

SAMPLE GAAP CITY

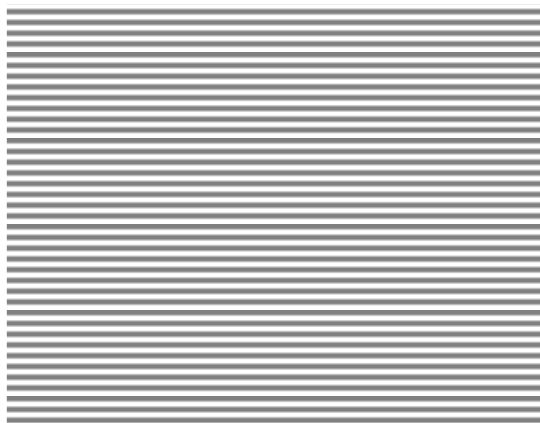
**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

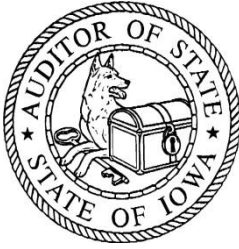
JUNE 30, 2016

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



Mary Mosiman, CPA
Auditor of State





OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of governmental subdivisions should be performed in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance).

This sample report has been prepared in conformity with U.S. generally accepted accounting principles and conforms to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format shows the basic financial statements, required and supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this Office. The detail presented in the financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the local government feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

We have included as attachments to this letter some information related to municipal utility audits. We have also included an illustration of note disclosure for a city's participation in the Municipal Fire and Police Retirement System of Iowa (Note X).

Cities with \$750,000 or more of federal expenditures are required to receive a Single Audit in accordance with the Uniform Guidance. Any questions concerning Single Audit requirements should be directed to the City's cognizant or oversight agency.

In accordance with the Uniform Guidance, the reporting package and Data Collection Form shall be submitted to the central clearinghouse the earlier of 30 days after issuance of the audit report or 9 months after the reporting period. The Office of Management and budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. The Data Collection Form and reporting package must be submitted using the Clearinghouse's Internet Data Entry System at <http://harvester.census.gov/facweb/>. The system requires the reporting package be uploaded in a single PDF file. Both the auditee and auditor contacts receive automated emails from the Federal Audit Clearinghouse as verification of the submission

Under Rule 15c-2-12 of the Securities and Exchange Commission governing ongoing disclosure by municipalities to the bond markets, virtually any municipality which issues more than \$1 million of securities per issue is subject to an ongoing filing responsibility. All continuing disclosure submissions must be provided to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system. In addition, submissions must be in an electronic format (PDF) and must be in a word-searchable PDF (not scanned) format.

The findings on compliance, items IV-A-16 through IV-G-16, IV-H-16 (if applicable) and IV-I-16 (if applicable) detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the City for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the City and a copy should be sent to this Office with two copies of the audit report sent by the CPA firm. Report filing requirements are detailed on the attached listing. We will make a copy of the audit report and news release available to the news media in this Office.

In accordance with Chapter 11 of the Code of Iowa, this Office is to be notified immediately regarding any suspected embezzlement, theft or other significant financial irregularities.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments. Together, we are able to provide a significant benefit to all taxpayers in the state.

MARY MOSIMAN, CPA
Auditor of State

Office of Auditor of State

Report Filing Requirements

Paper Copy Submission

Two paper copies of the audit report, including the management letter(s) if issued separately, are required to be filed with this Office upon release to the City within nine months following the end of the fiscal year subject to audit. In addition to the copies of the audit report, a copy of the CPA firm's per diem audit billing, including total cost and hours, and a copy of the news release or media notification should be sent to:

Office of Auditor of State
State Capitol Building
Room 111
1007 East Grand Avenue
Des Moines, Iowa 50319-0001

Electronic Submission

The City or CPA firm must also e-mail a PDF copy of the audit report to the Auditor of State's Office at:

SubmitReports@auditor.state.ia.us

If you are unable to e-mail the file, you may mail a CD containing the PDF file to this Office. You may direct any questions about submitting the electronic copy of the audit report to the above e-mail address.

Filing Fee Submission

The filing fee should be mailed separately to:

Office of Auditor of State
State Capitol Building
Room 111
1007 East Grand Avenue
Des Moines, Iowa 50319-0001

The designated budget strata and applicable filing fees are as follows:

<u>Budgeted Expenditures in</u> <u>Millions of Dollars</u>	<u>Filing</u> <u>Fee Amount</u>
Under 1	\$100.00
At least 1 but less than 3	\$175.00
At least 3 but less than 5	\$250.00
At least 5 but less than 10	\$425.00
At least 10 but less than 25	\$625.00
25 and over	\$850.00

**Information Related to
Municipal Utility Audits**

Municipal Utility audit report format should include the following:

1. Officials
2. Independent Auditor's Report
3. Management's Discussion and Analysis
4. Financial Statements
5. Required Supplementary Information - comparison of budget to actual
6. 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
7. Schedule of Findings:

Findings Related to the Financial Statements

Other Findings Related to Required Statutory Reporting:

- a. Certified Budget
- b. Questionable Disbursements
- c. Travel Expense
- d. Business Transactions
- e. Bond Coverage
- f. Board Minutes
- g. Deposits and Investments
- h. Revenue Bonds/Notes (if applicable)
- i. Telecommunications Services (if applicable)

If applicable, findings (a) through (i) are to be included regardless of whether there are any instances of non-compliance or not. Additional information relating to finding (i) on telecommunications services is provided in item 5 of the Additional Notes section.

Municipal Utilities may be component units of a City which may affect the Independent Auditor's Report and the footnote disclosure of the reporting entity.

Municipal Utility audits must meet the reporting and filing requirements prescribed in Chapter 11 of the Code of Iowa and must be performed in accordance with the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Sample GAAP City

Outline of Major Changes

- A. Implemented Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). The following changes have been made to the Sample Report.
- References to OMB Circular A-133 were revised to audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance).
 - Comments were revised to comply with requirements of the Uniform Guidance Section 200.516, Section 7 relating to audit finding detail and clarity. Also, the amount of known questioned costs required to be reported in the Schedule of Findings and Questioned Cost by Uniform Guidance Section 200.516(a)(3) increased from \$10,000 to \$25,000.
 - Disclosure related to whether or not the City elected to use the 10% de minimis cost rate was added to the Schedule of Expenditures of Federal Awards to comply with requirements of the Uniform Guidance Section 200.516(b)(6).
 - Revised Part 1 of the Schedule of Findings and Questioned Costs to comply with requirements of the Uniform Guidance Section 200.515.

Additional Notes

1. Also attached are a sample Corrective Action Plan for Audit Findings (See **Sample A**) and a sample Summary Schedule of Prior Audit Findings (See **Sample B**). These are provided for illustrative purposes only and are not required to be bound in the regular audit or filed with our office.
 2. The attached sample Corrective Action Plan refers the user to the City's response to the auditor's comment for the detailed corrective action planned. If the City's response to the auditor's comment does not include the details of its planned corrective action, this information should be included in the Corrective Action Plan itself.
 3. **In accordance with Uniform Guidance Section 200.511(a), the Corrective Action Plan and Summary Schedule of Prior Audit Findings must include findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards.**
 4. If the City has deposits in credit unions at June 30, 2016, Note 2 should be modified to indicate whether the deposits were covered by federal depository insurance, collateralized with securities or letters of credit held by the City or the City's agent in the City's name or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.
 5. Under Chapter 388.10 of the Code of Iowa, a City or Municipal Utility providing telecommunications services has the responsibility to comply with various financial and operating provisions, as well as the responsibility for annual certification of compliance with these provisions. Chapter 11.6(1) of the Code of Iowa requires the audit of a City which owns or operates a Municipal Utility providing telecommunications services to include an audit of the City's compliance with Chapter 388.10. In any year in which the City or Municipal Utility is not audited, the City or Municipal Utility must contract with the Auditor of State or a certified public accountant to "attest to the certification."
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Additional Notes (Continued)

Based on an audit of the City or Municipal Utility, a statutory comment on compliance with Chapter 388.10 should be included in the audit report. If the Municipal Utility is audited as part of the city, the required comment would be included in the City's audit report. If the Municipal Utility is audited separately, the required comment would be included in the Municipal Utility's audit report. These audit reports must be filed with the Auditor of State and the appropriate filing fee paid as provided in Chapter 11 of the Code of Iowa.

In a year when the City or Municipal Utility is not audited, the attestation report should indicate compliance with the provisions of Chapter 388.10. These attestation reports are public records, by law, and are to be filed with this Office. These reports are not subject to the payment of a filing fee.

Following are sample audit report comments for reporting on telecommunication services.

No non-compliance noted – for separate Municipal Utility audit or City audit which includes the Utility:

Telecommunications Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

Non-compliance noted – for separate Municipal Utility audit or City audit which includes the Utility:

Telecommunications Services – The City (or Utility) did not consistently allocate the cost of use of City (or Utility) employees, equipment and other services used by the telecommunications municipal utility as required by Chapter 388.10 of the Code of Iowa. The allocation of costs to the Utility was based on time studies of certain City (or Utility) employees, but the percentage allocations included mathematical errors. The errors resulted in an understatement of telecommunication services expenses of \$7,616 for the year ended June 30, 2016.

Recommendation – A corrective transfer of \$7,616 should be made from the Telecommunications Services Fund to the Gas Fund.

Response – A corrective transfer will be made.

Conclusion – Response accepted.

6. Following is an example footnote for an early retirement or other benefit plan or policy that meets the definition of a "termination benefit", as defined by GASB Statement No. 47.

Termination Benefits

In September 2015, the City approved a voluntary early retirement plan for employees. The plan was only offered to employees for one year. Eligible employees must have completed at least fifteen years of full-time service to the City and must have reached the age of fifty-five on or before June 30, 2016. The application for early retirement was subject to approval by the City Council.

Early retirement benefits equal 60% of the employee's salary in effect during the employee's last year of employment, with a maximum retirement benefit of \$30,000.

