



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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

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**NEWS RELEASE**

FOR RELEASE

January 15, 2021

Contact: Marlys Gaston  
515/281-8314

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

**FINANCIAL HIGHLIGHTS:**

The City's receipts totaled \$13,549,232 for the year ended June 30, 2019, a 21.3% decrease from the prior year. Disbursements for the year ended June 30, 2019 totaled \$12,455,178, a 15.1% decrease from the prior year. The significant decrease in receipts and disbursements is primarily due to note proceeds received in the prior year and spent on various capital improvement projects.

**AUDIT FINDINGS:**

Sand reported twenty-one findings related to the receipt and disbursement of taxpayer funds, one finding pertaining to the West Liberty Fire Department, Inc., a blended component unit, and two findings pertaining to the Friends of the West Liberty Public Library, Inc., a blended component unit. They are found on pages 50 through 68 of this report. The findings address issues such as a lack of segregation of duties, unsupported bank reconciliations with unresolved variances between book and bank balances, lack of reconciliations of utility and ambulance billings, collections and delinquent accounts, material amounts of receipts, disbursements, transfers and journal entries which were not posted correctly or were unsupported, disbursements exceeding budgeted amounts, non-compliance with the publication requirements of Chapter 372.13(6) of the Code of Iowa, non-compliance with the net receipts provision of the City's electric revenue bond resolution and certification of both TIF taxes and a debt service levy to pay the current year principal and interest on the City's 2016 and 2017 general obligation notes. Sand provided the City, the West Liberty Fire Department, Inc., and the Friends of the West Liberty Public Library, Inc. with recommendations to address each of the findings.

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

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

# # #

**CITY OF WEST LIBERTY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**JUNE 30, 2019**

**City of West Liberty**



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January 13, 2021

Officials of the City of West Liberty  
West Liberty, Iowa

Dear Honorable Mayor and Members of the City Council:

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

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

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand  
Auditor of State

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		4-7
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	10-11
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12-13
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	C	14
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	15
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	E	17
Notes to Financial Statements		18-30
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual – All Governmental Funds and Proprietary Funds		32-33
Notes to Other Information – Budgetary Reporting		34
Schedule of the City’s Proportionate Share of the Net Pension Liability		35
Schedule of City Contributions		36-37
Notes to Other Information – Pension Liability		38
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	40-41
Schedule of Indebtedness	2	42-43
Bond and Note Maturities	3	44-45
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	46-47
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 <u>Government Auditing Standards</u>		48-49
Schedule of Findings		50-68
Staff		69

**City of West Liberty**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Hartman	Mayor	Jan 2020
Diane Beranek	Mayor Pro tem	Jan 2020
Joey Iske	Council Member	Jan 2020
Cara McFerren	Council Member	Jan 2020
Robert Rock	Council Member	Jan 2022
David Smith	Council Member	Jan 2022
Lawrence McNaul	City Manager	Indefinite
Lee Geertz	City Clerk/Treasurer	Indefinite
Charles R. Coulter	Attorney	Indefinite



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of West Liberty, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

## Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business Type Activities	Qualified
Major Governmental Funds:	
General	Qualified
Special Revenue:	
Road Use Tax	Unmodified
Local Option Sales Tax	Unmodified
Urban Renewal Tax Increment	Unmodified
Debt Service	Unmodified
Capital Projects	Unmodified
Major Enterprise Funds:	
Electric	Qualified
Water	Unmodified
Sewer	Unmodified
Solid Waste	Unmodified
Aggregate Remaining Fund Information	Unmodified

### *Basis for Qualified Opinions on the General Fund, the Electric Fund, the Governmental Activities and the Business Type Activities*

The Auditor of State issued qualified audit opinions on the General Fund, the Electric Fund, the governmental activities and the business type activities because audit evidence was not sufficient to support certain journal entries needed to eliminate year end balances in the "AP Pending" accounts in these funds/opinion units. The balances in the "AP Pending" accounts were the result of a processing error and required increases to disbursements to balance the noted funds/opinion units, with no clear audit trail to identify which disbursements and functions had been incorrectly credited during the processing error. Management has not ensured adequate documentation is available to support all journal entries resulting from system errors. The amounts by which unsupported journal entries increased disbursements in order to balance the General Fund, the Electric Fund, the governmental activities and the business type activities are \$33,179, \$151,226, \$48,636 and \$197,994, respectively.

### *Qualified Opinions*

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the journal entries needed to balance the funds/opinion units discussed in the "Basis for Qualified Opinions on the General Fund, the Electric Fund, the Governmental Activities and the Business Type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the General Fund, the Electric Fund, the governmental activities and the business type activities of the City of West Liberty as of June 30, 2019 and the respective changes in its cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.



### Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the major Special Revenue Funds, including the Road Use Tax, Local Option Sales Tax and Urban Renewal Tax Increment Funds, the Debt Service Fund, the Capital Projects Fund, the major Enterprise Funds, including the Water, Sewer and Solid Waste Funds, and the aggregate remaining fund information of the City of West Liberty as of June 30, 2019 and the respective changes in its cash basis financial position for the year then ended in accordance 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*

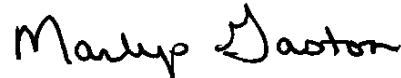
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West Liberty's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for two years ended June 30, 2018 and for the two years 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. The financial statements for the year ended June 30, 2016 (which is not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the four years ended June 30, 2013 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared in accordance with U.S. generally accepted accounting principles. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The Other Information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 32 through 38, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2021 on our consideration of the City of West Liberty's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of West Liberty's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA  
Deputy Auditor of State

January 13, 2021

**City of West Liberty**

## **Basic Financial Statements**

City of West Liberty

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,158,977	264,326	76,082	17,000
Public works	499,555	50,888	482,638	-
Culture and recreation	810,795	53,458	229,509	-
Community and economic development	5,357	-	-	-
General government	162,981	33,200	-	-
Debt service	455,708	-	-	-
Capital projects	254,337	-	-	-
Total governmental activities	<u>3,347,710</u>	<u>401,872</u>	<u>788,229</u>	<u>17,000</u>
Business type activities:				
Water	609,496	765,823	-	-
Sewer	2,053,975	2,859,711	-	-
Electric	5,587,761	5,339,989	-	-
Solid waste	856,236	509,465	26,050	232,735
Total business type activities	<u>9,107,468</u>	<u>9,474,988</u>	<u>26,050</u>	<u>232,735</u>
Total	<u>\$ 12,455,178</u>	<u>9,876,860</u>	<u>814,279</u>	<u>249,735</u>
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Sale of capital assets				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Nonexpendable:				
Perpetual care				
Expendable:				
Streets				
Debt service				
Capital improvements				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

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Net (Disbursements) Receipts and  
Changes in Cash Basis Net Position

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Governmental Activities	Business Type Activities	Total
(801,569)	-	(801,569)
33,971	-	33,971
(527,828)	-	(527,828)
(5,357)	-	(5,357)
(129,781)	-	(129,781)
(455,708)	-	(455,708)
(254,337)	-	(254,337)
(2,140,609)	-	(2,140,609)
-	156,327	156,327
-	805,736	805,736
-	(247,772)	(247,772)
-	(87,986)	(87,986)
-	626,305	626,305
(2,140,609)	626,305	(1,514,304)
1,128,841	-	1,128,841
456,569	-	456,569
174,701	-	174,701
507,376	-	507,376
69,772	76,339	146,111
16,160	50,894	67,054
-	127,706	127,706
2,353,419	254,939	2,608,358
212,810	881,244	1,094,054
3,084,972	7,542,872	10,627,844
\$ 3,297,782	8,424,116	11,721,898
\$ 67,981	-	67,981
171,227	-	171,227
973,446	-	973,446
250,053	-	250,053
484,178	-	484,178
1,350,897	8,424,116	9,775,013
\$ 3,297,782	8,424,116	11,721,898

