



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

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NEWS RELEASE

FOR RELEASE

May 9, 2017

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an audit report on the City of State Center, Iowa.

The City's receipts totaled \$4,037,046 for the year ended June 30, 2016, a 5.7% increase over the prior year. The receipts included \$247,281 in property tax, \$207,973 from tax increment financing, \$2,588,572 from charges for service, \$581,738 from operating grants, contributions and restricted interest, \$32,241 from capital grants, contributions and restricted interest, \$167,843 from local option sales tax, \$18,130 from unrestricted interest on investments, \$192,290 from bond proceeds and \$978 from other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$3,476,308, an 8.9% increase over the prior year, and included \$204,982 for public works, \$189,323 for public safety and \$169,788 for debt service. Also, disbursements for business type activities totaled \$2,442,633.

The increase in receipts is primarily due to increased operating grants, contributions and restricted interest and bond and note proceeds and the increase in disbursements is due primarily to capital improvements in the electric and water systems.

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/1621-0615-B00F>.

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CITY OF STATE CENTER

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

JUNE 30, 2016

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City of State Center

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Harlan Quick	Mayor	Jan 2018
Jon Mustaine	Council Member	Jan 2016
Angela Schultz	Council Member	Jan 2016
Steve Lively	Council Member	Jan 2018
Mike Riemenschneider	Council Member	Jan 2018
Lee Wilkinson	Council Member	Jan 2018
Lori Martin	City Clerk	Indefinite
Kevin O'Hare	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Harlan Quick	Mayor	Jan 2018
Steve Lively	Council Member	Jan 2018
Mike Riemenschneider	Council Member	Jan 2018
Lee Wilkinson	Council Member	Jan 2018
Misty Bunn	Council Member	Jan 2020
Howard Darrow	Council Member	Jan 2020
Lori Martin	City Clerk	(Resigned Dec 2015)
Lori Bearden (Appointed Feb 2016)	City Clerk	Indefinite
Kevin O'Hare	Attorney	Indefinite

City of State Center



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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 State Center, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of State Center 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 State Center's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. We also previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2014 (which are not presented herein) and expressed qualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2013. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 12 and 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 April 24, 2017 on our consideration of the City of State Center'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 State Center's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

April 24, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of State Center provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- The cash basis net position of the City's governmental activities increased \$361,783 during the year, due primarily to lower debt service and capital projects disbursements and higher operating grants, contributions and restricted interest.
- The cash basis net position of the City's business type activities increased \$198,955 during the year. While the cash basis net position increased, the increase is less than the prior year increase due primarily to higher disbursements for capital improvements in the Enterprise, Electric and Water Funds.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statement provides a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

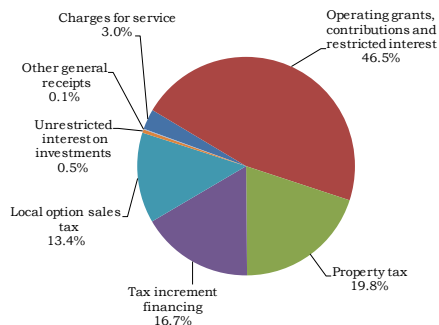
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

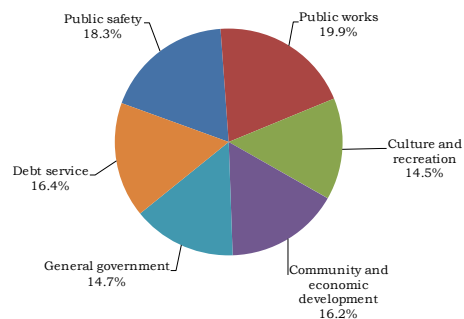
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased over a year ago, increasing from \$2,949,919 to \$3,311,702. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

	Changes in Cash Basis Net Position of Governmental Activities	
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 37,286	40,310
Operating grants, contributions and restricted interest	581,738	477,731
Capital grants, contributions and restricted interest	-	75,691
General receipts:		
Property tax	247,281	248,447
Tax increment financing	207,973	202,120
Local option sales tax	167,843	145,808
Unrestricted interest on investments	5,862	4,572
Other general receipts	978	6,692
Total receipts	1,248,961	1,201,371
Disbursements:		
Public safety	189,323	244,479
Public works	204,982	145,978
Culture and recreation	150,078	146,218
Community and economic development	167,791	95,983
General government	151,713	134,866
Debt service	169,788	209,128
Capital projects	-	71,147
Total disbursements	1,033,675	1,047,799
Change in cash basis net position before transfers	215,286	153,572
Transfers, net	146,497	83,880
Change in cash basis net position	361,783	237,452
Cash basis net position beginning of year	2,949,919	2,712,467
Cash basis net position end of year	\$ 3,311,702	2,949,919

Receipts by Source



Disbursements by Function



The cash basis net position of the City’s governmental funds increased primarily due to lower debt service and capital projects disbursements and higher operating grants, contributions and restricted interest.

