjustments were subsequently made to properly record these amounts in the financial statements.

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

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

Recommendation – The City should implement procedures to ensure accurate financial reporting.

Response – We will work to implement appropriate procedures to make sure all taxes and transfers are being accounted for correctly.

Conclusion – Response accepted.

(E) Monthly City Clerk's Report

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2020

Cause – Policies have not been established and procedures have not been implemented which require the City Clerk to provide the City Council with the financial information which facilitates their oversight responsibilities for financial management.

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

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

Response – The City Clerk will look at revising the monthly reporting to the Council to include more information, as recommended.

Conclusion – Response accepted.

(F) Credit Cards

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

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

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

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

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

Response – The City feels the few employees with credit card access have a good understanding of the use and authorization of the Mastercard. The City will look at policies from surrounding communities to help come up with something that'll work for them.

Conclusion – Response acknowledged. The City should adopt a formal written policy regulating the use of City credit cards with controls and purposes as to the appropriate use of the credit cards.

City of Traer

Schedule of Findings

Year ended June 30, 2020

(G) Compensated Absences

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

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

Cause – Established vacation accrual policies have not been enforced.

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

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

Response – The City will look at drafting a formal policy regarding our vacation, payout and accrual procedures.

Conclusion – Response accepted.

(H) Journal Entries and Transfers

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

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

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2020

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

Response – Journal entries for deposits are reconciled in the bank reconciliation process. The majority of other entries are for simple reclassification of expenses/revenues between accounts and are documented in the description of the entry. We will work at getting these transfers approved by council before doing them.

Conclusion – Response acknowledged. Journal entries and transfers should be supported, and the support should be provided to an independent person for review and approval.

(I) Computer System

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

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

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

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

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2020

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

Response – Our IT personal have recently put a backup system in place in another building across from our main office. We will work more with IT to get more policies in place.

Conclusion – Response accepted.

(J) Traer Fire Department Fundraiser, Inc. Receipts

Criteria – Proper accounting includes records that include a description of the receipt and the date it was collected. Independent review of these records should include comparing receipt information to amounts deposited in the bank.

Condition – A pre-numbered receipts book was not maintained for all collections.

Cause – Procedures have not been designed and implemented to ensure pre-numbered receipts are issued and maintained, or to require independent review of those records.

Effect – This condition could result in unrecorded or misstated collections and the opportunity for misappropriation.

Recommendation – All receipts should be supported by a pre-numbered receipt. Independent review of financial records, including a reconciliation of pre-numbered receipts to the deposit, should be documented by the signature or initials of the reviewer and the date of the review.

Response – A numbered receipt book is currently used for all deposits and reconciliation.

Conclusion – Response acknowledged. Independent review of financial records, including a reconciliation of pre-numbered receipts to the deposit, should be documented by the signature or initials of the reviewer and the date of the review.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Traer

Schedule of Findings

Year ended June 30, 2020

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

- (1) Certified Budget – At June 30, 2020, disbursements in the public safety and general government functions exceeded the amounts budgeted. In addition, disbursements exceeded the amounts budgeted prior to the budget amendment in the health and social services, culture and recreation and the community and economic development functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – In the future, the City will amend the budget before disbursements exceed the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Hometown Foods	Food trays	\$ 126
Farm to Flame	Ambulance Department Christmas dinner	376
Farmers Saving Bank	Purchase of Christmas gifts	325
Traer Chamber	Traer Bucks for fundraiser raffle	600

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

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

Response – We will discuss with the ambulance ways to avoid these “gift” purchases.

Conclusion – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments.

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

City of Traer

Schedule of Findings

Year ended June 30, 2020

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

Name, Title and Business Connection	Transaction Description	Amount
Dahn Kennedy, Council Member through December 31, 2019, Office Manager of A.W.E. Auto Service	Repairs and parts	\$ 1,839

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with A.W.E. Auto Service do not appear to represent a conflict of interest since total transactions were less than \$6,000 during the fiscal year and were not competitively bid.

- (5) Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- (6) 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.
- (7) City Council Meeting Minutes – Except as noted below, no transactions were found that we believe should have been approved in the City Council minutes but were not.

Certain transfers were not approved by the City Council or documented in the City Council meeting minutes. Section 545-2 of the City Finance Committee Rules require “A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred. For transfers of utility surpluses outlined in subrule 2.5(5), the calculation proving the surplus must also be shown in the resolution.”