City of West Liberty

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

As of and for the year ended June 30, 2019

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
<b>Receipts:</b>				
Property tax	\$ 772,775	-	-	-
Tax increment financing	-	-	-	174,701
Other city tax	-	-	507,376	-
Licenses and permits	39,485	-	-	-
Use of money and property	11,153	-	-	154
Intergovernmental	89,198	482,638	-	-
Charges for service	220,503	-	-	-
Miscellaneous	101,862	51,275	-	-
Total receipts	1,234,976	533,913	507,376	174,855
<b>Disbursements:</b>				
Operating:				
Public safety	1,133,667	-	-	-
Public works	28,992	470,563	-	-
Culture and recreation	781,723	-	-	-
Community and economic development	-	-	-	5,357
General government	142,727	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	2,087,109	470,563	-	5,357
Excess (deficiency) of receipts over (under) disbursements	(852,133)	63,350	507,376	169,498
<b>Other financing sources (uses):</b>				
Transfers in	707,448	-	-	-
Transfers out	(35,000)	-	(507,376)	(159,899)
Total other financing sources (uses)	672,448	-	(507,376)	(159,899)
Change in cash balances	(179,685)	63,350	-	9,599
Cash balances beginning of year	1,419,238	107,877	49,688	10,492
Cash balances end of year	\$ 1,239,553	171,227	49,688	20,091
<b>Cash Basis Fund Balances</b>				
Nonspendable for perpetual care	\$ -	-	-	-
Restricted for:				
Streets	-	171,227	-	-
Debt service	-	-	-	20,091
Capital projects	-	-	-	-
Other purposes	-	-	49,688	-
Assigned:				
Fire station	247,424	-	-	-
Ambulance	455,633	-	-	-
Unassigned	536,496	-	-	-
Total cash basis fund balances	\$ 1,239,553	171,227	49,688	20,091

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
456,569	-	356,066	1,585,410
-	-	-	174,701
-	-	-	507,376
-	-	-	39,485
3,268	-	4,450	19,025
9,011	-	7,412	588,259
-	-	-	220,503
-	-	219,368	372,505
468,848	-	587,296	3,507,264
-	-	9,077	1,142,744
-	-	-	499,555
-	-	11,487	793,210
-	-	-	5,357
-	-	-	142,727
455,708	-	-	455,708
-	254,337	-	254,337
455,708	254,337	20,564	3,293,638
13,140	(254,337)	566,732	213,626
153,899	169,406	35,000	1,065,753
-	-	(363,478)	(1,065,753)
153,899	169,406	(328,478)	-
167,039	(84,931)	238,254	213,626
786,316	334,984	264,217	2,972,812
953,355	250,053	502,471	3,186,438
-	-	67,981	67,981
-	-	-	171,227
953,355	-	-	973,446
-	250,053	-	250,053
-	-	434,490	484,178
-	-	-	247,424
-	-	-	455,633
-	-	-	536,496
953,355	250,053	502,471	3,186,438



City of West Liberty

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
Governmental Funds

As of and for the year ended June 30, 2019

**Total governmental funds cash balances (page 13)** \$ 3,186,438

***Amounts reported for governmental activities in the Cash Basis  
Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to change the costs of partial self-funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

111,344

**Cash basis net position of governmental activities (page 11)**

\$ 3,297,782

**Change in cash balances (page 13)**

\$ 213,626

***Amounts reported for governmental activities in the Cash Basis  
Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of partial self-funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

(816)

**Change in cash basis net position of governmental activities (page 11)**

\$ 212,810

See notes to financial statements.

## City of West Liberty

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

As of and for the year ended June 30, 2019

	Enterprise					Internal
	Water	Sewer	Electric	Solid Waste	Total	Service Employee Health
Operating receipts:						
Charges for service	\$ 761,524	2,856,701	5,330,954	496,852	9,446,031	-
Miscellaneous	-	-	50,434	26,509	76,943	93,941
Total operating receipts	761,524	2,856,701	5,381,388	523,361	9,522,974	93,941
Operating disbursements:						
Governmental activities:						
General government	-	-	-	-	-	98,358
Business type activities	397,881	1,390,500	4,983,921	387,217	7,159,519	-
Total operating disbursements	397,881	1,390,500	4,983,921	387,217	7,159,519	98,358
Excess (deficiency) of operating receipts over (under) operating disbursements	363,643	1,466,201	397,467	136,144	2,363,455	(4,417)
Non-operating receipts (disbursements):						
Interest on investments	21,105	14,442	40,010	782	76,339	1,753
Intergovernmental	-	-	-	232,735	232,735	-
Debt service	(207,114)	(569,899)	(404,645)	(87,219)	(1,268,877)	-
Capital outlay	-	(90,424)	(189,735)	(368,107)	(648,266)	-
Sale of Fixed Assets	-	110,000	17,706	-	127,706	-
Net non-operating receipts (disbursements)	(186,009)	(535,881)	(536,664)	(221,809)	(1,480,363)	1,753
Excess (deficiency) of receipts over (under) disbursements	177,634	930,320	(139,197)	(85,665)	883,092	(2,664)
Transfers in (out):						
Transfers in	-	17,835	11,890	-	29,725	-
Transfers out	-	-	-	(29,725)	(29,725)	-
Net transfers in (out)	-	17,835	11,890	(29,725)	-	-
Change in cash balances	177,634	948,155	(127,307)	(115,390)	883,092	(2,664)
Cash balances beginning of year	969,209	1,423,444	4,499,509	499,640	7,391,802	263,230
Cash balances end of year	\$ 1,146,843	2,371,599	4,372,202	384,250	8,274,894	260,566
<b>Cash Basis Fund Balances</b>						
Restricted for:						
Restricted for debt service	\$ 102,151	383,037	474,620	-	959,808	-
Restricted for capital improvements	100,000	150,000	-	-	250,000	-
Unrestricted	944,692	1,838,562	3,897,582	384,250	7,065,086	260,566
Total cash basis fund balances	\$ 1,146,843	2,371,599	4,372,202	384,250	8,274,894	260,566

See notes to financial statements.

**City of West Liberty**

City of West Liberty

Reconciliation of the Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position –  
Proprietary Funds

As of and for the year ended June 30, 2019

**Total enterprise funds cash balances (page 15)** \$ 8,274,894

***Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of partial self-funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

149,222

**Cash basis net position of business type activities (page 11)** \$ 8,424,116

**Change in cash balances (page 15)** \$ 883,092

***Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of partial self-funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

(1,848)

**Change in cash basis net position of business type activities (page 11)** \$ 881,244

See notes to financial statements.

City of West Liberty

Notes to Financial Statements

June 30, 2019

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

The City of West Liberty is a political subdivision of the State of Iowa located in Muscatine County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of governments 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 governmental services. The City also provides water, sewer, electric and solid waste disposal utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of West Liberty 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 West Liberty (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

The West Liberty Fire Department, Inc. (Fire Department, Inc.) is legally separate from the City, but it is so intertwined with the City it is, in substance, part of the City. It is reported as part of the City and blended into the Special Revenue Funds. The Fire Department was incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504 of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing other such duties as set forth by the City of West Liberty Fire Department.

The Friends of the West Liberty Public Library, Inc. (Friends) is legally separate from the City, but it is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Funds. Friends was incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504 of the Code of Iowa, for the purpose of aiding in the general operation of the West Liberty Public Library.

### Jointly Governed Organizations

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

### B. Basis of Presentation

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

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

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.

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

The 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 Project Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

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

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

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

The City also reports the following proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

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

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

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

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

#### D. Governmental Cash Basis Fund Balances

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

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.

Assigned – Amounts the City Council intends to use for specific purposes.

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, 2019, disbursements exceeded the amounts budgeted in the community and economic development and general government functions.

### **(2) Cash and Pooled Investments**

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

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

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



**(3) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Notes		SWAP Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 340,000	117,998	857,750	317,292	72,810	14,409	1,270,560	449,699
2021	350,000	110,018	872,000	298,591	74,834	12,385	1,296,834	420,994
2022	355,000	101,838	891,000	277,262	76,920	10,299	1,322,920	389,399
2023	360,000	93,393	921,000	252,780	79,070	8,149	1,360,070	354,322
2024	370,000	83,668	946,000	226,868	81,285	5,934	1,397,285	316,470
2025-2029	1,460,000	276,963	4,826,000	700,158	169,486	4,953	6,455,486	982,074
2030-2034	895,000	60,495	2,229,000	180,036	-	-	3,124,000	240,531
2035-2036	-	-	643,000	16,944	-	-	643,000	16,944
Total	\$ 4,130,000	844,373	12,185,750	2,269,931	554,405	56,129	16,870,155	3,114,304

Water Revenue Loan Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,300,000 of water revenue capital loan notes issued in February 2014 and \$1,831,749 of water revenue notes issued in May 2016.

Proceeds from the notes issued in 2014 provided financing for improvements and extensions to the Municipal Water Utility, including constructing an addition to the water plant and the acquisition, construction and installation of an iron removal filter and aerator. The notes are payable solely from water customer net receipts and are payable through 2033.

On May 20, 2016, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of water revenue notes of \$1,831,749 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and a building addition to the water treatment facilities. The notes are payable solely from water customer net receipts and are payable through 2036.

Total principal and interest remaining to be paid on the water revenue notes and total customer net receipts were \$3,147,675 and \$363,643, respectively, and principal and interest payments were \$202,930. Annual principal and interest payments on the notes required less than 57% of net receipts.

Sewer Revenue Loan Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3,600,000 of sewer revenue refunding capital loan notes issued in April 2015 and \$3,594,516 of revenue notes issued in January 2016.