The cost of all governmental activities this year was \$1,033,675 compared to \$1,047,799 last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$414,651 because some of the cost was paid by those directly benefited from the programs (\$37,286) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$581,738). The City paid for the remaining “public benefit” portion of governmental activities with tax (some of which could only be used for certain programs) and other receipts, such as interest, sale of capital assets and transfers from Enterprise Funds.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 163,109	161,951
Electric	2,112,213	2,136,290
Sewer	222,114	219,537
Storm water	53,850	50,518
Capital grants, contributions and restricted interest	32,241	2,987
General receipts:		
Unrestricted interest on investments	12,268	8,543
Bond and note proceeds	192,290	38,510
Total receipts	<u>2,788,085</u>	<u>2,618,336</u>
Disbursements:		
Water	307,055	193,680
Electric	1,823,348	1,657,667
Sewer	287,471	284,588
Storm water	24,759	9,293
Total disbursements	<u>2,442,633</u>	<u>2,145,228</u>
Change in cash basis net position before transfers	345,452	473,108
Transfers, net	<u>(146,497)</u>	<u>(83,880)</u>
Change in cash basis net position	198,955	389,228
Cash basis net position beginning of year	<u>2,392,994</u>	<u>2,003,766</u>
Cash basis net position end of year	<u>\$2,591,949</u>	<u>2,392,994</u>

Total business type activities cash basis net position increased over a year ago, from \$2,392,994 to \$2,591,949. While there was an overall increase in cash basis net position, the increase was curtailed due to higher disbursements for capital improvements in the Enterprise, Electric and Water Funds.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of State Center completed the year, its governmental funds reported a combined fund balance of \$3,311,702, an increase of \$361,783 over last year's total of \$2,949,919. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$131,276 over the prior year to \$1,150,397. This increase is due to transfers from the Special Revenue, Local Option Sales Tax Fund and the Enterprise, Electric Fund.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$61,256 to \$434,237. This increase is due to receiving more tax increment financing receipts than required to be disbursed for debt service.
- The Debt Service Fund cash balance increased \$21,030 to \$106,296. This increase is primarily attributable to transfers being higher than debt payments in the current year.
- The Capital Projects Fund cash balance increased \$239,696 to erase a prior year deficit.
- The Permanent, Ira D. Kauffman Charitable Community Trust Fund cash balance decreased \$64,047 to \$1,328,747 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$56,784 to a deficit of \$10,081. This decrease is primarily due to additional capital projects completed during the year.
- The Enterprise, Electric Fund cash balance increased \$220,776 to \$2,430,543. The increase is primarily due to lower total overall costs including capital improvements compared to operating receipts. This year's increase is lower than the fiscal year 2015 increase primarily due to additional capital improvements during fiscal year 2016.
- The Enterprise, Sewer Fund cash balance increased \$44,300 to \$49,305. The increase is due to lower spending for operations during the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget one time on May 25, 2016. The amendment resulted in an increase in disbursements for street repairs, sewer lining and well re-casing projects.

The City's receipts were \$105,930 less than budgeted.

Total disbursements were \$1,585,917 less than budgeted. This is primarily due to disbursements in the business type activities function being lower than expected.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$2,144,327 of bonds, notes and other debt outstanding, compared to \$2,084,037 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2,016	2015
General obligation bonds	\$ 1,180,000	1,315,000
Revenue bonds	827,876	769,037
Project anticipation note	91,451	-
Water agreement	45,000	-
Total	\$ 2,144,327	2,084,037

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is \$1,699,989, including TIF debt not subject to annual appropriation of \$519,989, is below its constitutional debt limit of approximately \$2,735,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of State Center's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities.

The fiscal year 2017 budget contains total receipts of \$4,470,244 and disbursements of \$5,560,584. This budget is higher than the final fiscal year 2016 budget, which contained total receipts of \$3,888,746 and disbursements of \$4,943,216. The City budgeted for significant capital projects for fiscal year 2017.

The fiscal year 2016 property tax levy is \$10.67196 per \$1,000 of taxable valuation, an increase from \$9.64036 per \$1,000 of taxable valuation in fiscal year 2016. The debt service levy increased slightly from \$.31847 per \$1,000 of taxable valuation in fiscal year 2016 to \$.31948 per \$1,000 of taxable valuation in fiscal year 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk, PO Box 668, State Center, Iowa 50247-0668.

Basic Financial Statements

City of State Center

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 189,323	2,590	44,211	-
Public works	204,982	6,890	181,667	-
Culture and recreation	150,078	5,854	294,829	-
Community and economic development	167,791	-	61,003	-
General government	151,713	21,952	28	-
Debt service	169,788	-	-	-
Total governmental activities	1,033,675	37,286	581,738	-
Business type activities:				
Water	307,055	163,109	-	-
Electric	1,823,348	2,112,213	-	-
Sewer	287,471	222,114	-	32,241
Storm water	24,759	53,850	-	-
Total business type activities	2,442,633	2,551,286	-	32,241
Total	\$ 3,476,308	2,588,572	581,738	32,241
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond and note proceeds				
Sale of capital assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Ira D. Kauffman Charitable Community Trust				
Expendable:				
Urban renewal purposes				
Debt service				
Streets				
Library				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

