



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

NEWS RELEASE

Contact: Brian Brustkern
515/281-5834

FOR RELEASE

May 30, 2024

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

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$7,153,801 for the year ended June 30, 2023, a 14.3% decrease from the prior year. Disbursements for the year ended June 30, 2023, totaled \$7,732,138, a 29.3% increase over the prior year. The significant decrease from the prior year in receipts is due primarily to less funding from the Iowa DOT for a bridge project and the bond issuance in fiscal year 2022 for street projects. The increase in disbursements is due primarily to a street improvement project and a sanitary sewer project that started in fiscal year 2023.

AUDIT FINDINGS:

Sand reported twenty-two findings related to the receipt and disbursement of taxpayer funds. They are found on pages 48 through 61 of this report. The findings address issues such as a lack of segregation of duties, inadequate monthly financial reporting to the City Council, the lack of certain policies and enforcement of established vacation accrual policies, disbursements exceeding budgeted amounts and non-compliance with the Iowa Constitution with regard to donations to nonprofit organizations. Sand provided the City with recommendations to address each of the findings.

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

A copy of the audit report is available for review on the Auditor of State's website at [Audit Reports – Auditor of State.](#)

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CITY OF TRAER

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

JUNE 30, 2023

City of Traer



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Rob Sand
Auditor of State

April 25 2024

Officials of the City of Traer
Traer, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Traer for the year ended June 30, 2023. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand", written in a cursive style.

Rob Sand
Auditor of State

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City of Traer and Traer Municipal Utilities

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Pete Holden	Mayor	Jan 2024
Carri Holst	Mayor Pro Tem	Jan 2024
Patrisha Kennedy	Council Member	Jan 2024
Matt Rausch	Council Member	Jan 2024
James Erhardt	Council Member	Jan 2026
Jon Panfil	Council Member	Jan 2026
Haley Blaine	City Clerk/Treasurer	Indefinite
Brent Lechtenberg	Attorney	Indefinite
David Barnes	TMU Trustee	Jan 2024
Anita Dostal	TMU Trustee	Jan 2025
Nick Podhajsky	TMU Trustee	Jan 2026
Eric McEwen	TMU Trustee	Jan 2027
Sara O'Brein	TMU Trustee	Jan 2028
Jim Currens	General Manager	Indefinite
Haley Blaine	Office Manager	Indefinite

City of Traer



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2023, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Traer as of June 30, 2023, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the City of Traer, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management 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, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Traer's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 of Traer's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Traer's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Traer's basic financial statements. We previously audited, in accordance with the standards referred to in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report, the financial statements for the six years ended June 30, 2022 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the cash basis of accounting. The financial statements for the four years ended June 30, 2016 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those financial statements which were prepared on the cash basis of accounting. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The 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 GAAS. In our opinion, the supplementary information in Schedules 1 and 2 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in this report. The other information comprises 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 40 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 25 2024 on our consideration of the City of Traer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Traer's internal control over financial reporting and compliance.



Brian R. Brustkern, CPA
Deputy Auditor of State

April 25 2024

City of Traer

Basic Financial Statements

City of Traer

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2023

	<u>Program Receipts</u>		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Primary Government:			
Governmental activities:			
Public safety	\$ 881,355	190,273	114,161
Public works	499,964	179,147	217,839
Health and social services	9,966	-	8,133
Culture and recreation	324,631	45,982	59,429
Community and economic development	155,302	1,575	-
General government	182,360	65,400	-
Debt service	544,173	-	-
Capital projects	1,114,968	-	18,933
Total governmental activities	<u>3,712,719</u>	<u>482,377</u>	<u>418,495</u>
Business type activities:			
Electric	1,673,462	1,598,161	2,531
Water	332,111	477,957	-
Sewer	684,930	256,153	-
Telecom	122,712	125,920	176
Gas	1,031,142	1,356,692	600
Total business type activities	<u>3,844,357</u>	<u>3,814,883</u>	<u>3,307</u>
Total Primary Government	\$ 7,557,076	4,297,260	421,802
Component Unit			
Traer Public Library Foundation	\$ 21,635	-	20,799
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Local option sales tax			
Commercial/industrial tax replacement			
American Rescue Plan Act			
Unrestricted interest on investments			
Note proceeds			
Sale of capital assets			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			
Cash Basis Net Position			
Restricted:			
Streets			
Debt service			
Employee benefits			
City betterment			
Other purposes			
Unrestricted			
Total cash basis net position			
See notes to financial statements.			

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Traer Public Library Foundation
(576,921)	-	(576,921)	
(102,978)	-	(102,978)	
(1,833)	-	(1,833)	
(219,220)	-	(219,220)	
(153,727)	-	(153,727)	
(116,960)	-	(116,960)	
(544,173)	-	(544,173)	
(1,096,035)	-	(1,096,035)	
(2,811,847)	-	(2,811,847)	
-	(72,770)	(72,770)	
-	145,846	145,846	
-	(428,777)	(428,777)	
-	3,384	3,384	
-	326,150	326,150	
-	(26,167)	(26,167)	
(2,811,847)	(26,167)	(2,838,014)	
			(836)
753,328	-	753,328	-
314,569	-	314,569	-
145,522	-	145,522	-
12,674	-	12,674	-
119,319	-	119,319	-
49,817	39,712	89,529	-
731,383	-	731,383	-
91,320	-	91,320	-
2,033	-	2,033	-
(326,334)	326,334	-	-
1,893,631	366,046	2,259,677	-
(918,216)	339,879	(578,337)	(836)
3,165,223	2,045,975	5,211,198	308,460
\$ 2,247,007	2,385,854	4,632,861	307,624
\$ 451,490	-	451,490	-
37,539	103,753	141,292	-
5,286	-	5,286	-
128,456	-	128,456	-
152,733	-	152,733	-
1,471,503	2,282,101	3,753,604	-
\$ 2,247,007	2,385,854	4,632,861	-