Proceeds from the notes issued in 2015 were used to pay costs of refunding sewer revenue capital loan notes. The notes are payable solely from sewer customer net receipts and are payable through 2028.

On January 29, 2016, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of sewer revenue notes of \$3,594,516 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements to the wastewater treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2036.

Total principal and interest remaining to be paid on the sewer revenue notes and total customer net receipts were \$6,813,033 and \$1,466,201, respectively, and principal and interest payments were \$561,665. Annual principal and interest payments on the notes required less than 39% of net receipts.

#### Electric Revenue Loan Notes

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$4,150,000 of electric revenue capital loan notes issued in November 2017. The notes are payable solely from electric customer net receipts and are payable through 2030. The total principal and interest remaining to be paid is \$4,494,973. For the current year, principal and interest paid and total customer net receipts were \$404,645 and \$397,467, respectively. Annual principal and interest payments on the notes required more than 100% of net receipts.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) User rates for the Municipal Water Utility and sewer utility system shall each be established at a level which produces and maintains net receipts at a level not less than 125% of the amount of principal and interest on the notes falling due in the same year. User rates for the electric utility system 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.
- (c) Sufficient monthly transfers shall be made to separate water, sewer and electric revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (d) Additional monthly transfers shall be made to separate water, sewer and electric reserve accounts until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying principal and interest if insufficient funds are available in the sinking fund.

The City has not complied with the provision of the Electric Revenue Bonds requiring user rates be established at a level which produces and maintains net receipts at a level not less than 110% of the principal and interest on the notes falling due in the same year.

### Solid Waste Alternative Program (SWAP) Loan

In April 2017, the City entered into a loan agreement with the Iowa Department of Natural Resources to provide funds to assist with the cost of equipment for the City's recycling program. The agreement awarded \$635,250 in the form of a forgivable loan of \$10,000, a zero interest loan of \$50,000 and a three percent interest loan of \$575,250. The term of the loan is eight years and requires monthly payments of \$7,268 which began July 1, 2018. At June 30, 2019, there are no unmet conditions to be achieved for loan forgiveness. The total principal and interest remaining to be paid on the loan is \$554,405 and \$56,129, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

In fiscal year 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.81% of covered payroll and the City contributed 10.21% of covered payroll, for a total rate of 17.02%.

The City's contributions to IPERS for the year ended June 30, 2019 totaled \$151,392.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported a liability of \$873,101 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2018, the City's proportion was 0.013797%, which was a decrease of 0.000662% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$156,026, \$172,155 and \$60,790, respectively.

There were no non-employer contributing entities to IPERS.

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

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

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

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

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

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

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 1,731,520	873,101	153,389

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

**(5) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2019, the City contributed \$405,703 and plan members eligible for benefits contributed \$42,029 to the plan. At June 30, 2019, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	2
Active employees	<u>30</u>
Total	<u><u>32</u></u>

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory 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, sick leave and compensatory time payable to employees at June 30, 2019, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 59,000
Sick leave	18,000
Compensatory time	1,000
Total	<u>\$ 78,000</u>

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

**(7) Wastewater Treatment Plant Agreement**

On July 1, 2009, the City entered into an agreement with CH2M Hill OMI to operate, maintain and monitor the wastewater treatment plant. The agreement is for a ten year initial term and will be automatically renewed for successive terms of ten years unless cancelled by either party. The base fee for the contract is negotiated annually. The amount paid for the year ended June 30, 2019 was \$893,866.

**(8) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 337,970
	Employee Benefits	363,478
	Urban Renewal Tax Increment	<u>6,000</u>
		707,448
Nonmajor:		
Park and Recreation Trust	General	35,000
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	153,899
Capital Projects	Special Revenue:	
	Local Option Sales Tax	169,406
Enterprise:	Enterprise:	
Sewer	Solid Waste	17,835
Enterprise:	Enterprise:	
Electric	Solid Waste	11,890
Total		<u>\$ 1,095,478</u>

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

**(9) Construction Commitments**

The City has entered into a construction contract for approximately \$2,253,000 for electric improvements. The balance of \$75,408 remaining on the contracts at June 30, 2019 will be paid as work on the project progresses.

**(10) Risk Management**

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

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

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

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2019 were \$104,618.

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

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



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

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation in the amount of \$1,000,000. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City is also 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.

**(11) Development Agreement**

The City has entered into a development agreement with Alta Ventures, LLC (developer) for the development of residential fourplex buildings which are affordable to families of low and moderate income with a minimum assessed value of \$1,200,360. The City agreed to pay the developer an amount not to exceed \$220,000 subject to annual appropriation by the City Council. The agreement requires up to 10 semiannual payments beginning December 1, 2019, provided the developer is in compliance with the terms of the agreement.

**(12) Subsequent Event – Debt Issuance**

In March 2020, the City authorized the issuance of \$1,390,000 in General Obligation Corporate Purpose and Refunding Bonds, Series 2020A for the purpose of refunding the Series 2013A General Obligation Capital Loan Notes.

**(13) Subsequent Event – COVID-19**

The COVID-19 outbreak is disrupting business across a range of industries in the United States and financial markets have experienced a significant decline. As a result, local, regional and national economies, including that of the City of West Liberty, may be adversely impacted. The extent of the financial impact of COVID-19 will depend on future developments, including the duration and spread, which are uncertain and cannot be predicted. Due to the uncertainties surrounding the outbreak, management cannot presently estimate the potential impact to the City's operations and finances.

**Other Information**

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

Other Information

Year ended June 30, 2019

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 1,585,410	-	-
Tax increment financing	174,701	-	-
Other city tax	507,376	-	-
Licenses and permits	39,485	-	-
Use of money and property	19,025	78,092	1,756
Intergovernmental	588,259	232,735	-
Charges for service	220,503	9,446,031	-
Miscellaneous	372,505	298,590	110,101
Total receipts	3,507,264	10,055,448	111,857
<b>Disbursements:</b>			
Public safety	1,142,744	-	9,077
Public works	499,555	-	-
Culture and recreation	793,210	-	470
Community and economic development	5,357	-	-
General government	142,727	98,358	98,358
Debt service	455,708	-	-
Capital projects	254,337	-	-
Business type activities	-	9,076,662	-
Total disbursements	3,293,638	9,175,020	107,905
Excess of receipts over disbursements	213,626	880,428	3,952
Other financing sources, net	-	-	-
<b>Excess of receipts and other financing sources over disbursements and other financing uses</b>			
	213,626	880,428	3,952
Balances beginning of year	2,972,812	7,655,032	268,314
Balances end of year	\$ 3,186,438	8,535,460	272,266

See accompanying independent auditor's report.

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Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
1,585,410	1,575,697	1,575,697	9,713
174,701	181,900	181,900	(7,199)
507,376	449,558	449,558	57,818
39,485	36,075	36,075	3,410
95,361	33,200	33,200	62,161
820,994	575,404	575,404	245,590
9,666,534	10,172,282	10,222,382	(555,848)
560,994	133,200	204,404	356,590
<u>13,450,855</u>	<u>13,157,316</u>	<u>13,278,620</u>	<u>172,235</u>
1,133,667	997,990	1,247,380	113,713
499,555	400,600	536,401	36,846
792,740	816,275	847,583	54,843
5,357	-	-	(5,357)
142,727	80,650	118,530	(24,197)
455,708	457,208	457,208	1,500
254,337	27,500	262,500	8,163
<u>9,076,662</u>	<u>8,658,584</u>	<u>9,191,760</u>	<u>115,098</u>
<u>12,360,753</u>	<u>11,438,807</u>	<u>12,661,362</u>	<u>300,609</u>
1,090,102	1,718,509	617,258	472,844
-	-	312,735	(312,735)
1,090,102	1,718,509	929,993	160,109
<u>10,359,530</u>	<u>10,312,134</u>	<u>10,312,134</u>	<u>47,396</u>
<u>11,449,632</u>	<u>12,030,643</u>	<u>11,242,127</u>	<u>207,505</u>

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City of West Liberty

Notes to Other Information – Budgetary Reporting

June 30, 2019

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund and the blended component units. 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, the Permanent 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 \$1,222,555. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2019, disbursements exceeded the amount budgeted in the community and economic development and general government functions.

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City of West Liberty

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

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

Other Information

	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.013797%	0.014459%	0.014227%	0.013266%	0.039138%
City's proportionate share of the net pension liability	\$ 873	963	895	655	552
City's covered payroll	\$ 1,447	1,418	1,351	1,413	1449
City's proportionate share of the net pension liability as a percentage of its covered payroll	60.33%	67.91%	66.25%	46.36%	38.10%
IPERS' net position as a percentage of the total pension liability	83.62%	82.21%	81.82%	85.19%	87.61%

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

See accompanying independent auditor's report.