City of State Center

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

As of and for the year ended June 30, 2016

	Special Revenue		
	General	Urban Renewal	
		Tax Increment	Debt Service
Receipts:			
Property tax	\$ 236,770	-	10,511
Tax increment financing	-	207,973	-
Other city tax	-	-	-
Licenses and permits	8,538	-	-
Use of money and property	49,583	-	-
Intergovernmental	28,472	-	-
Charges for service	5,854	-	-
Special assessments	-	-	3,880
Miscellaneous	285,889	-	-
Total receipts	<u>615,106</u>	<u>207,973</u>	<u>14,391</u>
Disbursements:			
Operating:			
Public safety	189,323	-	-
Public works	44,417	-	-
Culture and recreation	150,078	-	-
Community and economic development	-	48,782	-
General government	151,713	-	-
Debt service	-	-	169,788
Total disbursements	<u>535,531</u>	<u>48,782</u>	<u>169,788</u>
Excess (deficiency) of receipts over (under) disbursements	<u>79,575</u>	<u>159,191</u>	<u>(155,397)</u>
Other financing sources (uses):			
Sale of capital assets	978	-	-
Transfers in	140,723	-	176,427
Transfers out	(90,000)	(97,935)	-
Total other financing sources (uses)	<u>51,701</u>	<u>(97,935)</u>	<u>176,427</u>
Change in cash balances	131,276	61,256	21,030
Cash balances beginning of year	<u>1,019,121</u>	<u>372,981</u>	<u>85,266</u>
Cash balances end of year	<u>\$1,150,397</u>	<u>434,237</u>	<u>106,296</u>
Cash Basis Fund Balances			
Nonspendable - Ira D. Kaufmann Charitable Community Trust	\$ -	-	-
Restricted for:			
Urban renewal purposes	-	434,237	-
Debt service	-	-	106,296
Streets	-	-	-
Library	914,750	-	-
Other purposes	-	-	-
Unassigned	<u>235,647</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$1,150,397</u>	<u>434,237</u>	<u>106,296</u>

See notes to financial statements.

Capital Projects	Permanent		Total
	Ira D. Kauffman Charitable Community Trust	Nonmajor	
-	-	-	247,281
-	-	-	207,973
-	-	167,843	167,843
-	-	-	8,538
-	60,962	194	110,739
-	-	181,414	209,886
-	-	-	5,854
-	-	-	3,880
-	-	100	285,989
-	60,962	349,551	1,247,983
-	-	-	189,323
-	-	160,565	204,982
-	-	-	150,078
-	119,009	-	167,791
-	-	-	151,713
-	-	-	169,788
-	119,009	160,565	1,033,675
-	(58,047)	188,986	214,308
-	-	-	978
241,797	-	86,878	645,825
(2,101)	(6,000)	(303,292)	(499,328)
239,696	(6,000)	(216,414)	147,475
239,696	(64,047)	(27,428)	361,783
(239,696)	1,392,794	319,453	2,949,919
-	1,328,747	292,025	3,311,702
-	1,057,093	-	1,057,093
-	-	-	434,237
-	-	-	106,296
-	-	264,763	264,763
-	-	-	914,750
-	271,654	27,262	298,916
-	-	-	235,647
-	1,328,747	292,025	3,311,702

Exhibit C

City of State Center

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

As of and for the year ended June 30, 2016

	Enterprise				Total
	Water	Electric	Sewer	Nonmajor Storm Water	
Operating receipts:					
Charges for service	\$163,109	2,103,802	222,114	53,850	2,542,875
Miscellaneous	-	8,411	-	-	8,411
Total operating receipts	163,109	2,112,213	222,114	53,850	2,551,286
Operating disbursements:					
Business type activities	197,936	1,520,719	128,169	7,006	1,853,830
Excess of operating receipts over operating disbursements	(34,827)	591,494	93,945	46,844	697,456
Non-operating receipts (disbursements):					
Interest on investments	229	12,039	-	-	12,268
Bond and note proceeds	91,451	-	100,839	-	192,290
Grant	-	-	32,241	-	32,241
Debt service	-	-	(58,460)	-	(58,460)
Capital projects	(109,119)	(302,629)	(100,842)	(17,753)	(530,343)
Total non-operating receipts (disbursements)	(17,439)	(290,590)	(26,222)	(17,753)	(352,004)
Excess (deficiency) of receipts over (under) disbursements	(52,266)	300,904	67,723	29,091	345,452
Transfers in	-	31,832	-	9,078	40,910
Transfers out	(4,518)	(111,960)	(23,423)	(47,506)	(187,407)
Total transfers in (out)	(4,518)	(80,128)	(23,423)	(38,428)	(146,497)
Change in cash balances	(56,784)	220,776	44,300	(9,337)	198,955
Cash balances beginning of year	46,703	2,209,767	5,005	131,519	2,392,994
Cash balances end of year	\$ (10,081)	2,430,543	49,305	122,182	2,591,949
Cash Basis Fund Balances					
Restricted for debt service	\$ -	-	4,838	-	4,838
Unrestricted	(10,081)	2,430,543	44,467	122,182	2,587,111
Total cash basis fund balances	\$ (10,081)	2,430,543	49,305	122,182	2,591,949

See notes to financial statements.