City of Traer

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

As of and for the year ended June 30, 2023

	<u>Special Revenue</u>		
	General	Road Use Tax	Debt Service
Receipts:			
Property tax	\$ 555,913	-	314,430
Local option sales tax	-	-	-
Other city tax	246	-	139
Licenses and permits	4,852	-	-
Use of money and property	49,817	-	-
Intergovernmental	186,239	217,839	-
Charges for service	475,144	-	-
Miscellaneous	71,976	-	-
Total receipts	<u>1,344,187</u>	<u>217,839</u>	<u>314,569</u>
Disbursements:			
Operating:			
Public safety	823,725	-	-
Public works	187,962	312,002	-
Health and social services	9,966	-	-
Culture and recreation	324,631	-	-
Community and economic development	64,206	-	-
General government	182,360	-	-
Debt service	177,924	-	366,249
Capital projects	-	-	-
Total disbursements	<u>1,770,774</u>	<u>312,002</u>	<u>366,249</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(426,587)</u>	<u>(94,163)</u>	<u>(51,680)</u>
Other financing sources (uses):			
Sale of capital assets	91,320	-	-
Note proceeds (net of initiation fee of \$4,385)	731,383	-	-
Transfers in	302,694	94,696	71,500
Transfers out	<u>(517,213)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>608,184</u>	<u>94,696</u>	<u>71,500</u>
Change in cash balances	181,597	533	19,820
Cash balances beginning of year	<u>1,289,906</u>	<u>450,957</u>	<u>17,719</u>
Cash balances end of year	<u>\$ 1,471,503</u>	<u>451,490</u>	<u>37,539</u>
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	451,490	-
Debt service	-	-	37,539
Employee benefits	-	-	-
City betterment	-	-	-
Other purposes	-	-	-
Unassigned	<u>1,471,503</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 1,471,503</u>	<u>451,490</u>	<u>37,539</u>

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	197,082	1,067,425
-	145,522	145,522
-	87	472
-	-	4,852
-	193	50,010
-	-	404,078
-	-	475,144
-	78,655	150,631
-	421,539	2,298,134
-	57,630	881,355
-	-	499,964
-	-	9,966
-	-	324,631
-	91,096	155,302
-	-	182,360
-	-	544,173
1,114,968	-	1,114,968
1,114,968	148,726	3,712,719
(1,114,968)	272,813	(1,414,585)
-	-	91,320
-	-	731,383
22,134	-	491,024
-	(300,145)	(817,358)
22,134	(300,145)	496,369
(1,092,834)	(27,332)	(918,216)
1,092,834	313,807	3,165,223
-	286,475	2,247,007
-	-	451,490
-	-	37,539
-	5,286	5,286
-	128,456	128,456
-	152,733	152,733
-	-	1,471,503
-	286,475	2,247,007

City of Traer

City of Traer

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

As of and for the year ended June 30, 2023

	Enterprise					Total
	Electric	Water	Sewer	Telecom	Gas	
Operating receipts:						
Charges for service	\$ 1,598,161	477,957	256,153	125,920	1,356,692	3,814,883
Operating disbursements:						
Business type activities	1,498,344	249,533	223,578	122,712	958,720	3,052,887
Excess of operating receipts over operating disbursements	99,817	228,424	32,575	3,208	397,972	761,996
Non-operating receipts (disbursements):						
Interest on investments	19,791	5,986	3,180	3,128	7,627	39,712
Miscellaneous	2,531	-	-	176	600	3,307
Garbage fees collected for the City	175,062	-	-	-	-	175,062
Garbage fees remitted to the City	(175,062)	-	-	-	-	(175,062)
Capital outlay	(175,118)	(17,678)	(461,352)	-	(17,678)	(671,826)
Debt service	-	(64,900)	-	-	(54,744)	(119,644)
Net non-operating receipts (disbursements)	(152,796)	(76,592)	(458,172)	3,304	(64,195)	(748,451)
Excess (deficiency) of receipts over (under) disbursements	(52,979)	151,832	(425,597)	6,512	333,777	13,545
Transfers in	153,114	-	495,079	-	-	648,193
Transfers out	(59,801)	-	(81,866)	-	(180,192)	(321,859)
Total transfers	93,313	-	413,213	-	(180,192)	326,334
Change in cash balances	40,334	151,832	(12,384)	6,512	153,585	339,879
Cash balances beginning of year	932,955	263,007	233,537	146,923	469,553	2,045,975
Cash balances end of year	\$ 973,289	414,839	221,153	153,435	623,138	2,385,854
Cash Basis Fund Balances						
Restricted for debt service	\$ -	5,413	-	-	98,340	103,753
Unrestricted	973,289	409,426	221,153	153,435	524,798	2,282,101
Total cash basis fund balances	\$ 973,289	414,839	221,153	153,435	623,138	2,385,854

See notes to financial statements.

Notes to Financial Statements

City of Traer

June 30, 2023

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Blended Component Units

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

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

Discretely Presented Component Unit

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

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

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

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Property Taxes and Governmental Cash Basis Fund Balances

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

Property tax revenues recognized in the governmental funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2021 assessed property valuations; is for the tax accrual period July 1, 2022 through June 30, 2023 and reflects tax asking contained in the budget certified to the City Council in March 2022.

