

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

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NEWS RELEASE

FOR RELEASE

March 16, 2017

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

The City's receipts totaled \$808,011 for the year ended June 30, 2016. The receipts included \$108,183 of property tax, \$169,726 of charges for service, \$175,677 of operating grants, contributions and restricted interest, \$66,070 of capital grants, contributions and restricted interest, \$34,664 of local option sales tax, \$251,548 of bond proceeds and \$2,143 of other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$765,263, and included \$315,043 for capital projects, \$152,628 for public safety, and \$88,852 for public works. Also, disbursements for business type activities totaled \$63,589.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1622-0135-B00F>.

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

JUNE 30, 2016

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City of Bennett

Officials

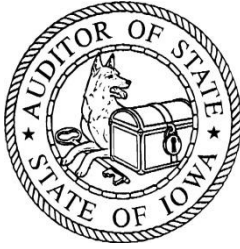
(Before January 2016)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------|----------------|---------------------|
| Lavern Cole | Mayor | Jan 2016 |
| Terry Yutesler | Mayor Pro tem | Jan 2016 |
| Myron Henrickson | Council Member | Nov 2015 |
| Eric Lichtenwald | Council Member | Nov 2015 |
| Aaron Steward | Council Member | Nov 2015 |
| Kody Klahn | Council Member | Jan 2016 |
| Charlene Myers | City Clerk | Indefinite |
| Julie Degen | Attorney | Indefinite |

(After January 2016)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------|----------------|---------------------|
| Lavern Cole | Mayor | Jan 2018 |
| Aaron Steward | Mayor Pro tem | Jan 2020 |
| Eric Lichtenwald | Council Member | Jan 2018 |
| Lucius Harvey | Council Member | Jan 2018 |
| Debra Badtram | Council Member | Jan 2018 |
| Sherry Bentrrott | Council Member | Jan 2020 |
| Charlene Myers | City Clerk | Indefinite |
| Julie Degen | Attorney | Indefinite |

City of Bennett



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Modified Opinions

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

Modified Opinions

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

Basis of Accounting

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

Other Matters

Supplementary and Other Information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bennett's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 24 through 30, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2017 on our consideration of the City of Bennett's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Bennett's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

March 8, 2017

City of Bennett

Basic Financial Statements

City of Bennett

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

| | | Program Receipts | | |
|---|---------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| | Disbursements | | | |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 152,628 | 36,499 | 109,951 | - |
| Public works | 88,852 | 34,557 | 44,770 | - |
| Culture and recreation | 30,387 | 74 | 20,956 | - |
| General government | 69,905 | 4,322 | - | - |
| Debt service | 44,859 | - | - | - |
| Capital projects | 315,043 | - | - | 66,070 |
| Total governmental activities | 701,674 | 75,452 | 175,677 | 66,070 |
| Business type activities: | | | | |
| Water | 37,494 | 39,407 | - | - |
| Sewer | 26,095 | 54,867 | - | - |
| Total business type activities | 63,589 | 94,274 | - | - |
| Total | \$ 765,263 | 169,726 | 175,677 | 66,070 |
| General Receipts and Transfers: | | | | |
| Property and other city tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Local option sales tax | | | | |
| Commercial/industrial tax replacement | | | | |
| Unrestricted interest on investments | | | | |
| Bond proceeds | | | | |
| Miscellaneous | | | | |
| Transfers | | | | |
| Total general receipts and transfers | | | | |
| Change in cash basis net position | | | | |
| Cash basis net position beginning of year | | | | |
| Cash basis net position end of year | | | | |
| Cash Basis Net Position | | | | |
| Restricted: | | | | |
| Fire Department | | | | |
| Library | | | | |
| Debt service | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net position | | | | |

See notes to financial statements.

| Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|--|-----------------------------|-----------|
| Governmental Activities | Business Type Activities | Total |
| (6,178) | - | (6,178) |
| (9,525) | - | (9,525) |
| (9,357) | - | (9,357) |
| (65,583) | - | (65,583) |
| (44,859) | - | (44,859) |
| (248,973) | - | (248,973) |
| (384,475) | - | (384,475) |
| - | 1,913 | 1,913 |
| - | 28,772 | 28,772 |
| - | 30,685 | 30,685 |
| (384,475) | 30,685 | (353,790) |
| 100,843 | - | 100,843 |
| 7,340 | - | 7,340 |
| 34,664 | - | 34,664 |
| 1,345 | - | 1,345 |
| 188 | 67 | 255 |
| 251,548 | - | 251,548 |
| 543 | - | 543 |
| 61,791 | (61,791) | - |
| 458,262 | (61,724) | 396,538 |
| 73,787 | (31,039) | 42,748 |
| 355,699 | 98,247 | 453,946 |
| \$ 429,486 | 67,208 | 496,694 |
| \$ 208,283 | | 208,283 |
| 1,302 | | 1,302 |
| 6,905 | - | 6,905 |
| 4,156 | - | 4,156 |
| 208,840 | 67,208 | 276,048 |
| \$ 429,486 | 67,208 | 496,694 |

City of Bennett

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

As of and for the year ended June 30, 2016

| | General | Capital Projects | Nonmajor | Total |
|--|------------|---------------------|----------|-----------|
| Receipts: | | | | |
| Property tax | \$ 82,494 | - | 25,689 | 108,183 |
| Other city tax | 36,436 | - | - | 36,436 |
| Licenses and permits | 622 | - | - | 622 |
| Use of money and property | 259 | - | - | 259 |
| Intergovernmental | 50,341 | 66,070 | 44,246 | 160,657 |
| Charges for service | 71,029 | - | - | 71,029 |
| Miscellaneous | 84,936 | - | - | 84,936 |
| Total receipts | 326,117 | 66,070 | 69,935 | 462,122 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 151,929 | - | 699 | 152,628 |
| Public works | 44,404 | - | 44,448 | 88,852 |
| Culture and recreation | 28,423 | - | 1,964 | 30,387 |
| General government | 67,144 | - | 2,761 | 69,905 |
| Debt service | - | 30,566 | 14,293 | 44,859 |
| Capital projects | - | 315,043 | - | 315,043 |
| Total disbursements | 291,900 | 345,609 | 64,165 | 701,674 |
| Excess (deficiency) of receipts over (under) disbursements | 34,217 | (279,539) | 5,770 | (239,552) |
| Other financing sources (uses): | | | | |
| Bond proceeds | - | 251,548 | - | 251,548 |
| Transfers in | 8,000 | 56,341 | 6,550 | 70,891 |
| Transfers out | - | - | (9,100) | (9,100) |
| Total other financing sources (uses) | 8,000 | 307,889 | (2,550) | 313,339 |
| Change in cash balances | 42,217 | 28,350 | 3,220 | 73,787 |
| Cash balances beginning of year | 376,270 | (27,562) | 6,991 | 355,699 |
| Cash balances end of year | \$ 418,487 | 788 | 10,211 | 429,486 |
| Cash Basis Fund Balances | | | | |
| Restricted for: | | | | |
| Fire Department | \$ 208,283 | - | - | 208,283 |
| Library | 1,302 | - | - | 1,302 |
| Debt service | - | - | 6,905 | 6,905 |
| Other purposes | - | 788 | 3,368 | 4,156 |
| Unassigned | 208,902 | - | (62) | 208,840 |
| Total cash basis fund balances | \$ 418,487 | 788 | 10,211 | 429,486 |

See notes to financial statements.

City of Bennett

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

As of and for the year ended June 30, 2016

| | Enterprise | | |
|--|------------|----------|----------|
| | Water | Sewer | Total |
| Operating receipts: | | | |
| Charges for service | \$ 39,107 | 54,867 | 93,974 |
| Miscellaneous | 300 | - | 300 |
| Total operating receipts | 39,407 | 54,867 | 94,274 |
| Operating disbursements: | | | |
| Business type activities | 37,494 | 26,095 | 63,589 |
| Excess of operating receipts over operating disbursements | 1,913 | 28,772 | 30,685 |
| Non-operating receipts (disbursements): | | | |
| Interest on investments | 12 | 55 | 67 |
| Excess of receipts over disbursements | 1,925 | 28,827 | 30,752 |
| Transfers out | (4,350) | (57,441) | (61,791) |
| Change in cash balances | (2,425) | (28,614) | (31,039) |
| Cash balances beginning of year | 28,282 | 69,965 | 98,247 |
| Cash balances end of year | \$ 25,857 | 41,351 | 67,208 |
| Cash Basis Fund Balances | | | |
| Unrestricted | \$ 25,857 | 41,351 | 67,208 |

See notes to financial statements.