The policy requires early retirement benefits be paid in three equal installments beginning January 1, 2016. The second and third payments will be paid July 1, 2016 and July 1, 2017, respectively.

Additional Notes (Continued)

At June 30, 2016, the City has obligations to eleven participants with a total liability of \$171,285. Early retirement expenditures for the year ended June 30, 2016 totaled \$85,642.

7. Section 403.23 of the Code of Iowa requires cities with urban renewal areas to approve and file an Annual Urban Renewal Report on or before December 1.

It also requires an audit of cities to include an examination of the City's compliance with the annual urban renewal reporting requirements. As such, the auditor is required to include a statutory comment on the Annual Urban Renewal Report, regardless of whether there are any instances of non-compliance or not. An example to report non-compliance is included as item IV-I-16 in the Schedule of Findings and Questioned Costs of the Sample GAAP City report. The following is an example statutory comment if no instances of non-compliance are noted:

Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

8. The Municipal Fire and Police Retirement System note has been updated. The note is as follows:

(X) Pension Plan

Municipal Fire and Police Retirement System of Iowa (MFPRSI)

Plan Description – MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at www.mfprsi.org.

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa 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 - Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66% of the member's average final compensation. Members who perform more than 22 years of service receive an additional 2% of the member's average final compensation for each additional year of service, up to a maximum of 8 years. Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen, plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50% surviving spouse benefit.

Additional Notes (Continued)

Active members at least 55 years of age with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4 or 5 year DROP period. When electing to participate in DROP, the member signs a contract stating the member will retire at the end of the selected DROP period. During the DROP period, the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

Disability and Death Benefits - Disability benefits may be either accidental or ordinary. Accidental disability is defined as a permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50% of the member's average final compensation for those with 5 or more years of service or the member's service retirement benefit calculation amount and 25% of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50% of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40% of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50% of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased annually in accordance with Chapter 411.6 of the Code of Iowa, which provides a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

Contributions - Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2016.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa, the City's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 27.77% for the year ended June 30, 2016.

The City's contributions to MFPRSI for the year ended June 30, 2016 totaled \$_____.

Additional Notes (Continued)

If approved by the State Legislature, state appropriations may further reduce the City's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State of Iowa, therefore, is considered to be a nonemployer contributing entity in accordance with the provisions of Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans.

There were no state appropriations to MFPRSI during the year ended June 30, 2016.

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

For the year ended June 30, 2016, the City recognized pension expense of \$_____. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	-
Changes of assumptions	-	-
Net difference between projected and actual earnings on IPERS' investments	-	-
Changes in proportion and differences between City contributions and the City's proportionate share of contributions	-	-
City contributions subsequent to the measurement date	-	-
Total	\$ -	-

Additional Notes (Continued)

\$_____ reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2017	\$ -
2018	-
2019	-
2020	-
2021	-
Total	\$ -

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

Rate of inflation	3.00%.
Salary increases	4.50 to 15.00%, including inflation.
Investment rate of return	7.50%, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2002 through June 30, 2012.

Mortality rates were based on weighting equal to 1/12 of the 1971 GAM table and 11/12 of the 1994 GAM table with no projection of future mortality improvement.

The long-term expected rate of return on MFPRSI investments was determined using a building-block method in which best-estimate ranges of expected future real rates (i.e., 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	Target Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	7.0%	3.8%
Emerging markets debt	3.0	6.5
Domestic equities	12.5	6.0
Master limited partnerships (MLP)	5.0	8.5
International equities	12.5	7.0
Core investments	40.0%	
Tactical asset allocation	35.0	6.0
Private equity	15.0	9.8
Private non-core real estate	5.0	9.3
Private core real estate	5.0	6.8
Real estate	10.0	
Total	100%	

Additional Notes (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed contributions will be made at 9.40% of covered payroll and the City's contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, the MFPRSI's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on MFPRSI's investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ _____	_____	_____

MFPRSI's Fiduciary Net Position - Detailed information about MFPRSI's fiduciary net position is available in the separately issued MFPRSI financial report which is available on MFPRSI's website at www.mfprsi.org.

Payables to IPERS - All legally required City contributions and legally required employee contributions which had been withheld from employee wages were remitted by the City to IPERS by June 30, 2016.

In addition, the Schedule of the City's Proportionate Share of the Net Pension Liability, the Schedule of City Contributions and Notes to Other Information - Pension Liability should be reported as Other Information.

Additional Notes (continued)

Sample A

Sample Entity

Corrective Action Plan

Year ended June 30, 2016

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
II-A-16	Segregation of Duties	We have reviewed procedures and plan to make the necessary changes to improve internal control.	Tom Claim, Administrator, (515) YYY-XXXX	November 2, 2016
II-B-16	Financial Reporting	We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.	Joe Smith, Program Director, (515) YYY-XXXX	November 2, 2016
2016-001	Unsupported Expenditures	We will revise our procedures so documentation (e.g. invoices and time cards) is maintained to support federal expenditures. We returned the \$25,589 of questioned costs to the Iowa Economic Development Authority on October 3, 2016.	Tom Claim, Administrator, (515) YYY-XXXX	Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Economic Development Authority on October 3, 2016.
2016-002	Segregation of Duties over Federal Revenues	We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by the Deputy Treasurer will be separated and spread among the Treasurer, Deputy Treasurer and Clerk.	Julie Ledger, Treasurer, (515) YYY-XXXX	November 2, 2016
2016-003	Financial Reporting	We have implemented an independent review process which requires review by the Program Director, effective immediately. In addition, beginning with the December 2016 quarterly report, we will submit federal financial reports within the required time frame.	Joe Smith, Program Director, (515) YYY-XXXX	Review procedures have been implemented. Timely report filing will begin with the quarter ending December 2016.

In accordance with Uniform Guidance Section 200.511(a), the Corrective Action Plan must include findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards.

Additional Notes (continued)**Sample B**

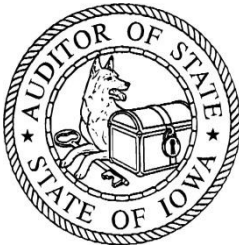
Sample GAAP City

Summary Schedule of Prior Audit Findings

Year ended June 30, 2016

Comment Reference	Comment Title	Status	If not corrected, provide reason for finding's recurrence and planned corrective action or other explanation
2013-001 2014-001 2015-001	Minority Business Enterprise/ Women Business Enterprise (MBE/WBE)	No longer valid. Does not warrant further action.	Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding, nor has a management decision been issued on its part.
2014-002 2015-002	Segregation of Duties over Federal Revenues	Not corrected.	Limited staff resulting from staff turnover. Plan to segregate duties for custody, recordkeeping and reconciling among staff when positions are filled.
III-C-14 2015-003	Capital Assets	Corrective action taken.	
2015-004	Financial Reporting	Partially corrected.	Time was necessary to develop and implement review procedures. Timely report filing will begin with the quarter ending December 2016.

In accordance with Uniform Guidance Section 200.511(a), the Summary Schedule of Prior Audit Findings must also include findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact:

FOR RELEASE _____

Auditor of State Mary Mosiman today released an audit report on Sample GAAP City, Iowa.

The City's revenues totaled \$_____ for the year ended June 30, 2016, a(n) ___% increase (decrease) from the prior year. Revenues included \$_____ of property tax, \$_____ of tax increment financing, \$_____ of charges for service, \$_____ of operating grants, contributions and restricted interest, \$_____ of capital grants, contributions and restricted interest, \$_____ of local option sales tax, \$_____ of unrestricted investment earnings and \$_____ of other general revenues.

Expenses for City operations for the year ended June 30, 2016 totaled \$_____, a(n) ___% increase from the prior year. Expenses included \$_____ for _____ a _____, \$_____ for _____ b _____, and \$_____ for _____ c _____, (a, b, c – functions with the three highest expense totals). Also, expenses for business type activities totaled \$_____.

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

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SAMPLE GAAP CITY

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2016

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Sample GAAP City

Officials

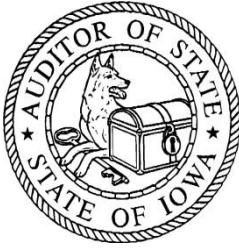
(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rosemary Jones	Mayor	Jan 2016
Dan Parks	Mayor Pro tem	Jan 2018
Rose Arnoldson	Council Member	Jan 2016
Betty Dager	Council Member	Jan 2016
Sarah Greene	Council Member	Jan 2016
Kevin Linden	Council Member	Jan 2018
Alan Notchwood	Council Member	Jan 2018
Tom Taylor	Council Member	Jan 2018
Alan Mead	Finance Director	Indefinite
Marilyn Martin	City Clerk/Treasurer	Indefinite
Carl Pearce	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rosemary Jones	Mayor	Jan 2020
Dan Parks	Mayor Pro tem	Jan 2018
Kevin Linden	Council Member	Jan 2018
Alan Notchwood	Council Member	Jan 2018
Tom Taylor	Council Member	Jan 2018
Rose Arnoldson	Council Member	Jan 2020
Betty Dager	Council Member	Jan 2020
Sarah Greene	Council Member	Jan 2020
Alan Mead	Finance Director	Indefinite
Marilyn Martin	City Clerk/Treasurer	Indefinite
Carl Pearce	Attorney	Indefinite

Sample GAAP City



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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 Sample GAAP City as of June 30, 2016, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability, the Schedule of City Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 9 through 15 and 58 through 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sample GAAP City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 23, 2016 on our consideration of Sample GAAP City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Sample GAAP City's internal control over financial reporting and compliance.

MARY MOSIMAN, CPA
Auditor of State

September 23, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2016 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 5%, or approximately \$206,000, from fiscal year 2015 to fiscal year 2016. Property tax increased approximately \$22,000.
- Program expenses of the City's governmental activities increased 12%, or approximately \$377,000, from fiscal year 2015 to fiscal year 2016. Public safety expenses and interest on long-term debt increased approximately \$141,000 and \$104,000, respectively.
- The City's net position increased 7.0%, or approximately \$995,000, from June 30, 2015 amount to June 30, 2016. Of this amount, the net position of the governmental activities increased approximately \$914,000 and the net position of the business type activities increased approximately \$81,000.