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2023, disbursements exceeded the amounts budgeted in the debt service function. In addition, disbursements exceeded the amounts budgeted prior to the budget amendment in the community and economic development function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2023 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,274,437 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Notes and Leases Payable

A summary of changes in notes and leases payable for the year ended June 30, 2023 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Governmental activities:					
General obligation notes	\$ 3,960,000	-	235,000	3,725,000	240,000
Business type activities:					
Water revenue notes	\$ 344,000	-	52,000	292,000	54,000
Gas revenue notes	1,120,000	-	15,000	1,105,000	50,000
Sewer revenue anticipation project note - direct borrowing	131,428	46,496	177,924	-	-
Sewer revenue capital loan note - direct borrowing	-	689,272	-	689,272	-
Lease agreements	9,679	-	5,757	3,922	3,922
Business-type activities total	1,605,107	735,768	250,681	2,090,194	107,922

General Obligation Notes

A summary of the City's June 30, 2023 general obligation notes payable is as follows:

Year Ending June 30,	Municipal Pool Construction Issued Apr 20, 2017			2021 Street Projects Issued Sep 8, 2021		
	Interest			Interest		
	Rates	Principal	Interest	Rates	Principal	Interest
2024	2.45%	\$ 140,000	74,153	2.00%	\$ 35,000	6,820
2025	2.45	145,000	70,722	2.00	35,000	6,120
2026	2.45	150,000	67,170	2.00	35,000	5,420
2027	3.00	155,000	63,495	2.00	35,000	4,720
2028	3.00	160,000	58,845	2.00	40,000	4,020
2029-2033	3.00-4.00	875,000	216,065	1.55-2.00	200,000	10,500
2034-2036	4.00	600,000	48,800		-	-
Total		\$ 2,225,000	599,250		\$ 380,000	37,600

Year Ending June 30,	2022 Street Projects Issued Jun 21, 2022			Total		
	Interest			Principal	Interest	Total
	Rates	Principal	Interest			
2024	2.60%	\$ 65,000	41,328	\$ 240,000	122,301	362,301
2025	2.90	80,000	39,637	260,000	116,479	376,479
2026	2.90	80,000	37,318	265,000	109,908	374,908
2027	3.15	80,000	34,997	270,000	103,212	373,212
2028	3.15	85,000	32,477	285,000	95,342	380,342
2029-2033	3.40-4.75	510,000	115,075	1,585,000	341,640	1,926,640
2034-2036	4.75	220,000	14,250	820,000	63,050	883,050
Total		\$ 1,120,000	315,082	\$ 3,725,000	951,932	4,676,932

On April 20, 2017, the City entered into a loan agreement for a general obligation capital loan note, series 2018, to borrow \$2,500,000 to pay the costs of constructing a new municipal pool in Taylor Park, including the demolition and removal of the existing swimming pool. The note bears interest ranging from 2.10% to 4.00% per annum and matures in varying annual amounts ranging from \$135,000 to \$210,000, with a final maturity date of June 1, 2036. For the current year, principal of \$140,000 and interest of \$77,093 was paid on the notes.

On September 8, 2021, the City entered into a loan agreement for a general obligation capital loan note, series 2021, to borrow \$555,000 to pay the costs of construction, reconstruction, and repair of any street improvements and bridges. The note bears interest ranging from 1.55% to 2.00% per annum and matures in varying annual amounts ranging from \$35,000 to \$140,000, with a final maturity date of June 1, 2033. For the current year, principal of \$35,000 and interest of \$7,520 was paid.

On June 21, 2022, the City entered into a loan agreement for a general obligation capital loan note, series 2022, to borrow \$1,180,000 to pay the costs of construction, reconstruction, and repair of street improvements and bridges. The note bears interest ranging from 2.60% to 4.75% per annum and matures in varying annual amounts ranging from \$60,000 to \$140,000, with a final maturity date of June 1, 2035. For the current year, principal of \$60,000 and interest of \$40,505 was paid.

Revenue Notes

A summary of the City's June 30, 2023 revenue notes payable is as follows:

Year Ending June 30,	Water			Total		
	Issued Apr 27, 2016			Principal	Interest	Total
	Interest Rates	Principal	Interest			
2024	3.75%	\$ 54,000	10,950			
2025	3.75	56,000	8,925			
2026	3.75	58,000	6,825			
2027	3.75	61,000	4,650			
2028	3.75	63,000	2,363			
Total		\$ 292,000	33,713			

Year Ending June 30,	Gas			Total		
	Issued Sep 1, 2020			Principal	Interest	Total
	Interest Rates	Principal	Interest			
2024	3.50%	\$ 50,000	38,675	\$ 104,000	49,625	153,625
2025	3.50	50,000	36,925	106,000	45,850	151,850
2026	3.50	50,000	35,175	108,000	42,000	150,000
2027	3.50	55,000	33,425	116,000	38,075	154,075
2028	3.50	55,000	31,500	118,000	33,863	151,863
2029-2033	3.50	305,000	127,400	305,000	127,400	432,400
2034-2038	3.50	370,000	69,475	370,000	69,475	439,475
2039-2040	3.50	170,000	8,925	170,000	8,925	178,925
Total		\$ 1,105,000	381,500	\$ 1,397,000	415,213	1,812,213

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$409,000 of water revenue capital loan notes issued in April 2016. Proceeds from the notes provided financing for the purpose of paying costs or repairing and refurbishment of the Jordan Well. The notes are payable solely from water customer net receipts and are payable through 2028. Annual principal and interest payments on the notes are expected to require 28% of net receipts. During the year ended June 30, 2023, the City paid \$52,000 of principal and \$12,900 of interest on the notes. The total principal and interest remaining to be paid on the notes is \$325,713. For the current year, principal and interest paid and total customer net receipts were \$64,900 and \$228,424, respectively.

The City has pledged future gas customer receipts, net of specified operating disbursements, to repay \$1,150,000 of Gas Revenue Capital Loan Notes, Series 2020 issued in September 2020. Proceeds from the notes provided financing for the purpose of completing the acquisition of the natural gas distribution system from Interstate Power and Light Company. The notes are payable solely from gas customer net receipts and are payable through 2040. Annual principal and interest payments on the notes are expected to require in 14% of net receipts. During the year ended June 30, 2023, the City paid \$15,000 of principal and \$39,744 of interest on the notes. The total principal and interest remaining to be paid on the notes is \$1,486,500. For the current year, principal and interest paid and total customer net receipts were \$54,744 and \$397,972, respectively.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and gas revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) For water, user rates shall be established at a level which produces and maintains net receipts at a level net less than 125% the amount of principal and interest on the bond falling due in the same year.
- (d) For gas, user rates shall be established at a level which produces and maintains net receipts at a level net less than 110% the amount of principal and interest on the bond falling due in the same year.
- (e) Additional monthly transfers of 25% of the amount required in the gas sinking fund shall be made to a revenue reserve account until specific minimum balances have been accumulated.