City of Bennett

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Bennett is a political subdivision of the State of Iowa located in Cedar County. It was first incorporated in 1896 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

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: Cedar County Assessor's Conference Board, Cedar County Emergency Management Commission and Cedar County Joint E911 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 revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

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

The City reports the following major governmental funds:

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

The Capital Projects Fund is used to account for resources used in the acquisition and construction of capital facilities and other capital assets.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

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

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

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

(3) Long-Term Debt

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

| Year Ending June 30, | Bank Loans | | Revenue Bonds | | Total | |
|----------------------------|------------|----------|---------------|----------|-----------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | \$ 13,109 | 1,184 | 16,548 | 11,722 | 29,657 | 12,906 |
| 2018 | 13,451 | 842 | 17,000 | 11,358 | 30,451 | 12,200 |
| 2019 | 13,791 | 502 | 18,000 | 10,985 | 31,791 | 11,487 |
| 2020 | 9,769 | 158 | 18,000 | 10,582 | 27,769 | 10,740 |
| 2021 | - | - | 18,000 | 10,180 | 18,000 | 10,180 |
| 2022-2026 | - | - | 99,000 | 44,508 | 99,000 | 44,508 |
| 2027-2031 | - | - | 114,000 | 32,765 | 114,000 | 32,765 |
| 2031-2036 | - | - | 112,000 | 19,282 | 112,000 | 19,282 |
| 2037-2041 | - | - | 64,000 | 8,010 | 64,000 | 8,010 |
| 2042 | - | - | 14,000 | 420 | 14,000 | 420 |
| Total | \$ 50,120 | 2,686 | 490,548 | 159,812 | 540,668 | 162,498 |

General Obligation Loan Agreements

On March 15, 2013, the City entered into a loan agreement with Liberty Trust & Savings Bank for \$50,000, with interest at 2.5% per annum, for the purpose of paying the cost, to that extent, of constructing improvements to the Municipal Waterworks System including acquiring new software for the water meter system and upgrading the water meters. The agreement is payable through 2020 and requires semiannual payments of \$3,932. During fiscal year 2016, the City paid principal of \$7,074 and interest of \$790 on the loan.

On May 13, 2015, the City entered into a loan agreement with Liberty Trust & Savings Bank for \$30,000, with interest at 2.5% per annum, for the purpose of paying the cost, to that extent, of acquiring a tractor for the public works department of the City. The agreement is payable through 2020 and requires semiannual payments of \$3,214. During fiscal year 2016, the City paid principal of \$5,664 and interest of \$764 on the loan.

Sewer Revenue Bonds

On June 8, 2012, the City entered into an agreement with the Iowa Finance Authority (IFA) for \$275,000 of sewer revenue bonds with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the sewer utility system.

On September 25, 2015, the City entered into an agreement with the Iowa Finance Authority for \$251,548 of sewer revenue bonds with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the sewer utility system.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue bonds. The bonds are payable solely from sewer customer net receipts. Annual principal and interest payments on the notes are expected to require approximately 97% of net receipts. The total principal and interest remaining to be paid on the bonds at June 30, 2016 is \$650,360. For the current year, principal and interest paid and total net receipts (operating receipts less operating disbursements), were \$28,089 and \$28,772, respectively.

The resolutions providing for the issuance of the sewer revenue bonds issued under the loan agreements between the City, the Iowa Finance Authority and the Iowa Department of Natural Resources includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder hold a lien on the future earnings of the fund.
- (b) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on all the sewer revenue bonds falling due in the same year.

The City's net receipts for the year ended June 30, 2016 were less than the required 110% of principal and interest falling due within the year.