City of State Center

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of State Center is a political subdivision of the State of Iowa located in Marshall County. It was first incorporated in 1867 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, electric, sewer and storm water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of State Center 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 State Center and its blended component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Ira D. Kauffman Charitable Community Trust was incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for the benefit of the City. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Trust meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Permanent Fund of the City.

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. 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 demonstrate the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

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

The City reports the following major governmental funds:

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

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

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 all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

The Permanent, Ira D. Kauffman Charitable Community Trust Fund is used to account for contributions and disbursements from the trust which is used for the betterment of the City.

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, Electric Fund accounts for the operation and maintenance of the City's electric 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 positions available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

D. Governmental Cash Basis Fund Balances

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

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the public safety function.

(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.

At June 30, 2016, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 1,716,828	1,892,738	N/A

The City uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The recurring fair value of the mutual fund securities were determined using quoted market prices. (Level 1 inputs)

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$89,600 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City. The Ira D. Kauffman Charitable Community Trust, a blended component unit of the City, does not have a formal policy limiting investment maturities as a means of managing exposure to interest rate risk.

Credit risk – The City's investments in mutual funds are unrated.

Concentration of credit risk – The City and the Ira D. Kauffman Charitable Community Trust place no limits on the amount that may be invested in any one issuer. However, the City’s policy requires the City to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities.

(3) Long-Term Debt

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 135,000	30,710	41,876	14,488	176,876	45,198
2018	135,000	27,485	42,000	13,755	177,000	41,240
2019	145,000	23,900	43,000	13,020	188,000	36,920
2020	150,000	20,003	44,000	12,267	194,000	32,270
2021	80,000	15,463	45,000	11,498	125,000	26,961
2022-2026	440,000	48,608	238,000	45,343	678,000	93,951
2027-2031	95,000	2,708	261,000	23,800	356,000	26,508
2032-2033	-	-	113,000	2,975	113,000	2,975
Total	\$ 1,180,000	168,877	827,876	137,146	2,007,876	306,023

Sewer Revenue Bonds

On November 30, 2012, the City entered into a State Revolving Fund (SRF) loan and disbursement agreement with the Iowa Finance Authority for the issuance of up to \$983,000 of sewer revenue bonds with interest at 1.75% per annum. The agreement also requires the City to annually pay a 0.25% servicing fee. The final loan amount was \$950,876. 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 construction of certain improvements and extensions to the sewer treatment facilities. An initiation fee of \$4,915 (.50% of the authorized borrowing for the sewer revenue bonds) was charged by the Iowa Finance Authority. The bonds are payable solely from sewer customer net receipts and the City has pledged future sewer customer receipts, net of specified operating disbursements to repay the bonds. Annual principal and interest payments on the bonds are expected to require less than 63% of net receipts. For the current year, principal and interest paid and total customer net receipts were \$58,460 and \$93,945, respectively.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Fund for the purpose of making the bond principal and interest payments when due.
- (c) 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 the bonds falling due in the same year.

Project Anticipation Note

On July 10, 2015, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority for up to \$365,000 for the purpose of paying the costs of planning, designing and constructing improvements to the water system. As of June 30, 2016, the City had drawn \$91,451 on the note. The note is interest free and matures July 10, 2018.

The note was issued pursuant to Chapters 76.13 and 384.24A of the Code of Iowa in anticipation of the receipt of and is payable from the proceeds of an authorized loan and disbursement agreement and the corresponding future issuance of water revenue bonds.

Central Iowa Water Association Agreement

On November 18, 2015 the City entered into an agreement with Central Iowa Water Association for \$50,000 to pay costs of equipment, construction and other expenses to make water available to the City. The agreement is interest free and is payable through 2025 and requires annual payments of \$5,000. During the year ended June 30, 2016, the City paid \$5,000 under the agreement.

(4) Development Agreement

The City has entered into a development agreement with the State Center Development Association to assist in an urban renewal project. The City agreed to pay the developer a maximum of \$480,000 in exchange for development of commercial property located in the urban renewal area. The semi-annual payments were originally \$20,000 and were subsequently amended to \$21,053 and are to be made on June 1 and December 1 beginning June 1, 2006, for a total of twelve years or until such date the maximum of \$480,000 has been paid.

In addition to these payments, the City agreed to rebate to the developer on each December 1 and June 1, beginning December 1, 2007 and continuing through June 1, 2019, the incremental property tax received by the City with respect to the incremental valuation of the property. Rebates are limited to a maximum of \$225,000.

During the year ended June 30, 2016, the City paid the developer \$42,105 for the development of property and \$6,464 of property tax rebates. The outstanding balance of the development agreement at June 30, 2015 was \$184,029.

(5) Internal Loans

The City has loaned a total of \$160,780 to the Special Revenue, Urban Renewal Tax Increment Fund from the Enterprise, Electric and Storm Water Funds for various projects in the urban renewal area. The City paid the remaining balance of \$24,784 on these internal loans during the year ended June 30, 2016.

The City has loaned a total of \$76,510 to the Enterprise, Sewer Fund from the Enterprise, Electric Fund to pay certain costs associated with the sewer system. The loan bears interest at 1.75% and is payable in equal annual installments beginning June 1, 2016 and ending June 1, 2020. During the year ended June 30, 2016 the City paid principal of \$14,769 and interest of \$1,357. The remaining balance of the internal loan is \$61,741 as of June 30, 2016.