The City has not established the required sinking fund for gas and water and the revenue reserve account for gas.

Sewer Revenue Capital Loan Anticipation Project Note

Direct Borrowing On November 30, 2018 the City entered into a loan anticipation project note agreement with the Iowa Finance Authority to borrow \$500,000 to pay the costs of acquisition, construction, reconstruction, extending, remodeling, improving, repairing, and equipping all or part of the Municipal Sewer System. The note is payable from the proceeds of an authorized loan agreement and a corresponding issuance of sewer revenue capital loan notes in an amount sufficient to repay the note. During the year ended June 30, 2023, the City drew down \$46,496 for a total of \$177,924 drawn on the anticipation project note. During the year end June 30, 2023, the City paid the balance of \$177,924 on the anticipation project note.

Sewer Revenue Capital Loan Note – Direct Borrowing

On December 9, 2022, the City entered into a State Revolving Fund (SRF) loan and disbursement agreement with the Iowa Finance Authority (IFA) for the issuance of up to \$877,000 sewer revenue capital loan note with interest at 1.75% per annum. The notes were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the costs of acquisition, construction, reconstruction, extending, remodeling, improving, repairing, and equipping all or part of the Municipal Sewer System. The City will draw down funds from the IFA upon request to reimburse the City for costs as they are incurred. In the event of default, the issuer shall have the right to take any action authorized under the regulations, the revenue note or the agreement and to take whatever other action at law or equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the agreement or to enforce the performance and observance of any duty, covenant, obligation or agreement of the participant under the agreement. The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the note. During the year ended June 30, 2023, the City drew down \$684,887 (\$689,272 less the \$4,385 initiation fee) of the authorized amount, leaving a balance of \$187,728 to draw. An initiation fee of \$4,385, 0.5% of the authorized borrowing for the sewer revenue notes, was charged by the IFA. The agreement also requires the City to pay 0.25% servicing fee on the outstanding principal balance. A final repayment schedule has not yet been adopted for the notes. \$0 in principal and \$4,132 in interest payments were made during the year ended June 30, 2023.

Lease Agreement

On February 18, 2019, the TMU entered into a noncancelable lease agreement for a copy machine. An initial lease liability was recorded in the amount of \$14,827. The agreement requires monthly payments of \$443 the first three years increasing to \$495 for the remainder of the lease. The lease has an implicit interest rate of 2.60% and a final payment is due February 17, 2024.

Year Ending June 30,	Utility Printer		
	Principal	Interest	Total
2024	\$ 3,922	38	3,960

(4) Pension Plan

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

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

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

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

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 2023, 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 6.21% of covered payroll and the City contributed 9.31% of covered payroll, for a total rate of 15.52%.

The City's contributions to IPERS for the year ended June 30, 2023 totaled \$99,367.

Net Pension Liability, Pension Expense (Reduction), Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2023, the City reported a liability of \$303,019 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 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, 2022, the City's proportion was 0.008020%, which was a decrease of 0.028794% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the City's pension expense (reduction), deferred outflows of resources and deferred inflows of resources totaled \$(8,481), \$489,742 and \$522,445, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

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

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of a quadrennial experience study covering the period of July 1, 2017 through June 30, 2021.

Mortality rates used in the 2022 valuation were based on the PubG-2010 mortality tables with future mortality improvements modeled using Scale MP-2021.

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	3.57%
International equity	17.5	4.79
Global smart beta equity	6.0	4.16
Core plus fixed income	20.0	1.66
Public credit	4.0	3.77
Cash	1.0	0.77
Private equity	13.0	7.57
Private real assets	8.5	3.55
Private credit	8.0	3.63
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension asset 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 (Asset) to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability (asset) 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	\$ 699,155	303,019	(45,689)

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

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2023, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 67,000
Sick leave	<u>63,000</u>
Total	<u>\$ 130,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2023.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2023 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 137,449
	Local Option Sales Tax	68,000
	Enterprise:	
	Sewer	10,366
	Electric	59,801
	Gas	<u>27,078</u>
		<u>302,694</u>
Road Use	Special Revenue:	
	Employee Benefits	<u>94,696</u>
Debt Service	Enterprise:	
	Sewer	<u>71,500</u>
Capital Projects	General	<u>22,134</u>
Enterprise:		
Sewer	General	<u>495,079</u>
Enterprise:		
Electric	Enterprise:	
	Gas	<u>153,114</u>
Total		<u>\$ 1,139,217</u>

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

(7) Interfund Loans

On March 4, 2021, the Traer Municipal Utilities agreed to advance \$445,966 from the Enterprise, Electric Fund to the Enterprise, Gas Fund for the purpose of stabilizing the natural gas budget in the short-term until the unanticipated supply costs can be recouped. The loan will be repaid through transfers from the Enterprise, Gas Fund to the Enterprise, Electric Fund, as funds become available in the Enterprise, Gas Fund. During the year ended June 30, 2023, the Enterprise, Gas Fund repaid the remaining balance of \$153,114 to the Enterprise, Electric Fund.

(8) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax receipts to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City of Traer offered an urban revitalization tax abatement program pursuant to Chapter 404 of the Code of Iowa. With prior approval by the governing body, this program provides for an exemption of taxes based on a percentage of the actual value added by improvements.

For the year ended June 30, 2023, \$117,956 of property tax was diverted from the City under Chapter 404, tax abatement program.

(9) Risk Management

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

(10) Lease Agreement

The TMU owns utility poles that are rented to Windstream Iowa Communications. Effective August 30, 2016, the TMU entered into a five-year lease. On July 1, 2021, the lease was automatically renewed for an additional five years and has an additional five-year option that will automatically renew. The TMU is to receive an annual payment of \$2,901, with an incremental lending rate of 2.60%.