USING THIS ANNUAL REPORT

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

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

Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Sample GAAP City as a whole and present an overall view of the City's finances.

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year, the City's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information which helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents financial information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years.

The Statement of Net Position and the Statement of Activities report three kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the waterworks, the sanitary sewer system and the City's sanitation department. These activities are financed primarily by user charges.
- The Component Unit includes the activities of the City's Municipal Airport Authority. The City is financially accountable for the Authority although it is legally separate from the City.

Fund Financial Statements

The City has two kinds of funds:

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

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Wastewater and Sanitation Funds, each considered to be a major fund of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for governmental and business type activities.

	Net Position at Year-end					
	Governmental Activities		Business Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 4,364,899	3,542,881	2,232,791	2,007,568	6,597,690	5,550,449
Capital assets	11,769,563	9,901,747	7,543,323	7,827,504	19,312,886	17,729,251
Total assets	16,134,462	13,444,628	9,776,114	9,835,072	25,910,576	23,279,700
Deferred outflows of resources	519,777	439,991	181,542	168,505	701,319	608,496
Long-term liabilities	5,286,803	4,242,775	3,465,655	3,429,281	8,752,458	7,672,056
Other liabilities	866,561	333,209	252,085	223,661	1,118,646	556,870
Total liabilities	6,153,364	4,575,984	3,717,740	3,652,942	9,871,104	8,228,926
Deferred inflows of resources	2,525,673	2,247,624	71,750	263,921	2,597,423	2,511,545
Net position:						
Net investment in capital assets	7,865,127	6,426,747	4,859,323	4,990,504	12,724,450	11,417,251
Restricted	1,940,802	1,748,162	298,234	272,570	2,239,036	2,020,732
Unrestricted	(1,830,727)	(1,113,898)	1,010,609	823,640	(820,118)	(290,258)
Total net position	\$ 7,975,202	7,061,011	6,168,166	6,086,714	14,143,368	13,147,725

Net position of governmental activities increased approximately \$914,000, or 12.9%, over fiscal year 2015 amount. Net position of business type activities increased approximately \$81,000, or 1.3%, over fiscal year 2015. The largest portion of the City's net position is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$(820,000) at the end of this year. The deficit is due to capital projects undertaken to be financed from future revenues and interfund borrowing.

	Changes in Net Position for the Year ended June 30,					
	Governmental Activities		Business Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues:						
Charges for service	\$ 234,653	222,046	1,741,205	1,738,215	1,975,858	1,960,261
Operating grants, contributions and restricted interest	724,676	715,976	16,032	15,047	740,708	731,023
Capital grants, contributions and restricted interest	418,467	291,620	-	-	418,467	291,620
General revenues:						
Property tax levied for:						
General purposes	1,285,719	1,265,042	-	-	1,285,719	1,265,042
Debt service	284,153	283,277	-	-	284,153	283,277
Tax increment financing	818,589	815,242	-	-	818,589	815,242
Local option sales tax	427,700	425,600	-	-	427,700	425,600
Grants and contributions not restricted to specific purposes	43,794	82,556	-	-	43,794	82,556
Commerical/industrial tax replacement	57,135	-	-	-	57,135	-
Unrestricted investment earnings	24,062	13,976	27,420	25,240	51,482	39,216
Miscellaneous	47,277	45,243	1,074	992	48,351	46,235
Total revenues	4,366,225	4,160,578	1,785,731	1,779,494	6,151,956	5,940,072
Program expenses:						
Public safety	1,161,749	1,020,737	-	-	1,161,749	1,020,737
Public works	802,942	751,927	-	-	802,942	751,927
Culture and recreation	881,129	817,631	-	-	881,129	817,631
Community and economic development	65,718	60,077	-	-	65,718	60,077
General government	338,447	326,636	-	-	338,447	326,636
Interest on long-term debt	202,049	97,750	-	-	202,049	97,750
Water	-	-	448,194	437,447	448,194	437,447
Wastewater	-	-	675,142	620,950	675,142	620,950
Sanitation	-	-	580,943	554,771	580,943	554,771
Total expenses	3,452,034	3,074,758	1,704,279	1,613,168	5,156,313	4,687,926
Change in net position	914,191	1,085,820	81,452	166,326	995,643	1,252,146
Net position beginning of year	7,061,011	5,975,191	6,086,714	5,920,388	13,147,725	11,895,579
Net position end of year	\$ 7,975,202	7,061,011	6,168,166	6,086,714	14,143,368	13,147,725

Sample GAAP City's net position of governmental activities increased approximately \$914,000 during the year. Revenues for governmental activities increased approximately \$206,000 over the prior year, with capital grants, contributions and restricted interest increasing approximately \$127,000 due to a grant received for street construction. The City increased property tax rates for fiscal year 2016 approximately 1.6%. This increase raised the City's property tax revenue approximately \$22,000 in fiscal year 2016.

The cost of all governmental activities this year was approximately \$3.4 million compared to approximately \$13.1 million last year. However, as shown in the Statement of Activities on pages 18 and 19, the amount taxpayers ultimately financed for these activities was only \$2.1 million because some of the cost was paid by those directly benefited from the programs (approximately \$235,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$1,143,000). The City paid the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts.

Sample GAAP City's net position of business type activities increased approximately \$81,000 during the year. Revenues and expenses for business type activities increased only slightly over the prior year.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As Sample GAAP City completed the year, its governmental funds reported a combined fund balance of \$1,820,916, which is \$561,944 less than the \$2,382,860 total fund balance at June 30, 2015. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund showed a modest decline in fund balance of \$3,208 from the prior year to \$715,937. Revenues increased 5% over the prior year to \$1,499,322 and expenditures increased 4% to \$2,511,117.

The Special Revenue, Tax Increment Financing Fund accounts for revenue from the tax authorized by ordinance in the urban renewal district which is used to pay the principal and interest on indebtedness incurred for urban renewal redevelopment projects. This fund ended fiscal year 2016 with a \$(480,408) balance compared to the prior year ending balance of \$(350,717). The deficit fund balance is a result of transfers to other funds to pay urban renewal project debt prior to the collection of tax increment financing revenue.

The Special Revenue, Local Option Sales Tax Fund accounts for revenue from the tax authorized by referendum and used for capital improvements, equipment and community programs and services. This fund ended fiscal year 2016 with a \$1,139,911 balance compared to the prior year ending fund balance of \$1,026,139. Local option sales tax revenue increased \$2,100 in fiscal year 2016.

The Special Revenue, Payroll Tax Levy Fund is used to account for the property tax levied to finance the payment of employee benefits. This fund ended fiscal year 2016 with a \$5,079 balance compared to the prior year ending balance of \$73,724. Transfers out to operating funds increased \$45,878 in fiscal year 2016.

The Debt Service Fund ended fiscal year 2016 with a \$71,773 balance compared to the prior year ending balance of \$65,975. Property tax revenue increased \$91,301 while bond principal and interest payments increased \$85,090 in fiscal year 2016.

The Capital Projects Fund ended fiscal year 2016 with a \$(317,506) balance compared to the prior year ending balance of \$175,032. The fiscal year 2016 deficit is a result of project costs exceeding available funds. The deficit will be eliminated through future transfers from other funds.

Proprietary Fund Highlights

The Enterprise, Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2016 with a \$2,479,889 net position balance compared to the prior year ending net position balance of \$2,432,306.

The Enterprise, Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended fiscal year 2016 with a \$3,693,197 net position balance compared to the prior year ending net position balance of \$3,682,457.

The Enterprise, Sanitation Fund, which accounts for the operation and maintenance of the City's solid waste collection system, ended fiscal year 2016 with a \$(4,920) net position balance compared to the prior year ending net position balance of \$(28,049).

BUDGETARY HIGHLIGHTS

Over the course of the year, Sample GAAP City amended its budget two times. The first amendment was done in January 2016 and the second amendment was made in May 2016. These amendments were needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year.

The City's receipts were \$1,192,462 less than budgeted receipts, a variance of 18%. The most significant variance resulted from the City receiving less in CDBG funding than originally anticipated. The City also received less in miscellaneous receipts than budgeted.

Total disbursements were \$2,967,210 less than budgeted. Actual disbursements for the community and economic development, capital projects and business type activities functions were \$1,077,900, \$1,070,112 and \$669,010, respectively, less than budgeted. This was primarily due to a delay in receiving a CDBG pass through grant and delays in the Memorial Library renovation, street construction and sewer expansion projects.

Even with these amendments, the City exceeded the budgeted amount in the debt service function for the year ended June 30, 2016.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, intangibles, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$11,769,563 (net of accumulated depreciation/amortization) at June 30, 2016. Capital assets for business type activities totaled \$7,543,323 (net of accumulated depreciation/amortization) at June 30, 2016. See Note 3 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included construction of the Fire and Training Center and renovation of the Memorial Library building.

For business type activities, major additions included an iron filter for the water plant.

Construction in progress at June 30, 2016 for governmental activities consists primarily of street projects and renovation of the Memorial Library building.

Long-Term Debt

At June 30, 2016, the City had \$3,937,545 of outstanding general obligation bonds and notes for governmental activities. Total outstanding revenue notes for business type activities was \$2,684,000 at June 30, 2016. During the year ended June 30, 2016, the City issued a total of \$965,000 of general obligation bonds to finance the City's 2016 street program and a portion of the costs of the Fire and Training Center.

The City continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the City's debt since 1997. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$9 million. Additional information about the City's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Several economic factors affected decisions made by the City in setting its fiscal year 2017 budget. Unemployment in the City now stands at 4.6% versus 6% a year ago. This compares with the State's unemployment rate of 5.5% and the national rate of 8.0%. In addition, Sample GAAP City will experience a significant drop in General Fund receipts and disbursements from fiscal year 2016 to fiscal year 2017. The major factors which will play a role in this change are a reduction in intergovernmental receipts and a decrease in property valuation for fiscal year 2017.

The General Fund is projected to end fiscal year 2017 with a fund balance of approximately \$680,000, a 5% decrease from June 30, 2016.