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City of West Liberty

Schedule of City Contributions

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

Other Information

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 151	133	130	123
Contributions in relation to the statutorily required contribution	<u>(151)</u>	<u>(133)</u>	<u>(130)</u>	<u>(123)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 1,569	1,447	1,418	1,351
Contributions as a percentage of covered payroll	9.62%	9.19%	9.17%	9.10%

See accompanying independent auditor's report.

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2015	2014	2013	2012	2011	2010
131	134	143	129	109	102
(131)	(134)	(143)	(129)	(109)	(102)
-	-	-	-	-	-
1,413	1,449	1,583	1,518	1,428	1,414
9.27%	9.25%	9.03%	8.50%	7.63%	7.21%



City of West Liberty

Notes to Other Information – Pension Liability

Year ended June 30, 2019

Changes of benefit terms:

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

Changes of assumptions:

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

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

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

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

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

## **Supplementary Information**

City of West Liberty

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

As of and for the year ended June 30, 2019

	Special		
	FEMA	Employee Benefits	Library Trust
Receipts:			
Property tax	\$ -	356,066	-
Use of money and property	-	-	1,212
Intergovernmental	-	7,412	-
Miscellaneous	-	-	171,700
Total receipts	-	363,478	172,912
Disbursements:			
Operating:			
Public safety	-	-	-
Culture and recreation	-	-	6,334
Total disbursements	-	-	6,334
Excess (deficiency) of receipts over (under) disbursements	-	363,478	166,578
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	-	(363,478)	-
Total other financing sources (uses)	-	(363,478)	-
Change in cash balances	-	-	166,578
Cash balances beginning of year	16,030	-	155,997
Cash balances end of year	\$ 16,030	-	322,575
<b>Cash Basis Fund Balances</b>			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Restricted for other purposes	16,030	-	322,575
Total cash basis fund balances	\$ 16,030	-	322,575

See accompanying independent auditor's report.

Revenue			Permanent		
Park and Recreation Trust	West Liberty Fire Department, Inc.	Friends of the West Liberty Public Library, Inc.	Perpetual Care	Total	
-	-	-	-	356,066	
3,235	1	2	-	4,450	
-	-	-	-	7,412	
31,508	8,404	7,756	-	219,368	
34,743	8,405	7,758	-	587,296	
-	9,077	-	-	9,077	
4,683	-	470	-	11,487	
4,683	9,077	470	-	20,564	
30,060	(672)	7,288	-	566,732	
35,000	-	-	-	35,000	
-	-	-	-	(363,478)	
35,000	-	-	-	(328,478)	
65,060	(672)	7,288	-	238,254	
19,125	3,539	1,545	67,981	264,217	
84,185	2,867	8,833	67,981	502,471	
-	-	-	67,981	67,981	
84,185	2,867	8,833	-	434,490	
84,185	2,867	8,833	67,981	502,471	

City of West Liberty  
Schedule of Indebtedness  
Year ended June 30, 2019

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Building, structure and property restoration	Jun 28, 2013	2.40-3.75%	\$ 1,360,000
Refunding and street, sewer and water improvements	Nov 29, 2016	2.50	1,510,000
Street, sewer and water improvements	Jun 1, 2017	2.00-3.25	2,065,000
Total			
Revenue notes:			
Water	Feb 6, 2014	0.50-4.50%	\$ 1,300,000
Water	May 20, 2016	1.75	* 1,831,749
Sewer	Apr 23, 2015	1.00-4.10	3,600,000
Sewer	Jan 29, 2016	1.75	* 3,594,516
Electric revenue bonds:	Nov 21, 2017	2.00-3.00	4,150,000
Total			
Other Obligations			
SWAP loan	Apr 11, 2017	0.00-3.00%	\$ 625,250

\* The agreements also require the City to annually pay a .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
1,100,000	-	65,000	1,035,000	34,433
1,295,000	-	170,000	1,125,000	32,375
2,065,000	-	95,000	1,970,000	58,900
<b>\$ 4,460,000</b>	-	<b>330,000</b>	<b>4,130,000</b>	<b>125,708</b>
1,015,000	-	55,000	960,000	38,638
1,676,750	-	80,000	1,596,750	29,292
2,885,000	-	250,000	2,635,000	99,512
3,293,515	-	154,516	3,138,999	57,637
4,150,000	-	295,000	3,855,000	109,645
<b>\$ 13,020,265</b>	-	<b>834,516</b>	<b>12,185,749</b>	<b>334,724</b>
<b>\$ 625,250</b>	-	<b>70,845</b>	<b>554,405</b>	<b>16,374</b>

City of West Liberty  
Bond and Note Maturities  
June 30, 2019

General Obligation Bonds and Notes								
Year	Building, structure and property restoration		Refunding and street, sewer and water improvements		Street, sewer and water improvements		Total	
	Issued Jun 28, 2013		Issued Nov 29, 2016		Issued Jun 1, 2017			
Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2020	2.40%	\$ 70,000	2.50%	\$ 180,000	2.00%	\$ 90,000	340,000	
2021	2.40	70,000	2.50	180,000	2.00	100,000	350,000	
2022	2.60	70,000	2.50	185,000	2.00	100,000	355,000	
2023	2.80	75,000	2.50	185,000	3.00	100,000	360,000	
2024	3.00	75,000	2.50	195,000	3.00	100,000	370,000	
2025	3.10	75,000	2.50	200,000	3.00	105,000	380,000	
2026	3.20	80,000	-	-	3.00	180,000	260,000	
2027	3.30	80,000	-	-	3.00	185,000	265,000	
2028	3.40	85,000	-	-	3.00	190,000	275,000	
2029	3.50	85,000	-	-	3.00	195,000	280,000	
2030	3.60	85,000	-	-	3.00	200,000	285,000	
2031	3.70	90,000	-	-	3.125	210,000	300,000	
2032	3.75	95,000	-	-	3.25	215,000	310,000	
Total		<u>\$ 1,035,000</u>		<u>\$ 1,125,000</u>		<u>\$ 1,970,000</u>	<u>4,130,000</u>	

Year	Revenue					
	Water		Sewer		Sewer	
	Issued Feb 6, 2014		Issued April 23, 2015		Issued Jan 29, 2016	
Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2020	2.50%	\$ 55,000	2.70%	\$ 260,000	1.75%	\$ 157,000
2021	2.50	55,000	2.95	265,000	1.75	160,000
2022	3.25	55,000	3.20	270,000	1.75	163,000
2023	3.25	60,000	3.40	280,000	1.75	166,000
2024	3.25	60,000	3.60	290,000	1.75	170,000
2025	4.00	65,000	3.75	300,000	1.75	173,000
2026	4.00	65,000	3.90	310,000	1.75	177,000
2027	4.00	70,000	4.00	325,000	1.75	180,000
2028	4.25	70,000	4.10	335,000	1.75	184,000
2029	4.25	75,000	-	-	1.75	188,000
2030	4.25	75,000	-	-	1.75	191,000
2031	4.50	80,000	-	-	1.75	195,000
2032	4.50	85,000	-	-	1.75	199,000
2033	4.50	90,000	-	-	1.75	203,000
2034	-	-	-	-	1.75	207,000
2035	-	-	-	-	1.75	211,000
2036	-	-	-	-	1.75	214,999
Total		<u>\$ 960,000</u>		<u>\$ 2,635,000</u>		<u>\$ 3,138,999</u>

Notes					Other Obligations		
Water		Electric			SWAP loan		
Issued May 20, 2016		Issued Nov 21, 2017			Issued		
Interest		Interest			Interest		
Rates	Amount	Rates	Amount	Total	Rates	Amount	
1.75%	\$ 80,750	2.00%	\$ 305,000	857,750	3.00%	\$ 72,810	
1.75	82,000	3.00	310,000	872,000	3.00	74,834	
1.75	83,000	3.00	320,000	891,000	3.00	76,920	
1.75	85,000	3.00	330,000	921,000	3.00	79,070	
1.75	86,000	3.00	340,000	946,000	3.00	81,285	
1.75	88,000	3.00	350,000	976,000	3.00	83,567	
1.75	90,000	3.00	360,000	1,002,000	3.00	85,919	
1.75	92,000	2.55	370,000	1,037,000		-	
1.75	94,000	2.70	380,000	1,063,000		-	
1.75	95,000	3.00	390,000	748,000		-	
1.75	97,000	3.00	400,000	763,000		-	
1.75	99,000		-	374,000		-	
1.75	101,000		-	385,000		-	
1.75	103,000		-	396,000		-	
1.75	104,000		-	311,000		-	
1.75	107,000		-	318,000		-	
1.75	110,000		-	324,999		-	
	<u>\$ 1,596,750</u>		<u>\$ 3,855,000</u>	<u>12,185,749</u>		<u>\$ 554,405</u>	