Year Ending June 30,	Utility Pole Rental		
	Principal	Interest	Total
2024	\$ 2,362	539	2,901
2025	2,424	477	2,901
2026	2,487	414	2,901
2027	2,551	350	2,901
2028	2,618	283	2,901
2029-2031	8,268	435	8,703
Total	\$ 20,710	2,498	23,208

The TMU owns utility poles that are rented to Mediacom. Effective October 3, 2016, the TMU entered into a five-year lease. On October 1, 2021, the lease was automatically renewed for an additional five years and has an additional five-year option that will automatically renew. The TMU is to receive an annual payment of \$3,834, with an incremental lending rate of 2.60%.

Year Ending June 30,	Utility Pole Rental		
	Principal	Interest	Total
2024	\$ 3,122	712	3,834
2025	3,204	630	3,834
2026	3,287	547	3,834
2027	3,372	462	3,834
2028	3,460	374	3,834
2029-2031	10,929	573	11,502
Total	\$ 27,374	3,298	30,672

(11) Construction Commitments

The City has entered into a contract totaling \$381,800 for a bridge replacement project. As of June 30, 2023, costs of \$363,646 on the project have been incurred. The \$18,154 balance remaining on the project at June 30, 2023 will be paid as work on the project progresses.

The City has entered into a contract totaling \$1,031,131 for a street improvement project. As of June 30, 2023, costs of \$1,026,131 on the project have been incurred. The \$5,000 balance remaining on the project at June 30, 2023 will be paid as work on the project progresses.

The TMU has entered into a contract totaling \$525,437 for a sanitary sewer repair project. As of June 30, 2023, costs of \$461,352 on the project have been incurred. The \$64,085 balance remaining on the project at June 30, 2023 will be paid as work on the project progresses.

(12) Subsequent Events

In October 2023, the City issued a \$896,000 Sewer Revenue Capital Loan Note, Series 2023 for the purpose of paying costs of acquisition, construction, reconstruction, extending, remodeling, improving, repairing, and equipping all or part of the Municipal Sewer System. The loan bears interest at 1.75% and is payable through June 2043.

The Iowa SRF Program utilizes principal forgiveness to help make projects more affordable for communities that meet the Program's definition of disadvantaged community. As a result, in December 2023, the Iowa Finance Authority authorized a reduction in the principal amount of the Sewer Revenue Capital Loan Note, Series 2022 in the amount of \$410,933, resulting in a final loan amount of \$273,955 as of the date of reissuance on December 1, 2023.

(13) Pending Litigation

The City is a defendant in a lawsuit seeking an unspecified amount of damages. The probability and amount of loss, if any, is indeterminable.

Other Information

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

Other Information

Year ended June 30, 2023

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,067,425	-	-
Other city tax	145,994	-	-
Licenses and permits	4,852	-	-
Use of money and property	50,010	39,712	26
Intergovernmental	404,078	-	-
Charges for service	475,144	3,814,883	-
Miscellaneous	150,631	3,307	38,717
Total receipts	2,298,134	3,857,902	38,743
Disbursements:			
Public safety	881,355	-	45,062
Public works	499,964	-	-
Health and social services	9,966	-	-
Culture and recreation	324,631	-	-
Community and economic development	155,302	-	-
General government	182,360	-	-
Debt service	544,173	-	-
Capital projects	1,114,968	-	-
Business type activities	-	3,844,357	-
Total disbursements	3,712,719	3,844,357	45,062
Excess (deficiency) of receipts over (under) disbursements	(1,414,585)	13,545	(6,319)
Other financing sources, net	496,369	326,334	-
Change in balances	(918,216)	339,879	(6,319)
Balances beginning of year	3,165,223	2,045,975	23,590
Balances end of year	\$ 2,247,007	2,385,854	17,271

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
1,067,425	1,064,515	1,064,515	2,910
145,994	142,671	142,671	3,323
4,852	5,150	5,150	(298)
89,696	4,000	4,000	85,696
404,078	455,473	455,473	(51,395)
4,290,027	5,839,600	5,839,600	(1,549,573)
115,221	51,500	51,500	63,721
<u>6,117,293</u>	<u>7,562,909</u>	<u>7,562,909</u>	<u>(1,445,616)</u>
836,293	603,792	903,792	67,499
499,964	488,938	513,938	13,974
9,966	12,800	17,800	7,834
324,631	313,227	338,227	13,596
155,302	99,500	599,500	444,198
182,360	162,235	187,235	4,875
544,173	364,326	364,326	(179,847)
1,114,968	2,718,000	2,718,000	1,603,032
<u>3,844,357</u>	<u>5,264,115</u>	<u>5,264,115</u>	<u>1,419,758</u>
<u>7,512,014</u>	<u>10,026,933</u>	<u>10,906,933</u>	<u>3,394,919</u>
(1,394,721)	(2,464,024)	(3,344,024)	1,949,303
<u>822,703</u>	<u>2,700,000</u>	<u>2,700,000</u>	<u>(1,877,297)</u>
(572,018)	235,976	(644,024)	72,006
<u>5,187,608</u>	<u>3,673,837</u>	<u>3,673,837</u>	<u>1,513,771</u>
<u>4,615,590</u>	<u>3,909,813</u>	<u>3,029,813</u>	<u>1,585,777</u>

City of Traer

City of Traer

Notes to Other Information – Budgetary Reporting

June 30, 2023

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$880,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2023, disbursements exceeded the amounts budgeted in the debt service function. In addition, disbursements exceeded the amounts budgeted prior to the budget amendment in the community and economic development function.

City of Traer

Schedule of the City's Proportionate Share of the Net Pension Liability (Asset)

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

Other Information

	2023	2022	2021	2020
City's proportion of the net pension liability	0.008020%	0.036814% **	0.008978%	0.008386%
City's proportionate share of the net pension liability	\$ 303	(127)	631	486
City's covered payroll	\$ 969	931	850	786
City's proportionate share of the net pension liability as a percentage of its covered payroll	31.27%	-13.64%	74.24%	61.83%
IPERS' net position as a percentage of the total pension liability	91.40%	100.81%	82.90%	85.45%

* 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.