The tax levy rates per \$1,000 of taxable valuation for fiscal year 2017 are provided below:

General levy	\$ 8.10000
Aviation levy	0.27000
Debt service levy	2.47075
FICA and IPERS levy	2.05595
Employee benefits levy	3.35206
Tort liability levy	<u>0.94434</u>
Total	<u>\$ 17.19310</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information, please contact the Finance Director, 101 Main Street, Sample GAAP City, Iowa 50XXX.

Basic Financial Statements

Exhibit A

Sample GAAP City
Statement of Net Position
June 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Airport Authority
Assets				
Cash, cash equivalents and pooled investments	\$ 2,083,969	1,209,693	3,293,662	-
Receivables:				
Property tax:				
Delinquent	26,280	-	26,280	435
Succeeding year	1,528,000	-	1,528,000	23,000
Tax increment financing:				
Delinquent	33,200	-	33,200	-
Succeeding year	747,000	-	747,000	-
Customer accounts and unbilled usage	-	160,499	160,499	-
Accounts	9,917	5,145	15,062	167
Accrued interest	2,988	2,386	5,374	-
Due from other governments	139,589	-	139,589	-
Internal balances	(296,167)	296,167	-	-
Inventories	-	25,470	25,470	-
Prepaid expenses	90,123	46,223	136,346	-
Restricted assets:				
Cash and pooled investments	-	487,208	487,208	-
Capital assets, net of accumulated depreciation/amortization	11,769,563	7,543,323	19,312,886	977,297
Total assets	16,134,462	9,776,114	25,910,576	1,000,899
Deferred Outflows of Resources				
Pension related deferred outflows	519,777	181,542	701,319	-
Liabilities				
Accounts payable	79,746	19,681	99,427	5,117
Accrued interest payable	13,591	-	13,591	-
Salaries and benefits payable	40,533	11,350	51,883	-
Contracts payable	111,860	1,047	112,907	-
Due to other governments	5,067	12,510	17,577	-
Payable from restricted assets	-	188,974	188,974	-
Portion due or payable within one year:				
General obligation bonds/notes	570,000	160,000	730,000	-
Compensated absences	45,764	18,523	64,287	-
Portion due or payable after one year:	-	-	-	-
General obligation bonds/notes (net of \$7,455 unamortized discount)	3,367,545	-	3,367,545	-
Revenue notes	-	2,364,000	2,364,000	-
Compensated absences	116,731	40,889	157,620	-
Net pension liability	1,673,487	871,906	2,545,393	-
Net OPEB liability	129,040	28,860	157,900	-
Total liabilities	6,153,364	3,717,740	9,871,104	5,117

Sample GAAP City
Statement of Net Position
June 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Airport Authority
Deferred Inflows of Resources				
Unavailable revenues:				
Pension related deferred inflows	250,673	71,750	322,423	
Succeeding year property tax	1,528,000	-	1,528,000	23,000
Tax increment financing	747,000	-	747,000	-
Total deferred inflows of resources	2,525,673	71,750	2,597,423	23,000
Net Position				
Net investment in capital assets	7,865,127	4,859,323	12,724,450	977,297
Restricted for:				
Debt service	59,444	-	59,444	-
Library gifts and memorials	639,495	-	639,495	-
Capital improvements and equipment	683,947	-	683,947	-
Community programs and services	455,964	-	455,964	-
Cemetery levy	-	-	-	-
Revenue note retirement	-	142,499	142,499	-
Wastewater improvement	-	100,000	100,000	-
Wastewater replacement	-	55,735	55,735	-
Other purposes	101,952	-	101,952	-
Unrestricted	(1,830,727)	1,010,609	(820,118)	(4,515)
Total net position	\$ 7,975,202	6,168,166	14,143,368	972,782

See notes to financial statements.

Sample GAAP City

Statement of Activities

Year ended June 30, 2016

	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 1,161,749	66,129	46,842	134,974
Public works	802,942	11,838	424,466	145,449
Culture and recreation	881,129	141,217	98,946	-
Community and economic development	65,718	1,498	150,000	15,129
General government	338,447	13,971	-	122,915
Interest on long-term debt	202,049	-	4,422	-
Total governmental activities	3,452,034	234,653	724,676	418,467
Business type activities:				
Water	448,194	472,865	15,377	-
Wastewater	675,142	666,232	68	-
Sanitation	580,943	602,108	587	-
Total business type activities	1,704,279	1,741,205	16,032	-
Total Primary Government	\$ 5,156,313	1,975,858	740,708	418,467
Component Unit:				
Airport Authority	\$ 133,593	3,163	-	-
General Revenues:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Commerical/industrial tax replacement				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Change in net position				
Net position beginning of year				
Net position end of year				

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Position				Component
Primary Government				Unit
Governmental Activities	Business Type Activities	Total		Airport Authority
(913,804)	-	(913,804)		
(221,189)	-	(221,189)		
(640,966)	-	(640,966)		
100,909	-	100,909		
(201,561)	-	(201,561)		
(197,627)	-	(197,627)		
(2,074,238)	-	(2,074,238)		
-	40,048	40,048		
-	(8,842)	(8,842)		
-	21,752	21,752		
-	52,958	52,958		
(2,074,238)	52,958	(2,021,280)		
			(130,430)	
\$ 1,285,719	-	1,285,719	26,213	
284,153	-	284,153	-	
818,589	-	818,589	-	
427,700	-	427,700	-	
43,794	-	43,794	-	
57,135	-	57,135	-	
24,062	27,420	51,482	-	
47,277	1,074	48,351	28,894	
2,988,429	28,494	3,016,923	55,107	
914,191	81,452	995,643	(75,323)	
7,061,011	6,086,714	13,147,725	1,048,105	
\$ 7,975,202	6,168,166	14,143,368	972,782	

Sample GAAP City
Balance Sheet
Governmental Funds

June 30, 2016

	General	Special	
		Tax Increment Financing	Local Option Sales Tax
Assets			
Cash, cash equivalents and pooled investments	\$ 679,236	-	785,341
Receivables:			
Property tax:			
Delinquent	14,410	-	-
Succeeding year	785,000	-	-
Tax increment financing:			
Delinquent	-	33,200	-
Succeeding year	-	747,000	-
Accounts	8,111	-	-
Accrued interest	967	-	1,117
Due from other governments	49,801	-	42,895
Due from other funds	464	-	310,558
Prepaid expenditures	90,123	-	-
Total assets	\$ 1,628,112	780,200	1,139,911
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ 69,013	-	-
Salaries and benefits payable	40,533	-	-
Contracts payable	6,335	-	-
Due to other governments	5,067	-	-
Due to other funds	-	492,964	-
Total liabilities	120,948	492,964	-
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	785,000	-	-
Tax increment financing revenues	-	747,000	-
Other	6,227	20,644	-
Total deferred inflows of resources	791,227	767,644	-

Revenue				
Payroll				
Tax Levy	Debt Service	Capital Projects	Nonmajor	Total
-	67,991	388,737	162,664	2,083,969
6,922	4,948	-	-	26,280
468,000	275,000	-	-	1,528,000
-	-	-	-	33,200
-	-	-	-	747,000
-	-	1,800	6	9,917
-	97	596	211	2,988
-	-	15,097	31,796	139,589
-	-	-	492,964	803,986
-	-	-	-	90,123
474,922	348,036	406,230	687,641	5,465,052
-	-	9,222	1,511	79,746
-	-	-	-	40,533
-	-	105,525	-	111,860
-	-	-	-	5,067
-	-	607,189	-	1,100,153
-	-	721,936	1,511	1,337,359
468,000	275,000	-	-	1,528,000
-	-	-	-	747,000
1,843	1,263	1,800	-	31,777
469,843	276,263	1,800	-	2,306,777

(Continued on next page)

Sample GAAP City
Balance Sheet
Governmental Funds
(Continued)

June 30, 2016

	General	Tax Increment Financing	Special Local Option Sales Tax
Liabilities, Deferred Inflows of Resources and Fund Balances (continued)			
Fund balances:			
Nonspendable:			
Prepaid expenditures	90,123	-	-
Restricted for:			
Debt service	-	-	-
Fire gifts and memorials	48,395	-	-
Library gifts and memorials	-	-	-
Capital improvements and equipment	-	-	683,947
Community programs and services	-	-	455,964
Other purposes	-	-	-
Committed for future equipment purchases/ capital improvements	100,024	-	-
Unassigned	477,395	(480,408)	-
Total fund balances	715,937	(480,408)	1,139,911
Total liabilities, deferred inflows of resources and fund balances	\$ 1,628,112	780,200	1,139,911

See notes to financial statements.

<u>Revenue</u>				
Payroll				
Tax Levy	Debt Service	Capital Projects	Nonmajor	Total
-	-	-	-	90,123
-	71,773	-	-	71,773
-	-	-	-	48,395
-	-	-	639,495	639,495
-	-	-	-	683,947
-	-	-	-	455,964
5,079	-	-	46,635	51,714
-	-	-	-	100,024
-	-	(317,506)	-	(320,519)
5,079	71,773	(317,506)	686,130	1,820,916
474,922	348,036	406,230	687,641	5,465,052

Sample GAAP City

Sample GAAP City
 Reconciliation of the Balance Sheet –
 Governmental Funds to the Statement of Net Position

June 30, 2016

Total governmental fund balances (page 25) \$ 1,820,916

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of capital assets is \$16,905,143 and the accumulated depreciation/amortization is \$5,135,580. 11,769,563

Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds. 31,777

Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources	\$ 519,777	
Deferred inflows of resources	<u>(250,673)</u>	269,104

Long-term liabilities, including bonds/notes payable, compensated absences payable, other postemployment benefits payable, net pension liabilities and accrued interest payable, are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds. (5,916,158)

Net position of governmental activities (page 19) \$ 7,975,202

See notes to financial statements.