(4) Pension Plan

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

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

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

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

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

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

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

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

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

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

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$6,392.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$49,876 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.001003%, which was an increase of 0.000043% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$4,206, \$9,589 and \$11,613, respectively.

There were no non-employer contributing entities to IPERS.

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

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

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

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

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

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

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

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

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability | \$ 87,324 | 49,876 | 18,267 |

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

(5) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and banked over time 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 banked over time payable to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-----------------|---------------|
| Vacation | \$ 200 |
| Comp Time | 500 |
| Total | <u>\$ 700</u> |

This liability has been computed based on rates of pay in effect at June 30, 2016.

(6) **Interfund Transfers**

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

| Transfer to | Transfer from | Amount |
|------------------|---------------------------------------|------------------|
| General | Special Revenue: Employee Benefits | <u>\$ 8,000</u> |
| Debt Service | Special Revenue: Road Use Tax | 1,100 |
| | Enterprise: Water | 4,350 |
| | Sewer | <u>1,100</u> |
| | | <u>6,550</u> |
| Capital Projects | Enterprise Sewer | <u>56,341</u> |
| Total | | <u>\$ 70,891</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) Deficit Balance

The Special Revenue, Road Use Tax Fund had a deficit balance of \$62 at June 30, 2016. The deficit balance was a result of project costs exceeding receipts. The deficit will be eliminated upon receipt of state grants.

(9) New Accounting Pronouncement

The City of Bennett adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

City of Bennett

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

Other Information

Year ended June 30, 2016

| | Governmental Funds Actual | Proprietary Funds Actual | Total |
|--|---------------------------------|--------------------------------|-----------|
| Receipts: | | | |
| Property tax | \$ 108,183 | - | 108,183 |
| Other city tax | 36,436 | - | 36,436 |
| Licenses and permits | 622 | - | 622 |
| Use of money and property | 259 | 67 | 326 |
| Intergovernmental | 160,657 | - | 160,657 |
| Charges for service | 71,029 | 93,974 | 165,003 |
| Special assessments | - | - | - |
| Miscellaneous | 84,936 | 300 | 85,236 |
| Total receipts | 462,122 | 94,341 | 556,463 |
| Disbursements: | | | |
| Public safety | 152,628 | - | 152,628 |
| Public works | 88,852 | - | 88,852 |
| Culture and recreation | 30,387 | - | 30,387 |
| Community and economic development | - | - | - |
| General government | 69,905 | - | 69,905 |
| Debt service | 44,859 | - | 44,859 |
| Capital projects | 315,043 | - | 315,043 |
| Business type activities | - | 63,589 | 63,589 |
| Total disbursements | 701,674 | 63,589 | 765,263 |
| Excess of receipts over disbursements | (239,552) | 30,752 | (208,800) |
| Other financing sources, net | 313,339 | (61,791) | 251,548 |
| Excess of receipts and other financing sources over disbursements and other financing uses | 73,787 | (31,039) | 42,748 |
| Balances beginning of year | 354,687 | 98,247 | 452,934 |
| Balances end of year | \$ 428,474 | 67,208 | 495,682 |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|------------------|-----------|-----------|
| Original | Final | Total |
| | | Variance |
| 106,341 | 108,316 | (133) |
| 32,972 | 32,972 | 3,464 |
| 595 | 595 | 27 |
| 180 | 180 | 146 |
| 68,367 | 68,367 | 92,290 |
| 162,009 | 162,009 | 2,994 |
| - | 13,600 | (13,600) |
| - | - | 85,236 |
| 370,464 | 386,039 | 170,424 |
| 67,240 | 79,140 | (73,488) |
| 98,073 | 102,073 | 13,221 |
| 28,949 | 29,589 | (798) |
| 1,100 | 1,100 | 1,100 |
| 67,430 | 72,430 | 2,525 |
| 8,000 | 8,000 | (36,859) |
| 15,000 | 380,000 | 64,957 |
| 103,410 | 103,410 | 39,821 |
| 389,202 | 775,742 | 10,479 |
| (18,738) | (389,703) | 180,903 |
| - | 363,207 | (111,659) |
| (18,738) | (26,496) | 69,244 |
| 179,456 | 179,456 | 273,478 |
| 160,718 | 152,960 | 342,722 |

City of Bennett

Notes to Other Information – Budgetary Reporting

June 30, 2016

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$386,540. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, culture and recreation and debt service functions.