** Overall plan net pension asset.

See accompanying independent auditor's report.

2019	2018	2017
0.009343%	0.009699%	0.009754%
591	646	614
821	803	773
71.99%	80.45%	79.43%
83.62%	82.21%	81.82%

City of Traer
 Schedule of City Contributions
 Iowa Public Employees' Retirement System
 For the Last Eight Years
 (In Thousands)

Other Information

	2023	2022	2021	2020
Statutorily required contribution	\$ 99	91	88	81
Contributions in relation to the statutorily required contribution	(99)	(91)	(88)	(81)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	\$ 1,055	969	931	850
Contributions as a percentage of covered payroll	9.38%	9.39%	9.45%	9.53%

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

See accompanying independent auditor's report.

2019	2018	2017	2016
75	74	72	70
(75)	(74)	(72)	(70)
-	-	-	-
786	821	803	773
9.54%	9.01%	8.97%	9.06%

City of Traer

Notes to Other Information – Pension Liability

Year ended June 30, 2023

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2022 valuation incorporated the following refinements after a quadrennial experience study:

- Changed mortality assumptions to the PubG-2010 mortality tables with mortality improvements modeled using Scale MP-2021.
- Adjusted retirement rates for Regular members.
- Lowered disability rates for Regular members.
- Adjusted termination rates for all membership groups.

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

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

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

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

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

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

Supplementary Information

City of Traer

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

As of and for the year ended June 30, 2023

		Special	
		Local Option Sales Tax	Traer Volunteer Ambulance Fundraiser
Receipts:			
Property tax	\$ 197,082	-	-
Local option sales tax	-	145,522	-
Other city tax	87	-	-
Use of money and property	-	-	167
Miscellaneous	-	-	39,938
Total receipts	197,169	145,522	40,105
Disbursements:			
Operating:			
Public safety	-	-	12,568
Community and economic development	-	91,096	-
Total receipts	-	91,096	12,568
Excess (deficiency) of receipts over (under) disbursements	197,169	54,426	27,537
Other financing uses:			
Transfers out	(232,145)	(68,000)	-
Change in cash balances	(34,976)	(13,574)	27,537
Cash balances beginning of year	40,262	142,030	107,925
Cash balances end of year	\$ 5,286	128,456	135,462
Cash Basis Fund Balances			
Restricted for:			
Employee benefits	\$ 5,286	-	-
City betterment	-	128,456	-
Other purposes	-	-	135,462
Total cash basis fund balances	\$ 5,286	128,456	135,462

See accompanying independent auditor's report.

Revenue

Traer Fire Department, Inc.	Total
-	197,082
-	145,522
-	87
26	193
38,717	78,655
38,743	421,539
45,062	57,630
-	91,096
45,062	148,726
(6,319)	272,813
-	(300,145)
(6,319)	(27,332)
23,590	313,807
17,271	286,475
-	5,286
-	128,456
17,271	152,733
17,271	286,475

City of Traer

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

For the Last Ten Years

	2023	2022	2021	2020
Receipts:				
Property tax	\$ 1,067,425	1,059,165	1,029,708	956,127
Local option sales tax	145,522	193,456	134,316	111,460
Other city tax	472	989	1,703	2,166
Licenses and permits	4,852	6,567	3,134	5,679
Use of money and property	50,010	2,495	2,950	20,420
Intergovernmental	404,078	704,060	304,393	303,856
Charges for service	475,144	341,885	368,875	351,107
Miscellaneous	150,631	197,350	136,684	124,396
Total	\$ 2,298,134	2,505,967	1,981,763	1,875,211
Disbursements:				
Operating:				
Public safety	\$ 881,355	620,730	566,698	702,673
Public works	499,964	458,033	456,430	455,338
Health and social services	9,966	13,902	16,478	15,252
Culture and recreation	324,631	411,764	279,504	319,845
Community and economic development	155,302	71,793	51,654	62,329
General government	182,360	158,323	169,474	153,953
Debt service	544,173	364,132	501,211	448,157
Capital projects	1,114,968	861,513	408,754	73,313
Total	\$ 3,712,719	2,960,190	2,450,203	2,230,860

See accompanying independent auditor's report.

2019	2018	2017	2016	2015	2014
963,285	943,708	852,591	842,089	815,962	795,209
122,977	98,029	116,225	120,203	106,690	104,811
-	-	-	9,412	9,200	9,119
3,922	5,089	4,513	1,428	1,413	1,497
25,939	23,293	4,631	7,704	6,261	6,003
263,187	348,702	246,572	310,901	515,414	676,368
351,448	328,743	322,452	322,960	314,827	290,792
280,345	219,318	108,951	40,463	68,275	30,202
2,011,103	1,966,882	1,655,935	1,655,160	1,838,042	1,914,001
466,638	731,933	418,161	345,958	509,965	408,067
492,278	391,672	498,654	435,514	400,699	434,333
9,652	9,178	8,813	8,795	4,482	4,917
276,151	205,365	268,711	196,934	209,237	205,883
74,821	70,163	172,942	100,717	102,326	60,824
145,519	149,712	145,927	137,320	147,098	149,260
455,541	414,638	324,880	339,350	279,128	271,102
452,251	2,463,865	152,230	91,173	533,622	698,441
2,372,851	4,436,526	1,990,318	1,655,761	2,186,557	2,232,827



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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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2023, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 25 2024. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Traer's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Traer's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Traer's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that 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 that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2023-001 through 2023-004 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that 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 2023-005 through 2023-010 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Traer's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 noncompliance 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, 2023 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.

City of Traer's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Traer's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The City of Traer's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

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



Brian R. Brustkern, CPA
Deputy Auditor of State

April 25 2024

City of Traer

Schedule of Findings

Year ended June 30, 2023

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

2023-001 Segregation of Duties

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

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

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

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

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

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2023

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

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

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

2023-002 Segregation of Duties for the Traer Fire Department, Inc.