The City has loaned a total of \$9,500 to the General Fund from the Enterprise, Electric Fund to pay certain costs of an evidence room for the police department. The loan is interest free and is payable in three annual installments beginning June 1, 2017.

(6) 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. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

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

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 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 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 4.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll for a total rate of 16.40%.

The City’s contributions to IPERS for the year ended June 30, 2016 were \$47,846.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City’s liability for its proportionate share of the net pension liability totaled \$327,221. 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 0.0066233%, which was an increase of 0.000075% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City’s collective pension expense, deferred outflows of resources and deferred inflows of resources totaled \$30,722, \$64,626 and \$91,770, respectively.

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:

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

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 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	\$ 614,324	327,221	84,938

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.

(7) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 9 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Coventry Healthcare of Iowa. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$384 for single coverage, \$856 for employee/spouse coverage, \$779 for employee/child(ren) coverage and \$1,224 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2016, the City contributed \$59,263 and plan members eligible for benefits contributed \$19,529 to the plan.

(8) Compensated Absences

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

Type of Benefit	Amount
Vacation	\$ 12,400
Compensatory time	5,100
Sick leave	28,100
Total	\$ 45,600

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

(9) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 86,653
	Capital Projects	2,101
	Permanent Fund:	
	Kauffman Trust	6,000
	Enterprise:	
	Electric	45,969
		<u>140,723</u>
Special Revenue:	Special Revenue:	
Road Improvements	Local Option Sales Tax	<u>86,878</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	73,151
	Local Option Sales Tax	41,842
	Enterprise:	
	Water	4,518
	Electric	25,991
	Sewer	7,297
	Storm Water	23,628
		<u>176,427</u>
Capital Projects	General	90,000
	Special Revenue:	
	Road Use Tax	43,399
	Local Option Sales Tax	44,520
	Enterprise:	
	Electric	40,000
	Storm Water	23,878
		<u>241,797</u>
Enterprise:	Special Revenue:	
Electric	Urban Renewal Tax Increment	15,706
	Enterprise, Sewer	16,126
		<u>31,832</u>
Enterprise:	Special Revenue:	
Storm Water	Urban Renewal Tax Increment	9,078
Total		<u>\$ 686,735</u>

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

(10) J. G. Gutekunst Trust

In 1971, the City received land from the J. G. Gutekunst estate. This bequest is to be used as a park and the site of a public library. In addition, the City receives semi-annual distributions of net income from the J. G. Gutekunst Trust. According to the last will and testament of J. G. Gutekunst, the distributions are for the purpose of maintaining and improving the bequeathed property and for improving any public library located on the premises given to the City.

Distributions are credited to the General Fund, Library Account. The Library received \$147,000 from this Trust during the year ended June 30, 2016.

(11) Ira D. Kauffman Charitable Community Trust

According to the provisions of the last will and testament of Ira D. Kauffman, the City received \$81,622 in fiscal year 1997 and \$975,471 in fiscal year 1998. The proceeds were deposited in the Permanent, Ira D. Kauffman Charitable Community Trust Fund and are to be used for a public purpose which will benefit the residents of the City. The balance of this fund at June 30, 2016 totaled \$1,328,747.

(12) 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.

The City assumes liability for claims up to the individual deductible limitations of \$5,000 per single plan or \$10,000 per family plan for the City's health insurance. The employee is responsible for the first 10% of the deductible. The City's reimbursement to employees for the year ended June 30, 2016 for claims against their individual deductibles was \$13,349.

(13) Deficit Balance

The Enterprise Water Fund had a deficit balance of \$10,081 at June 30, 2016. The deficit will be eliminated through an internal loan from the Enterprise, Electric Fund.

(14) Construction Commitment

The City entered into contracts for the sanitary sewer, water osmosis and water re-casting projects totaling approximately \$1,541,000. As of June 30, 2016, approximately \$1,319,000 had been paid on the contracts. The remaining balance of approximately \$222,000 will be paid as work on the projects progress.

(15) Subsequent Event

In October 2016, the City approved an internal advance not to exceed \$150,000 from the Enterprise, Electric Fund for the purpose of making improvements in the urban renewal area. The advance bears interest at 2.5% and is to be repaid in two annual installments on June 1, 2018 and June 1, 2019 from the Special Revenue, Tax Increment Financing Fund.

In March 2017 the City approved an internal loan totaling \$519,000 from the Enterprise, Electric Fund to the Enterprise, Water Fund for the purpose of making improvements to the water system. The loan is for a total of 15 years and is interest free for the first two years and at 2% in years 3 through 15.