Sample GAAP City

Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)
Governmental Funds

Year ended June 30, 2016

	Special Revenue			
	General	Tax Increment Financing	Local Option Sales Tax	Payroll Tax Levy
Revenues:				
Property tax	\$ 787,958	-	-	377,704
Tax increment financing	-	799,121	-	-
Other city tax	97,043	-	427,700	37,406
Licenses and permits	41,528	-	-	-
Use of money and property	12,631	-	13,881	-
Intergovernmental	308,849	-	-	-
Charges for service	146,660	-	-	-
Miscellaneous	104,653	-	-	-
Total revenues	1,499,322	799,121	441,581	415,110
Expenditures:				
Operating:				
Public safety	1,076,362	-	-	-
Public works	434,386	-	-	-
Culture and recreation	660,272	-	-	-
Community and economic development	5,041	50,000	-	-
General government	335,056	-	-	-
Debt service	-	30,400	-	-
Capital projects	-	-	-	-
Total expenditures	2,511,117	80,400	-	-
Excess (deficiency) of revenues over (under) expenditures	(1,011,795)	718,721	441,581	415,110
Other financing sources (uses):				
Transfers in	1,008,938	-	-	-
Transfers out	(351)	(848,412)	(327,809)	(483,755)
General obligation bonds issued	-	-	-	-
Discount on general obligation bonds issued	-	-	-	-
Total other financing sources (uses)	1,008,587	(848,412)	(327,809)	(483,755)
Change in fund balances	(3,208)	(129,691)	113,772	(68,645)
Fund balances (deficit) beginning of year	719,145	(350,717)	1,026,139	73,724
Fund balances (deficit) end of year	\$ 715,937	(480,408)	1,139,911	5,079

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
262,736	-	-	1,428,398
-	-	-	799,121
20,313	-	-	582,462
-	-	-	41,528
4,422	7,868	23,143	61,945
-	282,902	419,279	1,011,030
-	-	-	146,660
185	156,936	8,217	269,991
287,656	447,706	450,639	4,341,135
-	-	11,119	1,087,481
-	-	-	434,386
-	-	4,173	664,445
-	-	-	55,041
-	-	-	335,056
667,191	-	-	697,591
-	2,586,624	-	2,586,624
667,191	2,586,624	15,292	5,860,624
(379,535)	(2,138,918)	435,347	(1,519,489)
385,333	692,584	-	2,086,855
-	(3,749)	(422,779)	(2,086,855)
-	965,000	-	965,000
-	(7,455)	-	(7,455)
385,333	1,646,380	(422,779)	957,545
5,798	(492,538)	12,568	(561,944)
65,975	175,032	673,562	2,382,860
71,773	(317,506)	686,130	1,820,916

Sample GAAP City

Sample GAAP City

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances -
Governmental Funds to the Statement of Activities

Year ended June 30, 2016

Change in fund balances - Total governmental funds (page 29) \$ (561,944)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation/amortization expense in the current year, as follows:

Expenditures for capital assets	\$ 2,553,986	
Depreciation/amortization expense	<u>(686,170)</u>	1,867,816

Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are recognized as deferred inflows of resources in the governmental funds, as follows:

Property tax	25,448	
Other	<u>(380)</u>	25,068

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year issuances exceeded repayments, as follows:

Issued	(965,000)	
Discount on general obligation bonds issued	7,455	
Repaid	<u>495,000</u>	(462,545)

The current year City IPERS contributions are reported as expenditures in the governmental funds but are reported as deferred outflows of resources in the Statement of Net Postion. 339,675

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	(7,756)	
Other postemployment benefits	(61,782)	
Pension expense	(224,883)	
Interest on long-term debt	<u>542</u>	(293,879)

Change in net position of governmental activities (page 21) \$ 914,191

See notes to financial statements.

Sample GAAP City
Statement of Net Position
Proprietary Funds

June 30, 2016

	Enterprise			
	Water	Wastewater	Sanitation	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 502,320	589,333	118,040	1,209,693
Receivables (net of allowance for uncollectibles):				
Customer accounts and unbilled usage	47,331	67,734	45,434	160,499
Accounts	483	262	4,400	5,145
Accrued interest	714	1,504	168	2,386
Due from other funds	99,495	196,672	-	296,167
Inventories	25,470	-	-	25,470
Prepaid expenses	14,206	16,103	15,914	46,223
Total current assets	<u>690,019</u>	<u>871,608</u>	<u>183,956</u>	<u>1,745,583</u>
Non current assets:				
Restricted cash and cash equivalents	19,602	467,606	-	487,208
Capital assets, net of accumulated depreciation/amortization	2,067,077	5,298,720	177,526	7,543,323
Total noncurrent assets	<u>2,086,679</u>	<u>5,766,326</u>	<u>177,526</u>	<u>8,030,531</u>
Total assets	<u>2,776,698</u>	<u>6,637,934</u>	<u>361,482</u>	<u>9,776,114</u>
Deferred Outflows of Resources				
Pension related deferred outflows	55,072	49,470	77,000	181,542
Liabilities				
Current liabilities:				
Accounts payable	12,488	6,065	1,128	19,681
Salaries and benefits payable	3,358	3,276	4,716	11,350
Contracts payable	141	906	-	1,047
Due to other governments	1,766	823	9,921	12,510
Payable from restricted assets:				
Customer deposits	19,602	-	-	19,602
Revenue notes	-	160,000	-	160,000
Accrued interest	-	9,372	-	9,372
Compensated absences	6,394	6,394	5,735	18,523
Total current liabilities	<u>43,749</u>	<u>186,836</u>	<u>21,500</u>	<u>252,085</u>
Noncurrent liabilities:				
Revenue notes	-	2,524,000	-	2,524,000
Compensated absences	14,207	14,207	12,475	40,889
Net pension liability	264,214	237,793	369,899	871,906
Net OPEB liability	8,864	11,132	8,864	28,860
Total noncurrent liabilities	<u>287,285</u>	<u>2,787,132</u>	<u>391,238</u>	<u>3,465,655</u>
Total liabilities	<u>331,034</u>	<u>2,973,968</u>	<u>412,738</u>	<u>3,717,740</u>
Deferred Inflows of Resources				
Unavailable revenues:				
Pension related deferred inflows	20,847	20,239	30,664	71,750
Net Position				
Net investment in capital assets	2,067,077	2,614,720	177,526	4,859,323
Restricted for:				
Revenue note retirement	-	142,499	-	142,499
Wastewater improvement	-	100,000	-	100,000
Wastewater replacement	-	55,735	-	55,735
Unrestricted	412,812	780,243	(182,446)	1,010,609
Total net position	<u>\$ 2,479,889</u>	<u>3,693,197</u>	<u>(4,920)</u>	<u>6,168,166</u>

See notes to financial statements.

Sample GAAP City

Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds

Year ended June 30, 2016

	Enterprise			
	Water	Wastewater	Sanitation	Total
Operating revenues:				
Charges for service	\$ 472,865	666,232	602,108	1,741,205
Miscellaneous	15,377	68	587	16,032
Total operating revenues	488,242	666,300	602,695	1,757,237
Operating expenses:				
Business type activities:				
Cost of sales and services	355,673	356,038	548,219	1,259,930
Depreciation/amortization	92,521	199,349	32,724	324,594
Total operating expenses	448,194	555,387	580,943	1,584,524
Operating income	40,048	110,913	21,752	172,713
Non-operating revenues (expenses):				
Interest income	7,535	18,508	1,377	27,420
Interest expense	-	(119,755)	-	(119,755)
Miscellaneous	-	1,074	-	1,074
Net non-operating revenues (expenses)	7,535	(100,173)	1,377	(91,261)
Change in net position	47,583	10,740	23,129	81,452
Net position beginning of year	2,432,306	3,682,457	(28,049)	6,086,714
Net position end of year	\$2,479,889	3,693,197	(4,920)	6,168,166

See notes to financial statements.

Exhibit I

Sample GAAP City

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2016

	Enterprise			Total
	Water	Wastewater	Sanitation	
Cash flows from operating activities:				
Cash received from customers and users	\$ 489,076	689,081	603,072	1,781,229
Cash received from other revenues	15,377	68	371	15,816
Cash paid for personal services	(189,253)	(189,309)	(233,637)	(612,199)
Cash paid to suppliers	(196,133)	(190,262)	(325,452)	(711,847)
Net cash provided by operating activities	119,067	309,578	44,354	472,999
Cash flows from noncapital financing activities:				
Advances to other funds, net of advance repayments	13,025	17,792	-	30,817
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(31,980)	(29,464)	-	(61,444)
Principal paid on revenue notes	-	(153,000)	-	(153,000)
Interest paid on revenue notes	-	(120,289)	-	(120,289)
Net cash used for capital and related financing activities	(31,980)	(302,753)	-	(334,733)
Cash flows from investing activities:				
Interest on investments	7,808	19,536	1,392	28,736
Net increase in cash and cash equivalents	107,920	44,153	45,746	197,819
Cash and cash equivalents beginning of year	414,002	1,012,786	72,294	1,499,082
Cash and cash equivalents end of year	\$ 521,922	1,056,939	118,040	1,696,901

See notes to financial statements.

	Enterprise			Total
	Water	Wastewater	Sanitation	
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 40,048	110,913	21,752	172,713
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation/amortization expense	92,521	199,349	32,724	324,594
Decrease in customer accounts receivable and unbilled usage and other accounts receivable	16,213	22,849	748	39,810
Increase in inventories, at cost	(1,723)	-	-	(1,723)
Increase in prepaid expenses	(2,315)	(2,275)	(2,173)	(6,763)
Increase (decrease) in accounts payable	22,350	(2,021)	(189)	20,140
Increase in salaries payable	87	34	222	343
Decrease in contracts payable	(42,298)	(19,094)	-	(61,392)
Decrease in compensated absences	(1,600)	(1,600)	(1,116)	(4,316)
Increase in due to other governments	171	185	755	1,111
Increase in net pension liability	54,507	49,056	76,309	179,872
Increase in deferred outflows of resources	(4,009)	(1,409)	(7,619)	(13,037)
Decrease in deferred inflows of resources	(59,129)	(51,739)	(81,303)	(192,171)
Increase in other postemployment benefits	4,244	5,330	4,244	13,818
Net cash provided by operating activities	\$ 119,067	309,578	44,354	472,999
Reconciliation of cash and cash equivalents at year end to specific assets included in the Statement of Net Position:				
Current assets:				
Cash and cash equivalents	\$ 502,320	589,333	118,040	1,209,693
Restricted assets:				
Cash and cash equivalents:				
Customer deposits	19,602	-	-	19,602
Revenue note retirement	-	311,871	-	311,871
Wastewater improvement	-	100,000	-	100,000
Wastewater replacement	-	55,735	-	55,735
Cash and cash equivalents end of year	\$ 521,922	\$ 1,056,939	\$ 118,040	\$ 1,696,901

Sample GAAP City

Sample GAAP City

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

Sample GAAP City is a political subdivision of the State of Iowa located in Sample County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. Sample GAAP 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. It also operates the airport and provides water, sewer and sanitation utilities.