City of Bennett

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

Iowa Public Employees' Retirement System
For the Last Two Years*

Other Information

| | 2016 | 2015 |
|---|-----------|-----------|
| City's proportion of the net pension liability | 0.001003% | 0.000960% |
| City's proportionate share of the net pension liability | \$ 49,876 | 38,848 |
| City's covered-employee payroll | \$ 69,167 | 64,098 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 72.11% | 60.61% |
| IPERS' net position as a percentage of the total pension liability | 85.19% | 87.61% |

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

See accompanying independent auditor's report.

City of Bennett
Schedule of City Contributions
Iowa Public Employees' Retirement System
For the Last Ten Years

Other Information

| | 2016 | 2015 | 2014 | 2013 |
|---|-----------|---------|---------|---------|
| Statutorily required contribution | \$ 6,392 | 6,177 | 5,724 | 4,736 |
| Contributions in relation to the statutorily required contribution | (6,392) | (6,177) | (5,724) | (4,736) |
| Contribution deficiency (excess) | \$ - | - | - | - |
| City's covered-employee payroll | \$ 71,584 | 69,167 | 64,098 | 54,623 |
| Contributions as a percentage of covered-employee payroll | 8.93% | 8.93% | 8.93% | 8.67% |

See accompanying independent auditor's report.

City of Bennett

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

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

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

Changes of assumptions:

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

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

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

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

City of Bennett

City of Bennett

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

As of and for the year ended June 30, 2016

| | Special Revenue | | | |
|---|-----------------|----------|---------|---------|
| | Road | | | |
| | Use | Employee | Debt | |
| | Tax | Benefits | Service | Total |
| Receipts: | | | | |
| Property tax | \$ - | 18,349 | 7,340 | 25,689 |
| Intergovernmental | 43,448 | 122 | 676 | 44,246 |
| Total receipts | 43,448 | 18,471 | 8,016 | 69,935 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | - | 699 | - | 699 |
| Public works | 42,280 | 2,168 | - | 44,448 |
| Cultures and recreation | - | 1,964 | - | 1,964 |
| General government | - | 2,761 | - | 2,761 |
| Debt service | - | - | 14,293 | 14,293 |
| Total disbursements | 42,280 | 7,592 | 14,293 | 64,165 |
| Excess (deficiency) of receipts over (under) disbursements | 1,168 | 10,879 | (6,277) | 5,770 |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | 6,550 | 6,550 |
| Transfers out | (1,100) | (8,000) | - | (9,100) |
| Total other financing sources (uses) | (1,100) | (8,000) | 6,550 | (2,550) |
| Change in cash balances | 68 | 2,879 | 273 | 3,220 |
| Cash balances beginning of year | (130) | 489 | 6,632 | 6,991 |
| Cash balances end of year | \$ (62) | 3,368 | 6,905 | 10,211 |
| Cash Basis Fund Balances | | | | |
| Restricted for: | | | | |
| Debt service | \$ - | - | 6,905 | 6,905 |
| Other purposes | - | 3,368 | - | 3,368 |
| Unassigned | (62) | - | - | (62) |
| Total cash basis fund balances | \$ (62) | 3,368 | 6,905 | 10,211 |

See accompanying independent auditor's report.

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

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|----------------|------------------|-------------------|--------------------------------|
| Bank loans: | | | |
| Water meters | Mar 15, 2013 | 2.50% | \$ 50,000 |
| Tractor | May 13, 2015 | 2.50 | 30,000 |
| Total | | | |
| Revenue bonds: | | | |
| Sewer | Jun 8, 2012 | 3.00% * | \$ 275,000 |
| Sewer | Sep 25, 2015 | 1.75 * | 251,548 |
| Total | | | |

* The City is also required to pay a .25% servicing fee on the outstanding principal.