(16) New Accounting Pronouncement

The City of State Center 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 State Center
 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	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 247,281	-	-
Tax increment financing	207,973	-	-
Other city tax	167,843	-	-
Licenses and permits	8,538	-	-
Use of money and property	110,739	12,268	60,962
Intergovernmental	209,886	32,241	-
Charges for service	5,854	2,542,875	-
Special assessments	3,880	-	-
Miscellaneous	285,989	8,411	-
Total receipts	1,247,983	2,595,795	60,962
Disbursements:			
Public safety	189,323	-	-
Public works	204,982	-	-
Culture and recreation	150,078	-	-
Community and economic development	167,791	-	119,009
General government	151,713	-	-
Debt service	169,788	-	-
Capital projects	-	-	-
Business type activities	-	2,442,633	-
Total disbursements	1,033,675	2,442,633	119,009
Excess (deficiency) of receipts over (under) disbursements	214,308	153,162	(58,047)
Other financing sources (uses)	147,475	45,793	(6,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	361,783	198,955	(64,047)
Balances beginning of year	2,949,919	2,392,994	1,392,794
Balances end of year	\$ 3,311,702	2,591,949	1,328,747

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Net Variance
247,281	240,742	240,742	6,539
207,973	209,863	209,863	(1,890)
167,843	141,398	141,398	26,445
8,538	3,225	3,225	5,313
62,045	308,283	308,283	(246,238)
242,127	176,335	176,335	65,792
2,548,729	2,537,500	2,537,500	11,229
3,880	5,000	5,000	(1,120)
294,400	253,400	266,400	28,000
<u>3,782,816</u>	<u>3,875,746</u>	<u>3,888,746</u>	<u>(105,930)</u>
189,323	186,344	186,344	(2,979)
204,982	221,505	296,505	91,523
150,078	290,470	290,470	140,392
48,782	52,105	210,105	161,323
151,713	203,540	270,540	118,827
169,788	169,788	169,788	-
-	-	-	-
<u>2,442,633</u>	<u>2,896,464</u>	<u>3,519,464</u>	<u>1,076,831</u>
<u>3,357,299</u>	<u>4,020,216</u>	<u>4,943,216</u>	<u>1,585,917</u>
425,517	(144,470)	(1,054,470)	1,479,987
199,268	-	160,839	38,429
624,785	(144,470)	(893,631)	1,518,416
<u>3,950,119</u>	<u>5,365,842</u>	<u>5,365,842</u>	<u>(1,415,723)</u>
<u>4,574,904</u>	<u>5,221,372</u>	<u>4,472,211</u>	<u>102,693</u>

City of State Center

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents 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 \$923,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the public safety function.

City of State Center

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

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

Other Information

	2016	2015
City's proportion of the net pension liability	0.006623%	0.006548%
City's proportionate share of the net pension liability	\$ 327	260
City's covered-employee payroll	\$ 532	520
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	61.47%	50.00%
Plan fiduciary 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 State Center

Schedule of City Contributions

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

Other Information

	2016	2015	2014
Statutorily required contribution	\$ 48	48	46
Contributions in relation to the statutorily required contribution	(48)	(48)	(46)
Contribution deficiency (excess)	\$ -	-	-
City's covered-employee payroll	\$ 529	532	520
Contributions as a percentage of covered-employee payroll	9.07%	9.02%	8.85%

See accompanying independent auditor's report.

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

City of State Center

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 State Center

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 Tax	Road Improvements	Local Option Sales Tax	Housing Rehabilitation Program	Total
	Receipts:				
Other city tax	\$ -	-	167,843	-	167,843
Use of money and property	153	-	-	41	194
Intergovernmental	181,414	-	-	-	181,414
Miscellaneous	100	-	-	-	100
Total receipts	181,667	-	167,843	41	349,551
Disbursements:					
Operating:					
Public works	160,565	-	-	-	160,565
Excess of receipts over disbursements	21,102	-	167,843	41	188,986
Other financing sources (uses):					
Transfers in	-	86,878	-	-	86,878
Transfers out	(43,399)	-	(259,893)	-	(303,292)
Total other financing sources (uses)	(43,399)	86,878	(259,893)	-	(216,414)
Change in cash balances	(22,297)	86,878	(92,050)	41	(27,428)
Cash balances beginning of year	200,182	-	92,050	27,221	319,453
Cash balances end of year	\$ 177,885	86,878	-	27,262	292,025
Cash Basis Fund Balances					
Restricted for:					
Streets	\$ 177,885	86,878	-	-	264,763
Other purposes	-	-	-	27,262	27,262
Total cash basis fund balances	\$ 177,885	86,878	-	27,262	292,025

See accompanying independent auditor's report.

City of State Center
 Schedule of Indebtedness
 Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose	May 1, 2008	2.60-4.20%	\$ 960,000
Corporate purpose	May 17, 2012	1.10-2.85%	1,200,000
Total			
Revenue bonds:			
Sewer	Nov 30, 2012	1.75% *	\$ 950,876
Project anticipation note:			
Water	Jul 10, 2015	0.00%	\$ 365,000
Water agreement	Nov 18, 2015	0.00%	\$ 50,000

* The agreement also requires the City to annually pay a 0.25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
315,000	-	60,000	255,000	12,808
1,000,000	-	75,000	925,000	21,980
<u>\$ 1,315,000</u>	<u>-</u>	<u>135,000</u>	<u>1,180,000</u>	<u>34,788</u>
<u>769,037</u>	<u>100,839</u>	<u>42,000</u>	<u>827,876</u>	<u>16,460</u>
<u>-</u>	<u>91,451</u>	<u>-</u>	<u>91,451</u>	<u>-</u>
<u>-</u>	<u>50,000</u>	<u>5,000</u>	<u>45,000</u>	<u>-</u>