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

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

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

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

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2023

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

Conclusion – Response acknowledged. The reviews performed by an independent person should be documented by the signature or initials of the reviewer and the date of the review.

2023-003 Financial Reporting

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

Condition – The City incorrectly recorded utility excise tax and mobile home tax as property tax rather than other city tax. In addition, commercial/industrial replacement tax was recorded as property tax rather than as intergovernmental receipts. Also, the City does not record all transfers in the general ledger and some transfers are recorded as disbursements. Additionally, the City records the Special Revenue, Road Use Tax and Employee Benefits Funds within one fund in the City's ledgers. The combined fund uses various department numbers to differentiate disbursements for the fund. Adjustments were subsequently made to properly record these amounts in the financial statements.

Cause – City policies do not require, and procedures have not been established to require independent review of transactions and separate reporting of the Special Revenue, Road Use Tax and Employee Benefits Funds in the City's ledgers to ensure the City's financial statements are accurate and reliable.

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

Recommendation – The City should implement procedures to properly report utility excise, mobile home and commercial/industrial replacement taxes and transfers. The City should establish separate funds to properly report the Special Revenue, Road Use Tax and Employee Benefits Funds in accordance with the City Finance Committee's Uniform Chart of Accounts.

Response – The City/TMU will work to implement policies and procedures to ensure we are more accurate and reliable in financial reporting. The City will also work to add more ledger accounts necessary for better/easier accounting.

Conclusion – Response accepted.

City of Traer

Schedule of Findings

Year ended June 30, 2023

2023-004 Traer Fire Department Inc.

Criteria – An effective internal control system provides for an independent review of reconciliations of monthly bank statements to book balances.

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

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

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

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

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

Conclusion – Response acknowledged. The reviews performed by an independent person over the bank reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

2023-005 Voided Receipts

Criteria – An effective internal control system provides reconciliations of daily collections to deposit and voided receipts to ensure the accuracy of accounting records.

Condition – Reports of voided receipts are not periodically prepared, and voided receipts are not independently reviewed.

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

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2023

Response – The City/TMU void very little but will work on a procedure plan moving forward.

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

2023-006 Monthly City Clerk’s Report

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

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

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

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

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

Response – The reports given to the Council will be more detailed to show balances and transfers.

Conclusion – Response accepted.

2023-007 Compensated Absences

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

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

Cause – Established vacation accrual policies have not been enforced.

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

City of Traer

Schedule of Findings

Year ended June 30, 2023

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

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

Conclusion – Response accepted.

2023-008 Journal Entries and Transfers

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

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

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

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

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

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

Conclusion – Response acknowledged. Journal entries and transfers should be supported, and the support should be provided to an independent person for review and approval. Independent review and approval should be documented by the signature or initials of the reviewer and the date of the review.

City of Traer

Schedule of Findings

Year ended June 30, 2023

2023-009 Computer System

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

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

- (1) Password privacy and confidentiality.
- (2) Requiring password changes, logging off unattended terminals or screen saver passwords because the City’s software does not require the user to change logins/passwords periodically.
- (3) Security awareness and ensuring only software licensed to the City is installed on computers.
- (4) Requiring periodic review of user profiles to help limit access to programs to those who have a legitimate need.
- (5) Personal use of computer equipment and software.

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

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

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

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

Response – We will work with our IT department to get appropriate policies and procedures in place to improve our control over the computer system.

Conclusion – Response accepted.

City of Traer

Schedule of Findings

Year ended June 30, 2023

2023-010 Traer Fire Department, Inc. Receipts

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

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

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

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

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

Response – All receipts are received by the secretary/treasurer and the chief and read aloud at the monthly meeting of members. Deposits are shown on the monthly bank reconciliation that is reviewed by all 5 officers. Disbursements are collected and read aloud monthly for all members to vote on for approval and payment, payments are signed by both the treasurer and the chief. Cash is not used. A numbered receipt book is currently used for all deposits and reconciliation.

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

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Traer

Schedule of Findings

Year ended June 30, 2023

Other Findings Related to Required Statutory Reporting:

2023-A Certified Budget – At June 30, 2023, disbursements in the debt service function exceeded the amounts budgeted. In addition, disbursements exceeded the amounts budgeted prior to the budget amendment in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City Clerk will work better at making amendments to budget before funds are spent.

Conclusion – Response acknowledged. The City should amend the budget before disbursements are allowed to exceed the budget.

2023-B Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Traer Chamber of Commerce	Traer Bucks	\$ 450
Hometown Foods	Meat and cheese trays, crackers and coffee	249
Hometown Foods	Cranberry juice, apple juice and hard candy	70

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

Recommendation – The City Council should determine and document the public purpose served by these types of disbursements 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/TMU will work better at giving more description on some of these expenses at the time they are paid as many of them were offered to the public and not just for private use. We will work on a procedure plan going forward.

Conclusion – Response acknowledged. The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. The City should establish written policies and procedures, including the requirement for proper documentation.

City of Traer

Schedule of Findings

Year ended June 30, 2023

- 2023-C Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 2023-D Business Transactions – No business transaction between the City and City officials or employees were noted.
- 2023-E Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- 2023-F 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.
- 2023-G City Council Meeting Minutes – Except as noted below, no transactions were found that we believe should have been approved in the City Council minutes but were not.

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

In addition, the minutes of the Traer Municipal Utility Board proceedings were published but were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. In addition, the meeting minutes were not always signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City Council and the TMU Board should ensure minutes are published within the required time frame. The TMU should also comply with Chapter 380.7 of the Code of Iowa and ensure all minutes are signed, as required.

Response – The City of Traer and TMU use a publication source that publishes once a week. We will work to ensure deadlines are met to get items published in a timely manner.

Conclusion – Response acknowledged. The City should also comply with Chapter 372.13(6) and Chapter 380.7 of the Code of Iowa and ensure all minutes are published within the required time frame and signed.