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 32,858 | - | 7,074 | 25,784 | 790 |
| 30,000 | - | 5,664 | 24,336 | 764 |
| \$ 62,858 | - | 12,738 | 50,120 | 1,554 |
| 257,000 | - | 6,000 | 251,000 | 7,710 |
| - | 251,548 | 12,000 | 239,548 | 2,379 |
| \$ 257,000 | 251,548 | 18,000 | 490,548 | 10,089 |

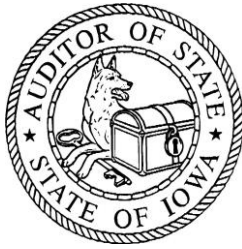
City of Bennett

City of Bennett
Loan and Bond Maturities
June 30, 2016

| Bank Loans | | | | | | Revenue Bonds | | | | | |
|----------------------------|---------------------|-----------|---------------------|-----------|--------|--------------------|------------|---------------------|------------|---------|--|
| Year Ending June 30, | Water Meters | | Tractor | | | Sewer | | Sewer | | | |
| | Issued Dec 23, 2015 | | Issued Dec 23, 2015 | | | Issued Jun 8, 2012 | | Issued Sep 25, 2015 | | | |
| | Interest Rates | Amount | Interest Rates | Amount | Total | Interest Rates | Amount | Interest Rates | Amount | Total | |
| 2017 | 2.50% | \$ 7,257 | 2.50% | \$ 5,852 | 13,109 | 3.00% | \$ 6,000 | 1.75% | \$ 10,548 | 16,548 | |
| 2018 | 2.50 | 7,442 | 2.50 | 6,009 | 13,451 | 3.00 | 6,000 | 1.75 | 11,000 | 17,000 | |
| 2019 | 2.50 | 7,632 | 2.50 | 6,159 | 13,791 | 3.00 | 7,000 | 1.75 | 11,000 | 18,000 | |
| 2020 | 2.50 | 3,453 | 2.50 | 6,316 | 9,769 | 3.00 | 7,000 | 1.75 | 11,000 | 18,000 | |
| 2021 | | - | | - | - | 3.00 | 7,000 | 1.75 | 11,000 | 18,000 | |
| 2022 | | - | | - | - | 3.00 | 7,000 | 1.75 | 12,000 | 19,000 | |
| 2023 | | - | | - | - | 3.00 | 8,000 | 1.75 | 12,000 | 20,000 | |
| 2024 | | - | | - | - | 3.00 | 8,000 | 1.75 | 12,000 | 20,000 | |
| 2025 | | - | | - | - | 3.00 | 8,000 | 1.75 | 12,000 | 20,000 | |
| 2026 | | - | | - | - | 3.00 | 8,000 | 1.75 | 12,000 | 20,000 | |
| 2027 | | - | | - | - | 3.00 | 9,000 | 1.75 | 13,000 | 22,000 | |
| 2028 | | - | | - | - | 3.00 | 9,000 | 1.75 | 13,000 | 22,000 | |
| 2029 | | - | | - | - | 3.00 | 9,000 | 1.75 | 13,000 | 22,000 | |
| 2030 | | - | | - | - | 3.00 | 10,000 | 1.75 | 14,000 | 24,000 | |
| 2031 | | - | | - | - | 3.00 | 10,000 | 1.75 | 14,000 | 24,000 | |
| 2032 | | - | | - | - | 3.00 | 10,000 | 1.75 | 14,000 | 24,000 | |
| 2033 | | - | | - | - | 3.00 | 10,000 | 1.75 | 14,000 | 24,000 | |
| 2034 | | - | | - | - | 3.00 | 11,000 | 1.75 | 15,000 | 26,000 | |
| 2035 | | - | | - | - | 3.00 | 11,000 | 1.75 | 15,000 | 26,000 | |
| 2036 | | - | | - | - | 3.00 | 12,000 | | - | 12,000 | |
| 2037 | | - | | - | - | 3.00 | 12,000 | | - | 12,000 | |
| 2038 | | - | | - | - | 3.00 | 12,000 | | - | 12,000 | |
| 2039 | | - | | - | - | 3.00 | 13,000 | | - | 13,000 | |
| 2040 | | - | | - | - | 3.00 | 13,000 | | - | 13,000 | |
| 2041 | | - | | - | - | 3.00 | 14,000 | | - | 14,000 | |
| 2042 | | - | | - | - | 3.00 | 14,000 | | - | 14,000 | |
| Total | | \$ 25,784 | | \$ 24,336 | 50,120 | | \$ 251,000 | | \$ 239,548 | 490,548 | |

See accompanying independent auditor's report.