The financial statements of Sample GAAP City have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sample GAAP City 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 Sample GAAP City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

Sample GAAP City Municipal Airport Authority (Authority) was established pursuant to Chapter 330A of the Code of Iowa to operate the City's airport facility. The Authority is governed by a five member board appointed by the Sample GAAP City Council who serve at the pleasure of the City Council. The City annually provides significant operating subsidies to the Authority. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Authority meets the definition of a component unit which should be discretely presented.

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: Sample County Assessor's Conference Board, Sample County Planning Commission, Sample County Sanitary Solid Waste Disposal Commission, Sample County Emergency Management Commission and Sample County E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the City's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary 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 revenues from general and emergency levies and other revenues 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 expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal projects.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment and community programs and services.

The Payroll Tax Levy Fund is used to account for property tax levied to finance the payment of employee benefits.

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

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

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

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

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted 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 revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

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

Cash, Cash Equivalents and Pooled Investments – The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2016 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2015.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2016, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets, which include property, equipment and vehicles, infrastructure and intangibles acquired after July 1, 1980 are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the City as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land, buildings and improvements	\$ 25,000
Equipment and vehicles	5,000
Infrastructure	50,000
Intangibles	50,000

Capital assets of the City are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	40 - 50
Improvements other than buildings	20 - 50
Vehicles	10 - 15
Equipment	5 - 30
Infrastructure	15 - 20
Intangibles	5 - 20

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the City after the measurement date but before the end of the City’s reporting period.

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, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2016. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Position and the proprietary fund Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees’ Retirement System (IPERS) and additions to/deductions from IPERS’ fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid primarily by the General Fund.

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied and the unamortized portion of the net difference between projected and actual earnings on IPERS’ investments.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

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

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year-end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash, Cash Equivalents and Pooled Investments

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

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

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

(3) Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance			Balance
	Beginning			End
	of year	Increases	Decreases	of Year
Primary Government				
Governmental activities:				
Capital assets not being depreciated/ amortized:				
Land	\$ 835,920	-	-	835,920
Construction in progress - infrastructure	543,425	523,738	(890,983)	176,180
Construction in progress - other	418,419	1,622,362	(1,103,791)	936,990
Total capital assets not being depreciated	1,797,764	2,146,100	(1,994,774)	1,949,090
Capital assets being depreciated/amortized:				
Buildings	2,596,193	1,346,005	-	3,942,198
Improvements other than buildings	2,844,161	47,108	-	2,891,269
Equipment and vehicles	2,082,578	118,564	(10,345)	2,190,797
Infrastructure, road network	4,940,806	890,983	-	5,831,789
Intangibles	100,000	-	-	100,000
Total capital assets being depreciated/amortized	12,563,738	2,402,660	(10,345)	14,956,053
Less accumulated depreciation/amortization for:				
Buildings	321,991	77,145	-	399,136
Improvements other than buildings	417,013	137,768	-	554,781
Equipment and vehicles	1,124,676	179,716	(10,345)	1,294,047
Infrastructure, road network	2,546,075	286,541	-	2,832,616
Intangibles	50,000	5,000	-	55,000
Total accumulated depreciation/amortization	4,459,755	686,170	(10,345)	5,135,580
Total capital assets being depreciated/amortized, net	8,103,983	1,716,490	-	9,820,473
Governmental activities capital assets, net	\$ 9,901,747	3,862,590	(1,994,774)	11,769,563
Business type activities:				
Capital assets not being depreciated/ amortized:				
Land	\$ 3,500	-	-	3,500
Construction in progress	456,429	35,173	(456,429)	35,173
Total capital assets not being depreciated	459,929	35,173	(456,429)	38,673
Capital assets being depreciated/amortized:				
Buildings	771,655	-	(4,818)	766,837
Improvements other than buildings	201,054	1,937	-	202,991
Equipment and vehicles	712,147	459,794	(7,966)	1,163,975
Infrastructure, water and sewer network	9,541,852	-	-	9,541,852
Intangibles	50,000	-	-	50,000
Total capital assets being depreciated/amortized	11,276,708	461,731	(12,784)	11,725,655
Less accumulated depreciation/amortization for:				
Buildings	428,167	14,573	(4,810)	437,930
Improvements other than buildings	113,225	6,931	-	120,156
Equipment and vehicles	348,279	89,616	(7,912)	429,983
Infrastructure, water and sewer network	2,994,462	210,974	-	3,205,436
Intangibles	25,000	2,500	-	27,500
Total accumulated depreciation/amortization	3,909,133	324,594	(12,722)	4,221,005
Total capital assets being depreciated/amortized, net	7,367,575	137,137	(62)	7,504,650
Business type activities capital assets, net	\$ 7,827,504	172,310	(456,491)	7,543,323

Depreciation/amortization expense was charged to functions of the primary government as follows:

Governmental activities:	
Public safety	\$ 112,658
Public works	333,982
Culture and recreation	229,594
General government	9,936
Total depreciation/amortization expense - governmental activities	<u>\$ 686,170</u>
Business type activities:	
Water	\$ 92,521
Wastewater	199,349
Sanitation	32,724
Total depreciation/amortization expense - business type activities	<u>\$ 324,594</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Discretely Presented Component Unit				
Capital assets not being depreciated:				
Land	\$ 55,875	-	-	55,875
Total capital assets not being depreciated	55,875	-	-	55,875
Capital assets being depreciated:				
Buildings	148,524	-	-	148,524
Improvements other than buildings	25,388	-	-	25,388
Equipment and vehicles	133,746	-	-	133,746
Infrastructure, runway network	1,387,290	-	-	1,387,290
Total capital assets being depreciated	1,694,948	-	-	1,694,948
Less accumulated depreciation for:				
Buildings	126,702	2,181	-	128,883
Improvements other than buildings	18,769	1,406	-	20,175
Equipment and vehicles	47,317	8,135	-	55,452
Infrastructure, runway network	508,999	60,017	-	569,016
Total accumulated depreciation	701,787	71,739	-	773,526
Total capital assets being depreciated, net	993,161	(71,739)	-	921,422
Component unit capital assets, net	<u>\$ 1,049,036</u>	<u>(71,739)</u>	-	<u>977,297</u>
Total depreciation expense - discretely presented component unit				<u>\$ 71,739</u>

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds/notes (1)	\$ 3,475,000	957,545	495,000	3,937,545	570,000
Compensated absences	154,739	43,055	35,299	162,495	45,764
Net pension liability	1,161,542	511,945	-	1,673,487	-
Net OPEB liability	67,258	83,062	21,280	129,040	-
Total	\$ 4,858,539	1,595,607	551,579	5,902,567	615,764

(1) Bonds were sold at a discount; unamortized discount at June 30, 2016 totaled \$7,455.

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Business type activities:					
Revenue notes	\$ 2,837,000	-	153,000	2,684,000	160,000
Compensated absences	63,728	11,183	15,499	59,412	18,523
Net pension liability	692,034	179,872	-	871,906	-
Net OPEB liability	15,042	19,138	5,320	28,860	-
Total	\$ 3,607,804	210,193	173,819	3,644,178	178,523

General obligation bonds/notes

Eight issues of unmatured general obligation bonds/notes, totaling \$3,945,000, are outstanding at June 30, 2016. General obligation bonds/notes bear interest at rates ranging from 1.65% to 5.40% per annum and mature in varying annual amounts, ranging from \$35,000 to \$215,000, with the final maturities due in the year ending June 30, 2027.

Details of general obligation bonds/notes payable at June 30, 2016 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2016
Governmental activities:						
General and essential						
corporate purpose	Aug 1, 2006	4.400-4.750%	Jun 1, 2017	\$ 35,000-50,000	430,000	50,000
Capital loan notes	Jul 1, 2011	4.050-4.125	Jun 1, 2017	55,000-65,000	300,000	65,000
Capital loan notes	Jul 1, 2012	4.250-4.650	Jun 1, 2018	50,000-60,000	270,000	115,000
Essential corporate purpose	Jul 1, 2012	4.800-5.000	Jun 1, 2025	120,000-215,000	2,400,000	1,905,000
Capital loan notes	Jul 1, 2013	5.150-5.400	Jun 1, 2019	40,000-50,000	230,000	145,000
Capital loan notes	Oct 15, 2014	2.450-4.000	Jun 1, 2022	100,000-130,000	800,000	700,000
Essential corporate purpose	Oct 15, 2015	1.650-2.850	Jun 1, 2021	50,000-55,000	265,000	265,000
Essential corporate purpose	Dec 15, 2015	2.400-4.000	Jun 1, 2027	60,000-80,000	700,000	700,000
Total governmental activities						\$ 3,945,000

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 570,000	163,100	733,100
2018	475,000	141,254	616,254
2019	435,000	123,059	558,059
2020	395,000	106,511	501,511
2021	410,000	91,654	501,654
2022-2026	1,445,000	245,198	1,690,198
2027	215,000	10,750	225,750
Total	\$ 3,945,000	881,526	4,826,526

Revenue notes

One issue of unmatured revenue notes, totaling \$2,684,000, is outstanding at June 30, 2016. These notes bear interest at a rate of 4.19% per annum and mature in varying annual amounts ranging from \$160,000 to \$261,000, with the final maturity due in the year ending June 30, 2029.