Schedule 3

City of State Center

Bond Maturities

June 30, 2016

Year Ending June 30,	General Obligation Bonds					Revenue Bonds		
	Corporate Purpose		Corporate Purpose			Sewer		
	Issued May 1, 2008		Issued May 17, 2012			Issued Nov 30, 2012		
	Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount	
2017	4.00%	\$ 60,000	1.10%	\$ 75,000	135,000	1.75%	\$ 41,876	
2018	4.10	60,000	1.50	75,000	135,000	1.75	42,000	
2019	4.15	65,000	1.50	80,000	145,000	1.75	43,000	
2020	4.20	70,000	2.00	80,000	150,000	1.75	44,000	
2021		-	2.00	80,000	80,000	1.75	45,000	
2022		-	2.30	85,000	85,000	1.75	46,000	
2023		-	2.30	85,000	85,000	1.75	47,000	
2024		-	2.60	90,000	90,000	1.75	48,000	
2025		-	2.60	90,000	90,000	1.75	48,000	
2026		-	2.85	90,000	90,000	1.75	49,000	
2027		-	2.85	95,000	95,000	1.75	50,000	
2028		-		-	-	1.75	51,000	
2029		-		-	-	1.75	52,000	
2030		-		-	-	1.75	53,000	
2031		-		-	-	1.75	55,000	
2032		-		-	-	1.75	56,000	
2033		-		-	-	1.75	57,000	
Total		<u>\$ 255,000</u>		<u>\$ 925,000</u>	<u>1,180,000</u>		<u>\$ 827,876</u>	

See accompanying independent auditor's report.

City of State Center

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

For the Last Three Years

	2016	2015	2014
Receipts:			
Property tax	\$ 247,281	248,447	247,984
Tax increment financing	207,973	202,120	222,756
Other city tax	167,843	145,808	132,157
Licenses and permits	8,538	7,894	6,875
Use of money and property	110,739	107,025	74,778
Intergovernmental	209,886	262,694	246,912
Charges for service	5,854	7,664	5,249
Special assessments	3,880	4,796	7,064
Miscellaneous	285,989	208,231	261,215
Total	<u>\$ 1,247,983</u>	<u>1,194,679</u>	<u>1,204,990</u>
Disbursements:			
Operating:			
Public safety	\$ 189,323	244,479	193,366
Public works	204,982	145,978	203,006
Culture and recreation	150,078	146,218	165,796
Community and economic development	167,791	95,983	124,993
General government	151,713	134,866	139,365
Debt service	169,788	209,128	307,825
Capital projects	-	71,147	166,304
Total	<u>\$ 1,033,675</u>	<u>1,047,799</u>	<u>1,300,655</u>

See accompanying independent auditor's report.

City of State Center



OFFICE OF 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 State Center, 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 April 24, 2017. 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 State Center'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 State Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of State Center'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 State Center'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) and (B) 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 (C) through (E) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of State Center'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 State Center's Responses to the Findings

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

April 24, 2017

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

	Applicable Offices
(1) Receipts – collecting, depositing, journalizing, posting and reconciling.	Library, Rose Garden and Fire Department
(2) Disbursements – check writing, signing, posting and reconciling.	Library, Rose Garden and Fire Department
(3) Payroll – check writing, signing and distributing.	City and Library
(4) Investments – custody and accounting.	City and Library
(5) Bank account reconciliations and control over petty cash.	Library, Rose Garden and Fire Department
(6) Accounting procedures manual.	Library, Rose Garden and Fire Department

In addition, an independent person does not enter payroll and utility rates and the review and approval of rates is not documented.

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

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

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, Library, Rose Garden and Fire Department should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City, Library, Rose Garden and Fire Department should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

City of State Center
Schedule of Findings
Year ended June 30, 2016

Responses –

City – The City Clerk will strive to get City Council or Mayor review of sampling of payroll transactions on a quarterly basis. A report of these reviews will be developed. A monthly investment statement is already provided to the Kauffman Trustees monthly and quarterly. The Clerk has begun providing the trustees a detailed Kauffman checking account detail and reconciliation at their monthly meeting. All Kauffman investment redemptions are completed through a VOYA representative.

Library, Rose Garden and Fire Department – These departments will work with City Hall staff to provide review of all areas outlined no less than quarterly. The City Clerk or Deputy Clerk will enter Library, Fire Department and Rose Garden receipts and disbursements into the City accounting system and produce disbursement and receipt reports for council review. The Library will provide copies of investment statements quarterly for council review. The Clerk will research accounting procedures for these department bank accounts and assist the department with implementation.

Conclusions – Responses accepted.

(B) Fire Department and First Responders Receipts

Criteria – In order to maintain effective internal controls over receipts, pre-numbered receipts should be issued for all collections.

Condition – The Fire Department and First Responders do not issue pre-numbered receipts.

Cause – Policies have not been established to require the use of pre-numbered receipts for collections.