City of Bennett



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

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Auditor of State

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Bennett, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 8, 2017. Our report expressed modified 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 since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance of July 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Bennett'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 Bennett's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Bennett'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 were not 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 Bennett'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) and (F) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Bennett'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, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


The City of Bennett's Responses to the Findings

The City of Bennett's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Bennett'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 Bennett during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

March 8, 2017

City of Bennett

Schedule of Findings

Year ended June 30, 2016

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 – We noted that one person has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – investing, recording and custody.
- (3) Long term debt – recording and reconciling.
- (4) Receipts – collecting, depositing, posting and reconciling.
- (5) Disbursements – purchasing, check writing, check signing, recording, reconciling and mailing.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Accounting system – performing all general accounting functions and having custody of City assets.

For the Fire Department, we noted that one of two individuals has control over each of the following areas:

- (1) Cash and investments – handling, investing, recording and reconciling.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – purchasing, check writing, check signing, recording, reconciling and mailing.

For the Ambulance, we noted that one individual has control over each of the following areas:

- (1) Cash and investments – handling, investing, recording and reconciling.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – purchasing, check writing, check signing, recording, reconciling and mailing.

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.

City of Bennett

Schedule of Findings

Year ended June 30, 2016

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

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

Response – We are currently putting procedures in place with our Treasurer to delegate some of these duties. We have also been able to set up individual passwords in computer. Treasurer will now be able to log in to complete reconciliation.

Conclusion – Response accepted.

(B) Monthly Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to reconciling monthly financial reports to all bank accounts and investments.

Condition – Although monthly bank reconciliations were prepared, the reconciliations did not include all bank accounts and investments necessary to reconcile with the monthly financial reports. Also, the reconciliations did not contain evidence of an independent review.

Cause – Policies have not been established and procedures have not been implemented to a complete bank reconciliation of all accounts and investments.

Effect – Lack of performing and maintaining bank reconciliations and lack of review by an independent person could result in undetected errors or unauthorized activity.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. Procedures should be established to ensure all financial reports reconcile and include all City activity. An independent person should review the bank reconciliations and document the review by signing or initialing and dating the monthly bank reconciliations.

Response – The City has a Treasurer and she has been coming into City Hall monthly to reconcile our bank accounts and run monthly reports. She has also been set up with her own password into our system.

Conclusion – Response accepted.

City of Bennett

Schedule of Findings

Year ended June 30, 2016

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts

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

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

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

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

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

Response – A report of delinquent accounts will now be reported to the City Council once a month. We do have ordinances in place and will be in total compliance moving forward.

Conclusion – Response accepted.

(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 – A material amount of principal and interest payments made out of the Debt Service Fund were misclassified to the business type activities disbursement function rather than the debt service function. Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

City of Bennett

Schedule of Findings

Year ended June 30, 2016

Cause – City policies do not require and procedures have not been established to require independent review of the classification of disbursements by function 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 and material adjustments to the City's financial statements were necessary.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded in the City's financial records.

Response – Will work with the treasurer on transactions being properly recorded.

Conclusion – Response accepted.

(E) Disbursements

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

Condition – For the library, invoices and other supporting documentation were not always available to support disbursements. For the Ambulance, checks written to cash are not prohibited and there is no policy concerning this process.

Cause – Lack of supporting documentation for library disbursements is the result of a lack of policies and procedures requiring proper support for these charges. Checks written to cash out of the Ambulance bank accounts is the result of a lack of a policy prohibiting this practice.

Effect – Lack of written policies and procedures requiring proper support for library charges and prohibiting writing checks to cash could result in unauthorized and/or improper disbursements.

Recommendation – The City should adopt a formal written policy requiring proper supporting documentation be obtained and maintained for all library disbursements and prohibiting checks written to cash.