The City has pledged future wastewater customer revenues, net of specified operating expenses, to repay \$4,745,000 of sewer revenue notes issued in February 2009. Proceeds from the notes provided financing for the construction of improvements to the wastewater treatment plant. The notes are payable solely from wastewater customer net revenues and are payable through 2029. Annual principal and interest payments on the notes are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the notes is \$3,535,534. For the current year, principal and interest paid and total customer net revenues (operating revenues plus depreciation/amortization expense) were \$272,755 and \$310,262, respectively.

The resolution providing for the issuance of the revenue notes includes 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 a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of \$2,000 to separate wastewater improvement and replacement accounts shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- (d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2016, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2016 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2016
Business type activities: Wastewater revenue notes, series 2009	Feb 16, 2009	4.19%	Jun 1, 2029	\$ 156,000-261,000	4,745,000	2,684,000

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 160,000	112,460	272,460
2018	166,000	105,756	271,756
2019	173,000	98,800	271,800
2020	180,000	91,551	271,551
2021	188,000	84,009	272,009
2022-2026	1,065,000	295,060	1,360,060
2027-2029	752,000	63,898	815,898
Total	\$ 2,684,000	851,534	3,535,534

(5) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 98,655
	Payroll Tax Levy	483,755
	Road Use Tax	422,779
	Capital Projects	3,749
		<u>1,008,938</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	156,179
	Local Option Sales Tax	229,154
		<u>385,333</u>
Capital Projects	General	351
	Special Revenue:	
	Tax Increment Financing	692,233
		<u>692,584</u>
Total		<u>\$ 2,086,855</u>

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

(6) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	\$ 464
Special Revenue:		
Local Option Sales Tax	Capital Projects	310,558
Library Donations	Special Revenue: Tax Increment Financing	492,964
Enterprise:		
Water	Capital Projects	99,495
Wastewater	Capital Projects	196,672
Total		<u>\$ 1,100,153</u>

These balances result from interfund loans to finance projects. Repayments will be made from future revenues.

(7) Pension Plan

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

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

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

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

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

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

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

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

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

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

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protective occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$444,021.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$2,545,393 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's collective proportion was 0.051521%, which was an increase of 0.004783% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$303,893. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 40,762	29,303
Changes of assumptions	74,281	450.00
Net difference between projected and actual earnings on IPERS' investments	-	292,670
Changes in proportion and differences between City contributions and the City's proportionate share of contributions	142,255	
City contributions subsequent to the measurement date	444,021	-
Total	\$ 701,319	322,423

\$444,021 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2017	\$ (81,407)
2018	(81,407)
2019	(81,407)
2020	171,701
2021	7,395
Total	\$ (65,125)

There were no non-employer contributing entities to IPERS.

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

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

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

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

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

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

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 5,164,895	2,545,393	335,247

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.

Payables to IPERS - At June 30, 2016, the City reported payables to IPERS of \$34,660 for legally required City contributions and \$23,098 for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 175 active and 3 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 101,500
Interest on net OPEB obligation	4,000
Adjustment to annual required contribution	(3,300)
Annual OPEB cost	<u>102,200</u>
Contributions made	<u>26,600</u>
Increase in net OPEB obligation	75,600
Net OPEB obligation beginning of year	<u>82,300</u>
Net OPEB obligation end of year	<u>\$ 157,900</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

For the year ended June 30, 2016, the City contributed \$26,600 to the medical plan. Plan members eligible for benefits contributed \$24,900, or 48% of the premium costs.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 101,500	36.9%	\$ 64,000
2015	101,900	19.2	82,300
2016	102,200	26.0	157,900

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016 the actuarial accrued liability was \$780,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$780,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,640,000 and the ratio of the UAAL to covered payroll was 16.8%. As of June 30, 2016, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 5% discount rate based on the City's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate. An inflation rate of 0% is assumed for purpose of this computation.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2014 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2014.

Projected claim costs of the medical plan are \$823 per month for retirees less than age 65 and \$283 per month for retirees who have attained age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Industrial Development Revenue Bonds

The City has issued a total of \$16,325,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$8,247,020 is outstanding at June 30, 2016. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(10) Deficit Balances

At June 30, 2016, funds with deficit balances were as follows:

Special Revenue, Tax Increment Financing	\$ 480,408
Capital Projects	317,506
Enterprise, Sanitation	4,920

These deficit balances are the result of debt payments and project costs in excess of available funds. These deficits will be eliminated upon collection of tax increment financing revenues and the subsequent transfer of these revenues to the Capital Projects Fund.

The deficit balance in the Enterprise, Sanitation Fund was the result of the net pension liability being recognized. Customer charges will be adjusted to eliminate this deficit.

(11) Related Party Transactions

The City had business transactions between the City and City officials totaling \$106,783 during the year ended June 30, 2016.

(12) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the Pool are recorded as expenditures from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$133,775.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

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

The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2016, no liability has been recorded in the City's financial statements. As of June 30, 2016, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$100,000, respectively. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Commitments

The City has entered into construction contracts totaling \$1,190,824 for renovation of the Memorial Library and a street construction project. As of June 30, 2016, costs of \$866,476 have been incurred on the projects. The remaining \$324,348 will be paid as work on the projects progresses.

(14) Subsequent Events

In July 2016, the City entered into a contract for \$570,000 for construction of a garage for the street department. The project will be funded with general obligation bonds issued in September 2016.

In September 2016, the City issued \$960,000 of general obligation bonds to pay the costs of certain street improvements and a street garage. The bonds are payable from a continuing annual levy of property tax against all taxable property of the City.

Sample GAAP City

Required Supplementary Information

Sample GAAP City

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

Required Supplementary Information

Year ended June 30, 2016

	Governmental		
	Funds Actual	Proprietary Funds	Total Actual
Receipts:			
Property tax	\$ 1,427,407	-	1,427,407
Tax increment financing	778,629	-	778,629
Other city tax	575,563	-	575,563
Licenses and permits	38,913	-	38,913
Use of money and property	48,253	28,736	76,989
Intergovernmental	916,507	-	916,507
Charges for service	142,577	1,781,243	1,923,820
Miscellaneous	328,738	16,033	344,771
Total receipts	4,256,587	1,826,012	6,082,599
Disbursements:			
Public safety	1,086,960	-	1,086,960
Public works	438,668	-	438,668
Culture and recreation	651,293	-	651,293
Community and economic development	-	-	-
General government	337,703	-	337,703
Debt service	667,190	-	667,190
Capital projects	2,708,508	-	2,708,508
Business type activities	-	1,659,010	1,659,010
Total disbursements	5,890,322	1,659,010	7,549,332
Excess (deficiency) of receipts over (under) disbursements	(1,633,735)	167,002	(1,466,733)
Other financing sources, net	926,914	30,817	957,731
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(706,821)	197,819	(509,002)
Balances beginning of year	2,790,790	1,499,082	4,289,872
Balances end of year	\$ 2,083,969	1,696,901	3,780,870

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
1,427,407	1,424,342	1,424,342	3,065
778,629	750,000	750,000	28,629
575,563	540,739	540,739	34,824
38,913	43,740	43,740	(4,827)
76,989	114,463	114,463	(37,474)
916,507	1,900,580	2,030,580	(1,114,073)
1,923,820	1,924,368	1,900,549	23,271
344,771	581,648	597,648	(252,877)
6,082,599	7,279,880	7,402,061	(1,319,462)
1,086,960	1,070,264	1,090,264	3,304
438,668	492,350	509,010	70,342
651,293	631,833	668,133	16,840
-	1,074,400	1,077,900	1,077,900
337,703	383,334	412,034	74,331
667,190	652,561	652,561	(14,629)
2,708,508	3,142,600	3,778,620	1,070,112
1,659,010	2,308,020	2,328,020	669,010
7,549,332	9,755,362	10,516,542	2,967,210
(1,466,733)	(2,475,482)	(3,114,481)	1,647,748
957,731	1,400,000	1,704,130	(746,399)
(509,002)	(1,075,482)	(1,410,351)	901,349
4,289,872	2,327,528	3,491,060	798,812
3,780,870	1,252,046	2,080,709	1,700,161

Sample GAAP City

Sample GAAP City
 Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2016

	Governmental Funds			Proprietary Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 4,256,587	84,548	4,341,135	1,826,012	(40,281)	1,785,731
Expenditures/expenses	5,890,322	(29,698)	5,860,624	1,659,010	45,269	1,704,279
Net	(1,633,735)	114,246	(1,519,489)	167,002	(85,550)	81,452
Other financing sources, net	926,914	30,631	957,545	30,817	(30,817)	-
Beginning fund balances/net position	2,790,790	(407,930)	2,382,860	1,499,082	4,587,632	6,086,714
Ending fund balances/net position	\$ 2,083,969	(263,053)	1,820,916	1,696,901	4,471,265	6,168,166

See accompanying independent auditor's report.

Sample GAAP City

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2016

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$761,180. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements in the debt service function exceeded the amount budgeted.

Sample GAAP City

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

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

Required Supplementary Information

	2016	2015
City's proportion of the net pension liability	0.051521%	0.046738%
City's proportionate share of the net pension liability	\$ 2,545	1,854
City's covered-employee payroll	\$ 4,520	4,457
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	56.31%	41.59%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

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

See accompanying independent auditor's report.