City of West Liberty

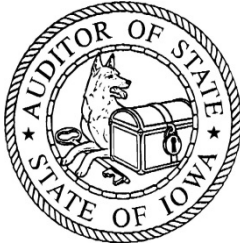
Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Ten Years

	(Cash Basis)			
	2019	2018	2017	2016
<b>Receipts:</b>				
Property tax	\$ 1,585,410	1,318,093	1,318,295	1,333,865
Tax increment financing	174,701	121,898	1,272	119,263
Other city tax	507,376	451,468	481,822	404,500
Licenses and permits	39,485	44,008	42,543	51,134
Use of money and property	19,025	15,061	17,672	28,659
Intergovernmental	588,259	755,714	561,815	503,777
Charges for service	220,503	230,525	256,747	266,580
Miscellaneous	372,505	249,822	233,718	450,341
Contributions	-	-	-	-
Total	<u>\$ 3,507,264</u>	<u>3,186,589</u>	<u>2,913,884</u>	<u>3,158,119</u>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 1,142,744	941,498	1,409,603	957,766
Public works	499,555	390,239	480,108	288,735
Culture and recreation	793,210	666,903	669,632	702,826
Community and Economic Development	5,357	-	-	-
General government	142,727	118,917	53,147	43,674
Debt service	455,708	412,642	353,111	482,248
Capital projects	254,337	1,725,617	201,047	414,133
Total	<u>\$ 3,293,638</u>	<u>4,255,816</u>	<u>3,166,648</u>	<u>2,889,382</u>

See accompanying independent auditor's report.

		(Modified Accrual Basis)				
2015	2014	2013	2012	2011	2010	
1,270,135	1,133,742	1,070,832	1,012,623	1,003,077	885,240	
123,896	130,999	130,930	129,404	128,722	128,126	
423,341	407,512	384,498	399,940	340,424	346,164	
39,746	41,065	41,974	16,272	13,939	12,138	
12,390	8,104	7,559	8,520	16,611	24,846	
671,855	501,178	443,945	426,547	665,765	355,020	
224,874	199,376	162,884	203,540	192,775	163,550	
442,022	210,697	(81,878)	496,317	169,380	146,849	
-	-	-	-	-	84,374	
<u>3,208,259</u>	<u>2,632,673</u>	<u>2,160,744</u>	<u>2,693,163</u>	<u>2,530,693</u>	<u>2,146,307</u>	
870,055	856,412	893,566	1,073,607	767,273	691,962	
362,636	266,098	247,400	262,787	297,001	438,045	
759,209	722,742	824,134	790,730	880,917	996,276	
-	-	-	-	-	-	
42,001	43,127	90,008	186,254	144,649	125,713	
488,327	406,429	418,499	423,010	414,881	336,939	
303,643	900,951	343,119	350,179	1,356,578	1,534,489	
<u>2,825,871</u>	<u>3,195,759</u>	<u>2,816,726</u>	<u>3,086,567</u>	<u>3,861,299</u>	<u>4,123,424</u>	



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

Rob Sand  
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 West Liberty, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 13, 2021. The financial statements were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed unmodified opinions on the major Special Revenue Funds, including the Road Use Tax, Local Option Sales Tax and Urban Renewal Tax Increment Funds, the Debt Service Fund, the Capital Projects Fund, the major Enterprise Funds, including the Water, Sewer and Solid Waste Funds, and the aggregate remaining fund information of the City of West Liberty, Iowa, as of June 30 2019. We expressed qualified opinions on the General Fund, the Electric Fund, the governmental activities and the business type activities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of West Liberty'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 West Liberty's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of West Liberty's internal control.

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

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of West Liberty'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, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

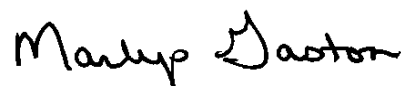
#### The City of West Liberty's Responses to the Findings

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



Marlys K. Gaston, CPA  
Deputy Auditor of State

January 13, 2021

City of West Liberty  
Schedule of Findings  
Year ended June 30, 2019

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties

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

Condition – One of three individuals has control over the following areas:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – handling and recording.
- (3) Investments – investing, recordkeeping and custody of investments.
- (4) Debt – reconciling and recording.
- (5) Receipts – opening mail, collecting, and recording.
- (6) Utility receipts – billing, collecting and posting.
- (7) Payroll – entering new rates into system, preparing and distributing.
- (8) Journal entries – preparing and recording.

For the Friends of the West Liberty Public Library, Inc. (Friends) and West Liberty Fire Department, Inc. (Fire Department, Inc.):

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

Cause – The City, Friends and Fire Department, Inc. 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, the Friends, and the Fire Department, Inc.’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

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

City of West Liberty  
Schedule of Findings  
Year ended June 30, 2019

Responses –

City – The City of West Liberty will continue to work to segregate duties of bank reconciliation with internal staff.

Friends – The Friends will continue to work to appoint a person who will review all receipts, deposits, and disbursements.

Fire Department, Inc. – At the recommendation of the State Auditors, the WLFD will continue to work on creating a quarterly review of transactions and monthly bank statement reconciliations with the WLFD Fire Chief and Assistant Fire Chief to provide additional oversight and control.

Conclusions –

City – Response acknowledged. The City should review control activities over all transaction cycles listed above to obtain the maximum internal control possible. Independent reviews of financial transactions, reconciliations and reports should be implemented utilizing the Mayor and/or City Council members.

Friends and Fire Department, Inc. – Responses accepted.

(B) Bank Reconciliation

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by reconciling bank to book balances. Supervisory review of bank reconciliations can help ensure the accuracy of recorded amounts.

Condition – Monthly bank statements are reconciled to the City’s monthly financial reports. However, the monthly bank reconciliations are not reviewed and approved by an independent person and variances between the bank and book balances are not investigated and resolved. The following were noted during a review of the June 2019 bank reconciliation:

- (1) Outstanding deposits include \$1,065 from March and May 2015 and \$184 from August 2017.
- (2) Outstanding deposits include \$4,195 from October 2017 for ambulance revenue recorded twice in the accounting records.
- (3) The balances per the bank accounts were not reconciled to an amount that agreed with the Year-to-date Treasurer’s Report.

For the Friends of West Liberty Public Library, Inc., cash balances were not reconciled to bank balances for the entire year.

Cause – For the City, procedures have not been designed and implemented to investigate and resolve variances between bank and book balances or to ensure bank reconciliations are properly supported and independently reviewed. For the Friends, policies do not require and procedures have not been implemented to ensure bank and book balances are reconciled monthly.

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

Effect – Lack of performing monthly bank reconciliations, lack resolving variances between bank and book balances and lack of independent review of bank reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – Monthly bank reconciliations should be performed and adequately supported and variances between book and bank balances should be investigated and resolved in a timely manner. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the signature or initials of the independent reviewer.

Responses –

City – The City will create a procedure for reconciliation and create an internal audit process of the reconciliation. The City’s procedure will have the Finance Committee review the bank reconciliation on a quarterly basis.

Friends – The Friends will continue work on an appointment for one individual to reconcile the bank statements and a second to verify the reconciliation. The reconciliation will be documented by a report provided to the Friends of the Library board for record.

Conclusion –

Friends – Responses accepted.

City – Response acknowledged. The City should ensure bank reconciliations are independently reviewed timely (i.e., monthly) to ensure errors, if any, can be timely corrected.

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

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

Condition – Utility billings, collections and delinquent accounts were not reconciled for months prior to April 2019 and a delinquent accounts listing was not prepared. In addition, the City does not have a written policy for write-offs of delinquent accounts.

Cause – Policies have not been established and procedures have not implemented to reconcile utility billings, collections and delinquent accounts. Policies have not been established for handling write-offs of delinquent accounts.

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

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

Recommendation – Delinquent account listings should be prepared and retained for each billing period. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or a City Council designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review. In addition, the City Council should establish policies and procedures for write-offs of delinquent accounts.

Response – The City of West Liberty has assigned reconciliation duties with an Administrative Assistant separate from the collections. The Administrative Assistant will work with the Utility Billing Clerk to create and perform the reconciliation with the monthly billing and collection schedule. The City will create a procedure for the reconciliation process during the implementation of this process to the daily operations for the City Hall administration.

The City of West Liberty will create and implement a policy and procedure for write-offs of delinquent accounts and create checklist for the process in order to collect all the evidence for approval of write-offs.

Conclusion – Response accepted.