Although minutes of the City Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. In addition, the meeting minutes were not always signed as required by Chapter 380.7 of the Code of Iowa.

In addition, the minutes of the Traer Municipal Utility Board proceedings were published but were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – All transfers between funds should be approved by a transfer resolution which includes the information required by Section 545-2 of the City Finance Committee Rules. The City Council should approve all interfund transfers and the action should be recorded in the City Council minutes. The City Council and the TMU Board should ensure minutes are published within the required time frame. The City should also comply with Chapter 380.7 of the Code of Iowa and ensure all minutes are signed, as required.

City of Traer

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Year ended June 30, 2020

Response – Timely publication will also be worked on but is sometimes difficult due to having a once a week publication versus having a daily publication outlet. All minutes/expenses are also posted online at traer.com for people to view.

Conclusion – Response acknowledged. The City Council should also approve all interfund transfers via a resolution and should record the action in the City Council minutes. The City should also comply with Chapter 380.7 of the Code of Iowa and ensure all minutes are signed.

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

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

Response – The City does not invest cash anywhere but IPAIT and FDIC insured banks. We will work on document for investment policies.

Conclusion – Response accepted.

- (9) Revenue Notes – The City has complied with revenue note resolutions, except as follows:

The sewer revenue note resolution requires the City transfer 25% of the amount required in the sewer sinking fund to a revenue reserve account until specific minimum balances have been accumulated. The City has not established the required revenue reserve account.

Recommendation – The City should establish the required sewer reserve account in the proper amount.

Response – Going forward the City will establish the proper reserves.

Conclusion – Response accepted.

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

- (11) Separately Maintained Records – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

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

City of Traer

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Year ended June 30, 2020

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

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

Response – The Traer Ambulance service has historically been a separate "Volunteer" organization, with fundraising dollars under their control, and not included in the city balances. As a result of recent changes to the structure of the organization to be more of a "City Department", we will work with the Ambulance staff/management to coordinate moving funds under city control, while still giving them the autonomy of the decision making for spending the funds.

Conclusion – Response acknowledged. Because these are City funds, they are governed by Chapters 384.20 and 372.13(6) of the Code of Iowa, as well as all City policies and procedures. The City Council should have final approval of all disbursements.

- (12) Internet Rates – Chapter 388.6 of the Code of Iowa states, "A city utility or combined utility system may not provide use or service at a discriminatory rate, except to the City or its agencies, as provided in Chapter 384.91." Employee discounts were provided on internet services.

Recommendation – The City is required to establish and apply consistent billing rates to certain types of customers, such as residential or commercial. The City Council should implement procedures which ensure nondiscriminatory internet rates are used for all customers.

Response – We will work with City and TMU officials to review this issue and come up with policies to set going forward.

Conclusion – Response acknowledged. The City Council should implement procedures which ensure nondiscriminatory internet rates are used for all customers.

City of Traer

Schedule of Findings

Year ended June 30, 2020

- (13) Donations – During the year ended June 30, 2020, the City donated funds to the following entities:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Traer Shaker Gallery	Donation for general budget/operations	\$ 6,000
Winding Stairs Festival	Donation for Inflatables for community festival	8,500
Traer Chamber of Commerce	Donation to update/maintain Christmas light display at park	2,000
Traer Chamber of Commerce	Donation for other operations/events	2,000
North Tama Community Schools	Donation for youth baseball/softball program	5,000
North Tama After Prom	Donation for After Prom activities	2,000
Traer Theater	Donation for daily operations/overhead	5,000

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private non-profit corporations. Article III, Section 31 of the Constitution of the State of Iowa states “...no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly.”

Recommendation – We are not aware of any statutory authority for the City to provide public funds to private non-profit corporations. The City should seek reimbursement of the amounts donated to the non-profit corporations from the Local Option Sales Tax receipts.

Response – The City will look at payments from Local Option Sales Tax to the various parties.

Conclusion – Response acknowledged. The City should seek reimbursements of the unallowable donations and cease making future donations to private non-profit organizations.

- (14) Financial Condition – The Enterprise, Gas Fund had a deficit balance of \$7,941, at June 30, 2020.

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

Response – The City was in the early stages of the gas franchise take over when this negative balance occurred. Revenue is now being collected and applied to proper accounts, and gas currently has no negative balance.

Conclusion – Response accepted.

City of Traer

Staff

This audit was performed by:

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