- 2023-H Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

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

Response – Our attorney has come up with an investment policy, that will be approved by the council and shouldn't be an issue in the future.

Conclusion – Response accepted.

City of Traer

Schedule of Findings

Year ended June 30, 2023

2023-I Revenue Notes – The City has complied with revenue note resolutions, except as follows:

The water and gas note resolutions require the City to establish a sinking account to pay in full the interest and installment becoming due. The City has not established the required revenue sinking account for water or gas.

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

Recommendation – The City should establish the required water and gas sinking accounts and gas reserve account in the proper amount.

Response – Funds will be moved and renamed to establish a sinking fund for both gas and water departments. TMU and the City of Traer are working together to establish a gas reserve fund moving forward.

Conclusion – Response accepted.

2023-J Telecommunications Services – No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.

2023-K Separately Maintained Records – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

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

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

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

City of Traer

Schedule of Findings

Year ended June 30, 2023

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

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

2023-L Internet Rates – Chapter 388.6 of the Code of Iowa states, “A city utility or combined utility system may not provide use or service at a discriminatory rate, except to the City or its agencies, as provided in Chapter 384.91.” Employee discounts were provided on internet services.

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

Response – This has already been addressed and shouldn’t be an issue going forward.

Conclusion – Response accepted.

2023-M Donations – During the year ended June 30, 2023, the City donated funds to the following entities:

Paid to	Purpose	Amount
Winding Stairs Festival	Donation for community festival	\$ 8,500
Traer Mural Committee	Donation for downtown mural	7,000
Redhawk Youth Sports	Donation for youth baseball/softball program	5,000
Traer Chamber of Commerce	Donation for speakers	3,879
Traer Golf & Country Club	Donation for fireworks	3,500
Traer Shaker Gallery	Donation for general budget/operations	3,000
Beautification Committee	Donation for Taylor Park	3,000
Sesquicentennial Committee	Donation for signage/advertising	2,209

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

At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that “a governmental body may not donate public funds to a private entity, even if the entity is established for charitable educational purposes and performs work which government can’t perform directly.” The Opinions further state, “Even if the function of a private nonprofit corporation fits within the scope of activities generally recognized as serving a public purpose, a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes.”

City of Traer

Schedule of Findings

Year ended June 30, 2023

Political subdivisions and municipalities, including cities, counties, schools and townships are municipal-governmental entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support 'public' services which are the same or similar to the services provided by the government, the private organization is not subject to the same degree of public accountability and oversight as governmental entities.

Recommendation – We are not aware of any statutory authority for the City to provide public funds to private nonprofit corporations. If the nonprofit organization provides a service to the City, the City may enter into an agreement properly established under Chapter 28E of the Code of Iowa or an ordinary contract for services similar to one they would enter with a private entity providing services. Either way, the agreement should detail the services provided and the cost of those services, as well as provide transparency for the City that allows confirmation the funds were spent as agreed and a clawback provision in the event that they are not spent as agreed. If the entity is not providing a service to the City, the City should immediately cease making future donations. Agreements to provide funding to governmental organizations should likewise be determined in advance and provide transparency on the use of the funds.

Response – We have changed the way in which these disbursements are made, per the auditors request last audit. We have applications, invoices, and all the proper documentation to show what the funds are being spent on and why. The City will look at contracts if needed, going forward.

Conclusion – Response acknowledged. If the nonprofit organization provides a service to the City, the City should enter into an agreement properly established under Chapter 28E of the Code of Iowa or an ordinary contract for services similar to one they would enter with a private entity providing services. The agreement should detail the services provided and the cost of those services, as well as provide transparency for the City that allows confirmation the funds were spent as agreed and a clawback provision in the event that they are not spent as agreed. If the entity is not providing a service to the City, the City should immediately cease making future donations. Agreements to provide funding to governmental organizations should likewise be determined in advance and provide transparency on the use of the funds.

2023-N Sales Tax – For eight disbursements tested, the City paid sales tax totaling \$348.

Recommendation – The City should develop procedures to ensure sales tax is not paid on purchases.

Response – This is something we try to keep an eye on, some vendors and splitting of bills can make this hard. We will work at better at watching sales tax on purchases.

Conclusion – Response acknowledged. The City should develop procedures to ensure sales tax is not paid on purchases.

City of Traer

Schedule of Findings

Year ended June 30, 2023

2023-O Annual Financial Report – Beginning balances on the fiscal year 2023 Annual Financial Report did not match prior year ending balances. Balances for all governmental funds were included in the general fund instead of broken out between the general, special revenue and debt service funds.

Recommendation – The City should develop procedures to ensure beginning balances are accurately reported on the Annual Financial Report.

Response – The City Clerk will work better at making sure everything is broken out and reported in appropriate funds.

Conclusion – Response accepted.

2023-P 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 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 – We will come up with a policy/procedure to make sure these items get cleaned up.

Conclusion – Response accepted.

2023-Q Interfund Transfers – Section 545-2 of the City Finance Committee Rules requires “A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred. For transfers of utility surpluses outline in subrule 2.5(5), the calculation proving the surplus must also be shown in the resolution.”

Transfers were not approved by the City Council by resolution or documented in the City Council meeting minutes. In addition, during the fiscal year, the City transferred \$59,801 from the Enterprise, Electric Fund, and \$27,078 from the Enterprise, Gas Fund, to the General Fund. The City did not include the calculations proving a surplus existed in the Electric and Gas funds, as required.

Recommendation – All transfers between funds should be approved by a transfer resolution which includes the information required by Section 545-2 of the City Finance Committee Rules. The City Council should approve all interfund transfers and the action should be recorded in the City Council minutes.

Response – We will work on making appropriate transfer resolutions when necessary.

Conclusion – Response acknowledged. The City Council should also approve all interfund transfers via a resolution which includes the information required by Section 545-2 of the City Finance Committee Rules and should record the action in the City Council minutes, as required.

City of Traer

Staff

This audit was performed by:

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