(D) Reconciliation of Ambulance Service Billings, Collections and Delinquent Accounts

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

Condition – The following conditions were noted for ambulance service:

- (1) The City contracts with a third party to administer ambulance service billings and collections. Although the City maintains a spreadsheet to track amounts billed and collected, there is no reconciliation of billings, collections and delinquent accounts between the administrator and the City's records on a monthly basis.
- (2) The City does not have a written policy which directs the process for proper for billing, collection and handling of delinquent accounts.
- (3) No further collection efforts beyond the third-party administrator's second billing notices have been taken since April 2017.

Cause – Policies have not been established and procedures have not been implemented to reconcile ambulance service billings, collections and receivables. Policies have not been established for handling of delinquent accounts.

Effect – This condition could result in unrecorded or misstated ambulance service revenues and receivables.



City of West Liberty

Schedule of Findings

Year ended June 30, 2019

Recommendation – Policies and procedures should be established to reconcile ambulance service billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. An independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by signature or initials of the reviewer and the date of review. A written policy should be established to govern the 3<sup>rd</sup> party administrator process for billing, collecting and handling delinquent accounts. Policies and procedures should also be developed to continue collection efforts beyond the second billing notice.

Response – The City of West Liberty has assigned a reconciliation process to the Administrative Assistant separate from the ambulance collections. The Administrative Assistant will work with upper management and the third-party service to create a procedure to perform the reconciliation for ambulance receipts on a monthly basis.

The City of West Liberty recently changed the ambulance 3rd Party relationship and we now have access to more reports and collection options. The City of West Liberty will create a procedure for ambulance receipts, reconciliation, and collection/bad debt.

Conclusion – Response accepted.

(E) Journal Entries

Criteria – An effective internal control system provides for internal controls related to preparation of journal entries by all employees. Supporting documentation for all journal entries supports the accuracy of the entries by the employees and an independent review helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – For the journal entries tested, the reason for the journal entry was not documented and there was no evidence of independent review.

Cause – The City has a limited number of employees and procedures have not been designed require documentation of the reason for the journal entry and to clearly document the review and approval of journal entries.

Effect – The lack of documenting the reason for transactions and lack of independent review and approval of transactions could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – To strengthen controls, journal entries should be supported, and the support should be provided to an independent person for review and approval.

Response – The City of West Liberty will create a policy and procedure to segregate the duties within administrative staff in order to reconcile and provide an internal audit of journal entry processing. The procedure will include the process for the journal entry transactions, supporting documentation and review. The Administrative Assistant will perform a reconciliation of the journal entry against supporting documentation and financial statements as an internal audit process.

Conclusion – Response accepted.

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

(F) Financial Reporting

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

Condition – During the audit, we identified material amounts of receipts, transfers and journal entries which were not posted correctly. Included in these adjustments were cash transactions that were posted to balance sheet accounts instead of to receipts and disbursements. The City’s financial statements are reported on a cash basis so all cash transactions should be posted directly to receipts and disbursements. When cash transactions are posted to balance sheet accounts, the fiscal year net change in the balance sheet accounts must be added or subtracted to a receipt or disbursement account in order to balance cash and investments to the bank statements.

Except for the transactions recorded to the Accounts Payable Pending (AP Pending) balance sheet account (discussed below), adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

The AP Pending account in each City fund is used to record amounts due to vendors, with an equal entry made to disbursements. When the vendors are paid, the accounting system is to automatically record an entry to clear the AP Pending balance and record the disbursement in the cash account. When the accounting system works properly, there will be a zero-net change in the AP Pending account for the fiscal year and adjustments to receipts and/or disbursements are not needed to balance the general ledger to the bank.

Per discussions with the City and with the City’s financial accounting software company, the software company determined a “packet bust” occurred in an August 2018 accounts payable packet. According to the software company, an accounts payable packet bust can occur when a claims packet is in process and is interrupted during the approval process. Although the “packet bust” occurred in August 2018, the City had not identified and made journal entries to correct the impact on the City’s financial statements until after June 30, 2019. Adjusting entries were identified by the City upon request of our office (the auditor) during the fiscal year 2019 audit (in April 2020), 19 months after the packet bust.

In addition, the processing error resulted in a debit to the AP Pending liability accounts in several funds (leaving them with a debit balance at June 30, 2019) and a corresponding credit to certain disbursements in those same funds. While the City identified the accounts payable packet and related transactions involved in the “packet bust” which resulted in the debit balances in the AP Pending accounts, the City was unable to identify or provide support for the corresponding credit entries to the disbursement accounts (i.e., the specific dollar amounts and disbursement account codes). To balance the City’s general ledger to the bank and investment balances at June 30, 2019, entries were required to credit the AP Pending accounts (thereby zeroing out those balance sheet accounts) and debit disbursements in each of the impacted funds. As indicated, there was no clear evidence to identify the proper disbursement account codes that had been incorrectly credited during the processing error and, therefore, which disbursement account codes to debit to correct the errors. As a result, the adjustments made by the City

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

to report the related disbursements in the financial statements are unsupported. The unsupported amounts by fund are as follows:

General Fund	\$ 33,179
Road Use Tax	12,592
Capital Projects	<u>2,865</u>
Total Governmental Activities	<u>48,636</u>
Water	16,555
Sewer	19,910
Electric	151,226
Solid Waste	10,149
Internal Service - Aggregate Remaining	<u>154</u>
Total Business Type Activities	<u>197,994</u>
Total	<u>\$ 246,630</u>

Cause – Policies and procedures have not been established to require independent review of receipts, transfers and journal entries to ensure the City’s financial statements are accurate and reliable. The City does not record all cash transactions to receipt and disbursement accounts as is appropriate for a City who uses a cash basis financial accounting system and reports on a cash basis.

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

Recommendation – The City should implement procedures to ensure receipts, transfers and journal entries are properly recorded in the City’s accounting records and financial statements. The City should work with their financial accounting software company to determine how to properly record cash transactions as receipts and disbursements rather than using balance sheet accounts. Use of balance sheet accounts should be eliminated. Procedures should be implemented to identify and correct any future “packet busts” on a timely basis. Journal entries needed to correct future “packet busts” should be properly supported.

Response – The City will implement procedures to ensure receipts, transfers and adjustments are properly recorded in the City’s accounting records and financial statements. The City will continue to work with the software company to identify transition of transaction recording from a non-cash to a cash basis.

Conclusion – Response accepted.

(G) Disbursements

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

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

policies for disbursements addressing proper approval, support and cancellation of supporting documentation.

Condition – Of twenty-five disbursements tested, seven disbursements were not properly authorized and approved for payment and six were not supported by an invoice, receipt or contract. In addition, supporting documentation for three disbursements was not effectively cancelled to prevent re-use.

Cause – Policies and procedures were not established to ensure disbursements are properly authorized for payment, adequately supported and supporting documentation cancelled to prevent re-use.

Effect – Lack of requiring proper authorization for payment and requiring adequate supporting documentation with cancellation upon payment could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – Policies and procedures should be established to ensure disbursements are properly authorized and supported and supporting documentation is cancelled to prevent re-use.

Response – The City will continue to work on developing policy and procedure for internal audit of expenditure documentation, issuance of the expenditure and submission to Council for approval of the expense. The City has continued to have turn-over with staffing, therefore, we have been unable to sustain a continued process to create the procedures to audit and have oversight, but the City will continue to revise training, implement policy and procedures for an internal audit on a monthly basis of these items to support accuracy, timely completion, and compliance.

Conclusion – Response accepted.

(H) Transfers

Criteria – An effective internal control system provides for internal controls related to recording transfers between funds authorized by the City Council, including those entries required by bond resolutions, accurately and on a timely basis. Properly designed procedures help provide reasonable assurance financial information is reliable and accurate and in compliance with applicable laws and regulations.

Condition – Two transfers to the Debt Service Fund authorized by City Council for the purpose of funding debt payments were not made.

Cause – Procedures have not been developed to review the accounting records and ensure transfer entries authorized by City Council or required by bond resolutions are recorded in the accounting system on a timely basis.

Effect – Failure to record transfers in the accounting records on a timely basis could result in non-compliance with bond requirements and could negatively impact City Council's decision-making ability related to spending and amending the budget.

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

Recommendation – Procedures should be developed to ensure transfers authorized by City Council or required by bond resolutions are recorded in the accounting records on a timely basis.

Response – The City of West Liberty will establish policies and procedures to provide timely transfer entries for all entries authorized by City Council. The procedure will include an internal review to determine entries have been completed on a timely basis.

Conclusion – Response accepted.

(I) Shop with a Cop

Criteria – An effective internal control system provides for effective controls to ensure funds donated to the City are expended in accordance with the purpose for which they were donated.

Condition – The City of West Liberty accepts donations from local businesses and the community for the annual December Shop with a Cop Program. Each December, members of the West Liberty Police Department shop with a child from the community in order to allow the child to purchase holiday gifts for their family. The children have a set amount they can spend and are treated to lunch afterwards. The City records the donations in the General Fund with an object code for the Shop with a Cop Project, however, disbursements for the program are not distinguished from other General Fund Police Department disbursements. Accordingly, there is no record of the running, unspent balance of the donations collected for this program.