Effect – Inadequate internal controls over receipts could adversely affect the ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis.

Recommendation – Pre-numbered receipts should be issued for all collections.

Response – The Fire Department will obtain and use a pre-numbered receipt book to document receipts.

Conclusion – Response accepted.

City of State Center
Schedule of Findings
Year ended June 30, 2016

(C) 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.
- Usage of the internet.
- Disaster recovery plan.

In addition, the City does not require backup tapes to be stored offsite

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. Back up tapes should be stored offsite.

Response – A draft policy is currently being reviewed for adoption. The City will also be changing accounting software systems spring/summer of 2017. An off-site back-up will be included. The library and police departments may draft separate policies.

Conclusion – Response accepted.

(D) Clothing Allowances

Criteria – Clothing allowances paid to City employees must be paid through payroll to ensure the proper tax withholdings are applied to the reimbursements.

Condition – Clothing allowances are paid to City employees. The reimbursements were not paid through payroll and, accordingly, the proper tax withholdings were not applied to the reimbursements.

Cause – Policies have not been established to require clothing allowances are paid through payroll.

Effect – Clothing adaptable for street wear was not properly included as a taxable benefit.

Recommendation – The City should ensure clothing allowances are processed through payroll and proper tax withholdings are made on the reimbursements.

City of State Center

Schedule of Findings

Year ended June 30, 2016

Response – As of March 2016, clothing allowance reimbursements are no longer paid to employees. The Clerk plans to request that the Personnel Committee recommend changes to the employee handbook eliminating the policy of providing annual allowance amounts. The Clerk will recommend these amounts be added to employee compensation by raising wage rates to compensate or make annual lump payments through payroll.

Conclusion – Response accepted.

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

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

Condition – Although the City prepares a monthly reconciliation of utility billings, collections and delinquent accounts, the monthly reconciliations are not reviewed by an independent person.

Cause – Policies have not been established and procedures have not been implemented to require independent review of the reconciliations.

Effect – Inadequate reconciliations can result in unrecorded or misstated utility receipts and improper or unauthorized adjustments and write-offs.

Recommendation – Procedures should be established to have an independent person or a Council member review the reconciliation and monitor delinquent accounts each month. The review of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review.

Response – The change to a new accounting software system in spring/summer of 2017 should be the opportunity to establish reconciliation tools/reports for utility billing, receipting and delinquent/outstanding billings. We will establish a procedure for City Council review.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of State Center
 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 function. 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 – The budget would have been amended had the new Clerk been informed of the separate bank account held by the Fire Department earlier.

Conclusion – Response acknowledged. The budget should be amended prior to disbursements are allowed to exceed the budget.

- (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
Jeff Robinson, City employee, owner of JR Lawn Services	Mowing	\$ 345
Mike Riemenschneider, Council member, owner of Pack Rats Palace	Purchase glass block for City owned property	54

In accordance with Chapter 362.5(k) of the Code of Iowa, the transaction does not appear to represent a conflict of interest since the total transactions with each 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 Meeting Minutes – No transactions were found that we believe should have been approved in the City Council meeting minutes but were not.
- (7) Deposits and Investments – Except the City has not adopted a written investment policy in accordance with Chapter 12B.10B of the Code of Iowa, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.

City of State Center
Schedule of Findings
Year ended June 30, 2016

Recommendation – The City Council should adopt an investment policy as required.

Response – A draft policy is currently being reviewed for adoption.

Conclusion – Response accepted.

- (8) Revenue Bonds – The sewer revenue bond provisions require sufficient monthly transfers be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due. Although the City has established the required sinking account, transfers were not made to the sinking account as required by the sewer revenue bond provisions.

Recommendation – The City should make sufficient monthly transfers to the sinking account for the purpose of making the bond principal and interest payments when due.

Response – The Clerk began making these transfers on a monthly basis in July 2016.

Conclusion – Response accepted.

- (9) Annual Urban Renewal Report – The Annual Urban Renewal Report was not properly approved and certified to the Iowa Department of Management on or before December 1. Also, the beginning and ending cash balances of the Special Revenue, Urban Renewal Tax Increment Fund reported on the December 1, 2015 Levy Authority Summary did not agree with the City's records or the Annual Financial Report.

Recommendation – The City should ensure the Annual Urban Renewal Report is certified on or before December 1 and the City should ensure the cash balances reported on the Levy Authority Summary agree with the City's records and the Annual Financial Report.

Response – The AURR was filed timely in 2016.

Conclusion – Response accepted.

- (10) Financial Condition – The Water Fund had a deficit balance of \$10,081 at June 30, 2016.

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

Response – This deficit has been alleviated with an internal loan from the Enterprise, Electric Fund to the Enterprise, Water Fund as of March 2017 with payback terms. Multiple and sooner transfers would have been preferable since major complications delayed completion.

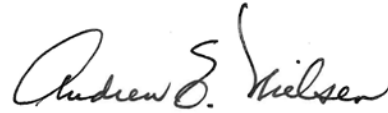
Conclusion – Response accepted.

City of State Center

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Ashley J. Moser, Senior Auditor
Grant W. Pomerenk, Assistant Auditor
Steven K. Tallman, Auditor Intern

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State