Response – We are in agreement with your recommendation and we now have a policy in place for this.

Conclusion – Response accepted.

City of Bennett

Schedule of Findings

Year ended June 30, 2016

(F) 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, regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have written policies for:

- password privacy and confidentiality.
- requiring password changes because software does not require the user to change log-ins/passwords periodically.

Cause – Management has not required written policies for the above computer based controls.

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

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over its computer system.

Response – Computer has now been set up for individuals to have access with their own passwords. The City Council will develop a policy for password privacy & confidentiality.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Bennett

Schedule of Findings

Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the public safety, culture and recreation and debt service 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 sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Policies will be put into place to be sure budget amendments are prepared and adopted per Chapter 384.18 of the Code of Iowa.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|--|----------------------------|----------|
| Lonna Moeller, Treasurer of Ambulance, Husband owns Moeller Tipton Tire | Parts and Supplies | \$ 1,536 |

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Moeller Tipton Tire do not appear to represent a conflict of interest since total transactions with the individual were less than \$2,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No evidence of City Council approval could be found for six of twenty-five disbursements tested. Also, disbursements out of the separate bank accounts used by the Bennett Volunteer Fire Department, the Library and the Ambulance Department were not approved by the City Council. These disbursements were also not included in the published list of all claims allowed required by Chapter 372.13(6) of the Code of Iowa.

City of Bennett

Schedule of Findings

Year ended June 30, 2016

Recommendation – The City Council should approve all disbursements including those from the separate bank accounts used by the Bennett Volunteer Fire Department, the Library and the Ambulance Department and those disbursements should be included in the published list of claims allowed as required by Chapter 372.13(6) of the Code of Iowa.

Response – The City Council and Mayor are currently working on taking action on this matter.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Separately Maintained Records – The Bennett Volunteer Fire Department, Library, and Ambulance Department maintain bank accounts for activity separate from the City Clerk's accounting records. 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. However, the transactions and resulting balances are included in these financial statements. In addition, the Bennett Volunteer Fire Department bank accounts were not created using the City's Employer Identification Number (EIN).

Recommendation – 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." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and annual budget and should be reported to the City Council on a monthly basis. The City should take immediate steps to ensure all City bank accounts use the City's EIN.

Response – We agree with your recommendation on this matter and work is in process to comply with Chapter 384.20 of the Code of Iowa. City Council is working on putting this recommendation in place.

Conclusion – Response accepted.

- (9) Sewer Revenue Bonds – The City's sewer revenue bond agreements with the Iowa Finance Authority, Section 7(v)(B), require the City to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond and any other obligations secured by a pledge of the net revenues falling due in the same year. The City's fiscal 2016 net sewer operating receipts of \$28,772 are less than 110% of the sewer revenue bond principal and interest of \$28,089 due during the fiscal year. Also, during the year, the City transferred net receipts to the Capital Projects Fund and made the required principal and interest payments from the Capital Projects Fund, rather than from the Enterprise, Sewer Fund.

City of Bennett

Schedule of Findings

Year ended June 30, 2016

Recommendation – The City should establish sewer utility rates at a level sufficient to produce net revenues at a level not less than 110% of the amount of principal and interest due in the same year. The payment of principal and interest on the sewer revenue bonds should be made from the Enterprise, Sewer Fund, as required.

Response – The City will look at adjusting the sewer rate and budget to meet the 110% rule.

Conclusion – Response accepted.

- (10) Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance of \$62 at June 30, 2016.

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

Response – The City is working to bring the fund back into a sound financial position.

Conclusion – Response accepted.

- (11) Garbage Utility Billing Rate – The garbage utility billing rate was set by resolution instead of by ordinance as required by Chapter 384.84 of the Code of Iowa.

Recommendation – The City should set the garbage utility billing rate by ordinance in compliance with Chapter 384.84 of the Code of Iowa.

Response – Future rate changes will be discussed and passed by an Ordinance per Chapter 384.84 of the Code of Iowa.

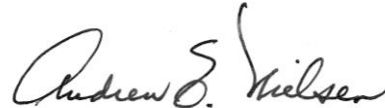
Conclusion – Response accepted.

City of Bennett

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
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