Cause – Policies and procedures have not been established to track the program’s activity in the general ledger to ensure the donations are fully expended for the purpose they were intended.

Effect – Lack of policies and procedures to track the program balance could result in the donations not being spent for the intended purpose or the for program to expend other City funds. Expending anything except donations specifically given for this program would violate the public funds criteria of the Iowa Constitution. See findings (2) and (3) below for a discussion of the public funds criteria.

Recommendation – The City should establish a separate account in the general ledger to record the Shop with a Cop’s program activity and track the unspent balance.

Response – The City will establish a separate account in the general ledger to record the Shop with a Cop’s program activity, including tracking and reconciliation of revenues, expenditures and unspent balance.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of West Liberty  
Schedule of Findings  
Year ended June 30, 2019

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the community and economic development and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City of West Liberty will continue with training with the City Clerk/Treasurer to identify amendments during the fiscal year. The identification of budget amounts are the responsibility of the entire financial staff and the City Council.

Conclusion – Response accepted.

- (2) Questionable Disbursement – Public Purpose – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. We noted the following disbursement which we believe may not meet the requirements for public purpose as defined in the Attorney General’s opinion since the public benefit to be derived has not been clearly documented.

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
West Liberty Foods Market	Drinks for City employees during RAGBRAI	\$ 22

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

Recommendation – The City should determine and document the public purpose served by this type of disbursement prior to authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper public purpose documentation.

Response – The City of West Liberty understands the statement and will correct the purchase going forward.

Conclusion – Response accepted.

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

- (3) Questionable Activity – Police Department Fundraiser – During the fiscal year ended June 30, 2019 and in prior fiscal years, the West Liberty Police Department (Police Department) purchased various types of patches to sell to the public with the intention of donating the proceeds to various non-profit organizations. Based on a review of the City’s General Fund disbursements, the following purchases of patches during fiscal year 2019 and 2018 were noted:

Invoice Date	Shipping Date	Patch Description	Fundraiser to Benefit*	Cost	Suggested Donation Amount	Total Potential Receipts Assuming Sale of all Patches at the Suggested Donation Amount
4/24/2017	4/21/2017	300 Special Olympics	Special Olympics Iowa	\$ 750	\$ 10	\$ 3,000
11/28/2017	9/30/2017	300 Breast Cancer Awareness	University of Iowa Hospital and Clinics Holden Comprehensive Cancer Center and the Stead Family Children’s Hospital	600	10	3,000
9/19/2018	8/1/2018	300 Breast Cancer Awareness	Breast cancer research and the West Liberty Police Department "Shop with a Cop" program	600	15 - 20 ^	4,500
3/3/2019	3/22/2019	300 Autism Awareness	University of Iowa Hospital and Clinics for autism research	600	20	6,000
4/16/2019	04/22/2019	200 Autism Awareness	University of Iowa Hospital and Clinics for autism research	400	20	4,000
4/29/2019	05/17/2019	400 MIA (Veterans)	Puppy Jake Foundation and the Patriot Guard Riders	600	20	8,000
				<u>\$ 3,550</u>		<u>\$ 28,500</u>

\* Fundraiser beneficiary in accordance with the Police Department Facebook page

^ See (2) below

BACKGROUND:

Per review of the Police Department’s Facebook page and discussion with City personnel, the Police Chief was responsible for the initial custody of the patches. The Police Chief provided some of the patches to police officers (placed them in police vehicles) for distribution and some were placed in City Hall for distribution. Undistributed patches were kept in the Police Chief’s office. Also based on the Police Department’s Facebook page, the suggested donation for the Special Olympics, Breast Cancer Awareness and MIA patches was \$10 and the suggested donation for the Autism Awareness patches was \$20. Those wishing to purchase patches could do so by mailing a self-addressed stamped envelope containing their donation to the Police Department, purchase them directly from a police officer or purchase them from City Hall. Per discussion with City personnel, mail purchases were received and opened by the Police Chief, who was also responsible for mailing the patches to the donor and depositing the receipts at City Hall. An account in the City’s general ledger (in the General Fund) titled “Police Donations” was established and all patch donations received were to be turned over to City Hall staff for recording and depositing.

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

City Hall employees and the Police Department’s Facebook page indicated some patches were distributed to the public without a donation in return.

PATCH SALES:

Fiscal Year Ended June 30,	Patch Sales Receipts Per the City's	
	General Ledger	Applicable Paragraph Below
2018	\$ 1,499	(1) and (2)
2019	3,060	(3) and (4)
2020	<u>944</u>	(5)
	<u>\$ 5,503</u>	

- (1) In September 2017, 300 Special Olympics patches were purchased by the Police Department to be sold for a donation of \$10. The proceeds from the sales were to benefit Special Olympics Iowa. Based on a review of fiscal year 2017 general ledger and inquiry of the City Clerk and two police officers, we were unable to determine whether donations received from the distribution of these patches were recorded or deposited during fiscal year 2017. Fiscal year 2018 receipts included \$230 identified as patch sales and recorded prior to the first Breast Awareness patch shipping date of 09/30/17. Accordingly, it appears the \$230 of receipts were likely for sales of the Special Olympics patches.
- (2) In September 2017, 300 Breast Cancer Awareness patches were purchased by the Police Department to be sold for a donation of \$10. A Facebook post from 09/25/17 stated proceeds from the patch sales would benefit the University of Iowa Hospital and Clinics Holden Comprehensive Cancer Center and the Stead Family Children’s Hospital. Fiscal year 2018 receipts for patch sales after September 2017 were \$1,269.
- (3) In August 2018, 300 Breast Cancer Awareness patches were purchased by the Police Department. These patches were different in appearance from the patches received in 2017. An August 2018 Facebook post indicated the patches would sell for \$15, however a September 2018 Facebook post indicated the minimum donation was \$20. The Facebook posts indicated half the proceeds were to go towards breast cancer research and the other half towards the West Liberty Police Department “Shop with a Cop” program.
- (4) In March and April 2019, 500 Autism Awareness patches were purchased by the Police Department. Facebook posts and discussion with City employees indicate these patches were to be sold for a donation of \$20 with intention of donating the proceeds to the University of Iowa Hospitals and Clinics for autism research. Fiscal year 2019 receipts recorded in the general ledger and labeled as a patch sale or an individual’s name totaled \$3,060.



City of West Liberty

Schedule of Findings

Year ended June 30, 2019

- (5) In May 2019, 400 MIA (Veterans) patches were purchased by the Police Department to be sold for \$20. Funds raised were to be split between the Puppy Jake Foundation and Patriot Guard Riders. Per discussion with a City police officer, a significant number of the patches were handed out without a donation at an event dedicating a military memorial in July 2019. Fiscal year 2020 receipts recorded in the general ledger and labeled as a patch sale or an individual's name totaled \$944.

Per review of the City's general ledger, the description of the patch receipts varied. Some entries indicated the number of patches but not the patch type, some entries indicated the patch type but not the number, and some entries just indicated "patches". In addition, some entry descriptions were a person's name, so it is not possible to determine whether a patch was distributed in exchange for the donation. In addition, although the various patches were to sell for \$10 or \$20, receipt entries were not all in even \$10 increments.

In addition, the City did not maintain an inventory of each patch type, including the number of each type purchased, the number distributed (sold or given away) or the number of undistributed patches. As of July 13, 2020, the following inventory of undistributed patches was taken by a City police officer:

- 95 Breast Cancer Awareness patches (the officer did not give the count of each type separately)
- 163 Autism patches
- 129 MIA (Veterans) patches
- 2 Special Olympics Iowa patches

The potential proceeds from the sale of all the patches, had all patches been sold (less those on hand at July 13, 2020) at the suggested donation amount (using \$10 as an estimated sales price for all the Breast Cancer Awareness patches) is estimated at \$17,210. Based on the information above, we were able to account for only \$5,503 of patch sales proceeds. Due to the inconsistent recording of patch sales, the lack of controls over the patches, the "suggested" rather than set sales price of the patches, and because some patches were given away (i.e., not sold), it was not possible to determine how much should have been collected and deposited for the various patch sales. Accordingly, we were unable to determine whether all collections from patch sales were properly accounted for (i.e. were properly deposited and recorded in the City's general ledger).

USE OF THE PATCHES AND THE PATCH SALES PROCEEDS:

On June 14, 2019, the City donated \$3,000 to the University of Iowa Hospitals and Clinics (UIHC) Children's Hospital. According to an email from the Police Chief to the City Clerk, the check for proceeds received from the sale of Autism patches was to be presented to a representative from the University of Iowa Children's Hospital Autism Center during an autism awareness class for First Responders.

Based on information in the tables on pages 59 and 60, the cost of all patches purchased was \$3,550 and the proceeds from the sales of patches (that could be accounted for) was \$5,503, leaving a net (accounted for) proceeds from the patch sales of \$1,953. Accordingly, it appears \$1,047 ( $\$3,000 - \$1,953 = \$1,047$ ) of the \$3,000 donation to the UIHC came from sources other than patch sales (i.e., the City's General Fund), all of which is considered public funds.

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

In addition, based on information provided by City personnel and postings to the Police Department Facebook page, several patches were given to individuals with no payment in return.

Article III, Section 31 of the Constitution of the State of Iowa states "...no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly." The \$1,047 donation of public funds to the UHC and giving away patches that were purchased with public funds are both in violation of the Iowa Constitution.

As previously stated, various types of patches were sold with the City's representation the sale proceeds would benefit certain organizations. With the exception of the \$3,000 donation to UIHC, our review of the City's disbursement records for fiscal years 2017 through 2019 did not identify disbursements to any of the other designated beneficiaries. We also confirmed with City employees that no additional disbursements had been made, including disbursements in fiscal year 2020. Because City officials publicly represented the proceeds from patch sales would benefit certain organizations, the City has a fiduciary responsibility to ensure the proceeds are handled accordingly.

Recommendation – The City should consult legal counsel to determine the disposition of the unaccounted-for patch sales receipts. While it is appropriate for the City to fund raise to support programs provided by the City, the City is not a charitable organization and its purpose does not extend to supporting charitable causes. However, if the practice of fundraising for these charitable causes continues, the City should establish procedures to ensure the proper accounting of all fundraising merchandise purchases and sales, including ensuring all sales are properly recorded and deposited and all proceeds go to benefit stated beneficiaries. The accounting should also ensure that only sales proceeds (sales in excess of the cost of the merchandise being sold), and no public funds, are donated to the benefiting organization to avoid violating the Iowa Constitution. The City should also comply with the Iowa Constitution and cease distribution of free merchandise (patches).

Response – The City of West Liberty will discontinue patch sales and donations to non-profit organizations.

Conclusion – Response acknowledged. The City should consult legal counsel to determine the disposition of the unaccounted-for patch sales receipts.

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

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

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

Name, Title and Business Connection	Transaction Description	Amount
Cara McFerren, Council Member, Cardinal Sign & Graphics	Signs	\$ 3,163
Lee Geertz, City Clerk Husband Cyle Geertz owns Pike Run Automotive Services	Mobile garage and tows	4,225

The transactions with Cardinal Sign & Graphics and Pike Run Automotive Services of may represent conflicts of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions were greater than \$1,500 during the fiscal year and the transactions were not competitively bid.

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

Response – Due to limited local suppliers for these specific services, time to time we will need to make purchases with individual businesses who have affiliation to the City. The City has implemented a process where the invoices are reviewed by the City Council to include a separate claims list for McFerren’s businesses to allow her to abstain from the approval process of her business’s claim.

Conclusion – Response acknowledged. The City should consult legal counsel to determine the disposition of this matter and should comply with Chapter 362.5 of the Code of Iowa for future such transactions, if any.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

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

Electronic Funds Transfers (EFT) claims, used for credit card payments, are not included in the claims reports approved by the City Council for payment and are not included in the City’s publication of claims, as required by Chapter 372.13(6) of the Code of Iowa.

The City did not publish a summary of disbursements by fund and a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City Council should approve and publish all claims, including EFT claims. The City should ensure a summary of disbursements by fund and a summary of receipts are published, as required.

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

Response – The City Clerk will and has implemented the reporting of the funds summary as of February 2020 and has included it on the City Council claims List. A policy and procedure will be created in order for the process to include an internal audit of the claims list each month. The accounts payable clerk will provide the claims list to an internal audit administrator to review the claims processing and claims report prior to the City Council meeting. The review will include the audit of the following items required to be summarized with the claims list:

- All resolution pre-approved items by check, EFT, ACH and bank draft
- A comparison of expenses to be issued by check against City Council approval
- Disbursement by fund summary

The claims list to include the disbursement by fund summary and the receipts summary will be published in the local newspaper. The policy to be created will include a process for the administrative internal audit to reconcile all of the items that have been completed prior to filing. An internal audit check list will be created to document any errors or missing items not completed in the process in order to create an internal checks and balance to ensure compliance.

Conclusion – Response accepted.

- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (9) Revenue Notes – The electric revenue note resolution requires electric user rates be established at a level which produces and maintains net receipts at a level not less than 110% of the principal and interest due in the same fiscal year. The June 30, 2019 net receipts for the Enterprise, Electric Fund are \$397,467, which is less than 110% of the \$404,645 principal and interest due in fiscal year 2019.

Recommendation – The City Council should ensure electric rates are set at an amount sufficient to comply with the requirements of the revenue note resolution.

Response – The City of West Liberty will have the independent financial advisors review the rates with bond coverage for a recommendation for rate increases to comply with the 100% requirement.

Conclusion – Response accepted.

- (10) Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was approved and certified to the Iowa Department of Management on or before December 1.

The TIF debt outstanding reported in the AURR was overstated by \$315,089 due to the City reporting the total amount of principal and interest outstanding on the 2016 general obligation bonds, rather than the portion that was certified for TIF. The amount reported also excluded interest for the 2017 general obligation bonds.

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

Recommendation – The City should ensure TIF debt outstanding reported in the AURR agrees with the TIF portion of outstanding principal and interest due during the life of the obligation.

Response – This has been corrected for the next Annual Urban Renewal Report and the City will agree to the recommendation.

Conclusion – Response accepted.

- (11) Local Option Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts be used 33.3% for property tax relief; 33.3% for streets, curbs and gutters, and sewer; and 33.3% for community development projects including but not limited to the improvement of the Library building and other City facilities, community cleanup, and infrastructure improvements. The City is not tracking all disbursements for community development projects to ensure funds are spend in accordance with the ballot.

Recommendation – Disbursements should be tracked to document compliance with the specific criteria of the LOST ballot.

Response – The City of West Liberty will establish a procedure for the distribution of LOST transactions in accordance to the ballot and certified budget. We will include an annual report to City Council to identify disbursements of the funds in accordance to the ballot and certified budget.

Conclusion – Response accepted.

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

The Police department maintains a savings account and the Library maintains a checking account for activity separate from the City Clerk’s accounting records. While these departments are a part of the City, the transactions and the resulting balances were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

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

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

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

Response – The City of West Liberty will close the Library’s separate account. All funds will be receipted with the City and reconciled with City pooled cash. The West Liberty Police Department will reconcile the savings and close for transfer to the City’s pooled cash.

Conclusion – Response accepted.

- (13) Utility Fees and Penalties – The resolutions for the water and sewer revenue notes require system receipts consisting of established charges, rates and rentals for services be pledged for the payment of the principal and interest on the notes. The City credits all penalties and fees associated with all utilities to the Enterprise, Electric Fund.

Recommendation – The City should take action to ensure the proper allocation of penalties and fees collected be credited to the Water and Sewer Funds in order for the funds to be available for repayment of the associated debt, as required.

Response – The City will work with the financial software in order to establish separation of the revenue collected to be credited to the correct utility fund.

Conclusion – Response accepted.

- (14) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, outstanding for more than two years to the Office of the Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State, as required.

Response – The City of West Liberty will review outstanding checks and file them with the Office of the Treasurer of State.

Conclusion – Response accepted.

City of West Liberty

Schedule of Findings

Year ended June 30, 2019

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

The City has previously certified the entire TIF portion of principal and interest to be paid on the General Obligation Bonds, Series 2016A and the entire principal to be paid on the General Obligation Bonds, Series 2017A on form 1.1 of the TIF Certification. The City has used form 2 of the TIF Certification to request the amount the City will fund from TIF on the next fiscal year's debt payments.

During the year ended June 30, 2019, the City transferred \$153,899 from the TIF fund to the Debt Service Fund to cover a portion of the principal and interest due on the general obligation notes issued in 2016 and 2017. However, the City also levied debt service property taxes on the full amount of principal and interest paid during fiscal year 2019.

Recommendation – The City should consult TIF counsel to determine the amount of TIF debt to be decertified due to the debt also being funded by the debt service levy. The City should review future amounts certified as TIF and deduct them from the requested debt service levy.

Response – The City Clerk has recognized the error with the TIF and Debt Service Fund. The November 2019 TIF Certification request has been reduced by the amount of the overages for the fiscal year 2021 debt payments for the general obligation bonds. The City will seek more training for the City Clerk and Deputy City Clerk with TIF filing.

Conclusion – Response accepted.

City of West Liberty

Staff

This audit was performed by:

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