Sample GAAP City

Schedule of City Contributions

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

Required Supplementary Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 444	416	410	391
Contributions in relation to the statutorily required contribution	(444)	(416)	(410)	(391)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 4,836	4,520	4,457	4,320
Contributions as a percentage of covered-employee payroll	9.18%	9.20%	9.20%	9.05%

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
357	311	286	262	246	236
(357)	(311)	(286)	(262)	(246)	(236)
-	-	-	-	-	-
4,150	3,995	3,860	3,775	3,600	3,545
8.60%	7.78%	7.41%	6.94%	6.83%	6.66%

Sample GAAP City

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

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

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

Changes of assumptions:

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

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

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

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

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

Sample GAAP City

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)			
2009	Jul 1, 2008	-	\$ 565	565	0.0%	\$ 3,667	15.4%
2010	Jul 1, 2008	-	565	565	0.0	3,795	14.9
2011	Jul 1, 2008	-	565	565	0.0	3,943	14.3
2012	Jul 1, 2011	-	655	655	0.0	4,104	16.0
2013	Jul 1, 2011	-	655	655	0.0	4,234	15.5
2014	Jul 1, 2011	-	655	655	0.0	4,294	15.3
2015	Jul 1, 2014	-	780	780	0.0	4,358	17.9
2016	Jul 1, 2014	-	780	780	0.0	4,640	16.8

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Sample GAAP City

Supplementary Information

Sample GAAP City

Sample GAAP City
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2016

	Special Revenue			
	Road	Library	Volunteer	Total
	Use Tax		Fire Department	
Assets				
Cash, cash equivalents and pooled investments	\$ -	147,825	14,839	162,664
Receivables:				
Accounts	-	6	-	6
Accrued interest	-	211	-	211
Due from other governments	31,796	-	-	31,796
Due from other funds	-	492,964	-	492,964
Total assets	\$ 31,796	641,006	14,839	687,641
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	1,511	-	1,511
Fund balances:				
Restricted for:				
Library gifts and memorials	-	639,495	-	639,495
Other purposes	31,796	-	14,839	46,635
Total fund balances:	31,796	639,495	14,839	686,130
Total liabilities and fund balances	\$ 31,796	641,006	14,839	687,641

See accompanying independent auditor's report.

Sample GAAP City

Sample GAAP City

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2016

	Special Revenue			
	Road	Library	Volunteer	Total
	Use Tax		Fire Department	
Revenues:				
Use of money and property	\$ -	22,910	233	23,143
Intergovernmental	419,279	-	-	419,279
Miscellaneous	-	6	8,211	8,217
Total revenues	419,279	22,916	8,444	450,639
Expenditures:				
Operating:				
Public safety	-	-	11,119	11,119
Culture and recreation	-	4,173	-	4,173
Total expenditures	-	4,173	11,119	15,292
Excess (deficiency) of revenues over (under) expenditures	419,279	18,743	(2,675)	435,347
Other financing uses:				
Transfers out	(422,779)	-	-	(422,779)
Changes in fund balances	(3,500)	18,743	(2,675)	12,568
Fund balances beginning of year	35,296	620,752	17,514	673,562
Fund balances end of year	\$ 31,796	639,495	14,839	686,130

See accompanying independent auditor's report.

Sample GAAP City
 Schedule of Revenues by Source and Expenditures by Function-
 All Governmental Funds

For the Last Ten Years

	2016	2015	2014	2013
Revenues:				
Property tax	\$ 1,428,398	1,406,255	1,391,000	1,389,300
Tax increment financing	799,121	752,000	690,000	645,000
Other city tax	582,462	554,300	515,982	495,910
Licenses and permits	41,528	43,075	44,280	40,101
Use of money and property	61,945	105,575	112,310	139,812
Intergovernmental	1,011,030	810,417	797,300	707,300
Charges for service	146,660	132,792	133,411	134,250
Miscellaneous	269,991	331,296	320,517	338,595
Total	<u>\$ 4,341,135</u>	<u>4,135,710</u>	<u>4,004,800</u>	<u>3,890,268</u>
Expenditures:				
Operating:				
Public safety	\$ 1,087,481	986,720	950,300	912,444
Public works	434,386	411,987	400,616	402,640
Culture and recreation	664,445	653,739	637,311	618,128
Community and economic development	55,041	53,919	45,244	41,311
General government	335,056	325,803	311,829	311,914
Debt service	697,591	591,399	545,611	538,998
Capital projects	2,586,624	1,025,000	1,108,500	999,980
Total	<u>\$ 5,860,624</u>	<u>4,048,567</u>	<u>3,999,411</u>	<u>3,825,415</u>

See accompanying independent auditor's report.

Modified Accrual Basis					
2012	2011	2010	2009	2008	2007
1,375,407	1,347,899	1,341,159	1,327,748	1,314,470	1,301,326
638,550	625,779	622,650	616,424	610,259	604,157
490,951	481,132	478,726	473,939	469,200	464,508
39,700	38,906	38,711	38,324	37,941	37,562
138,414	135,646	134,967	133,618	132,282	130,959
700,227	686,222	682,791	675,963	669,204	662,512
132,908	130,249	129,598	128,302	127,019	125,749
335,209	328,505	326,862	323,594	320,358	317,154
3,851,366	3,774,338	3,755,464	3,717,912	3,680,733	3,643,927
903,320	885,253	880,827	872,019	863,298	854,665
398,614	390,641	388,688	384,801	380,953	377,144
611,947	599,708	596,709	590,742	584,835	578,986
40,898	40,080	39,880	39,481	39,086	38,695
308,795	302,619	301,106	298,095	295,114	292,163
533,608	522,936	520,321	515,118	509,967	504,867
989,980	970,181	965,330	955,676	946,120	936,658
3,787,162	3,711,418	3,692,861	3,655,932	3,619,373	3,583,178

Sample GAAP City

Sample GAAP City
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2016

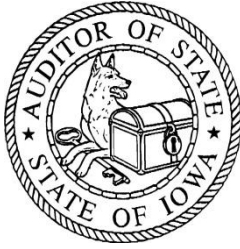
Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		\$ 5,000
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	15-CD-000	599,000
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-65-6(39)-3C-00	56,000
Highway Planning and Construction	20.205	STP-E-3720(4)-9V-00	100,000
			<u>156,000</u>
U.S. Department of Homeland Security:			
Iowa Department of Homeland Security and Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4187-DRIA	1,500
Total indirect			<u>756,500</u>
Total			<u>\$ 761,500</u>

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Sample GAAP City under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Sample GAAP City, it is not intended to and does not present the financial position, changes in financial position or cash flows of Sample GAAP City.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the accrual or modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Sample GAAP City has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

**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**



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Sample GAAP City, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sample GAAP City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sample GAAP City's internal control. Accordingly, we do not express an opinion on the effectiveness of Sample GAAP City'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 and Questioned Costs, we identified a deficiency in internal control we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Sample GAAP City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-16 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-16 and II-C-16 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sample GAAP City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Sample GAAP City's Responses to the Findings

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

Purpose of this Report

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

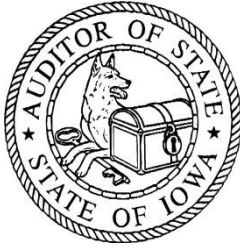
We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample GAAP City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

MARY MOSIMAN, CPA
Auditor of State

September 23, 2016

**Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance**

Sample GAAP City



**OFFICE OF AUDITOR OF STATE
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Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited Sample GAAP City, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2016. Sample GAAP City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Sample GAAP City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sample GAAP City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on Sample GAAP City's compliance.

Opinion on the Major Federal Program

In our opinion, Sample GAAP City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The management of Sample GAAP City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sample GAAP City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sample GAAP City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

MARY MOSIMAN, CPA
Auditor of State

September 23, 2016

Sample GAAP City
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with the Uniform Guidance Section 200.515.
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) Sample GAAP City did not qualify as a low-risk auditee.

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-16 Financial Reporting – During the audit, we identified material amounts of receivables, payables and capital asset additions not recorded in the City’s financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements. The error appears to be due to employee oversight.

Recommendation – The City should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the City’s financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

II-B-16 Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges.

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

Response – We presently have unwritten guidelines. However, we have not established a formal written policy detailing specifics on the use of City credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

II-C-16 Computer Systems – The following weaknesses in the City’s computer systems were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Requiring independent review of payroll and utility rates.
- Computer usage and internet usage.

Also, the computer systems do not lock out a user if the user enters the wrong password a specified number of times. The error appears to be due to employee oversight.

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer systems. Passwords should be periodically changed, independent review should be performed on utility and payroll rates and the computer should lock out users who input their password incorrectly a specified number of times.

Response – The City will review current policies and procedures and adjust accordingly.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Sample GAAP City
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-16 Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the debt service 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 budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-B-16 Questionable Expenditures – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These expenditures are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Anywhere Flower Shop	Flower arrangements for gifts	\$ 332
Anywhere Quick Shop	Pop and food for City employees	239

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

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

Response – We will comply with this recommendation.

Conclusion – Response accepted.

IV-C-16 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- IV-D-16 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Rosemary Jones, Mayor, Owner of Jones Construction	Construction, per bid	\$ 105,052
Kevin Linden, City Council Member, Owner of Linden Welding	Repair and welding	1,295
J.J. Silver, Public Works Director, Part-owner of J.J.'s Hardware	Parts and supplies	436

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member and the Public Works Director do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transaction with the Mayor does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

- IV-E-16 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.

- IV-F-16 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

The City Council went into closed session on May 19, 2016. However, the minutes record did not document the specific information regarding the closed session required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Although minutes of City Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General’s opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish minutes and annual individual salaries as required.

Response – We will comply with the Code requirements for closed sessions. We will publish minutes and salaries as required.

Conclusion – Response accepted.

- IV-G-16 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

- IV-H-16 Revenue Notes – No instances of non-compliance with the wastewater revenue note provisions were noted.

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- IV-I-16 Annual Urban Renewal Report – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the following reporting exceptions were noted:

The City understated the amount reported as TIF debt outstanding on the Levy Authority Summary by \$58,350. The debt outstanding excluded one rebate agreement and did not include the total obligation for rebate agreements subject to annual appropriation.

Recommendation – The City should ensure the TIF debt outstanding reported includes all TIF debt issued during the fiscal year and the total balance of all annual appropriation obligations.

Response – These items will be corrected on next year’s report.

Conclusion – Response accepted.

- IV-J-16 Fire Department Activities – The City’s Volunteer Fire Department maintains a separate checking account for donations and fund raising activities. Certain expenditures, such as a dinner for volunteers and their family members, from this account may not meet the requirements of public purpose.

Recommendation – The City and the Volunteer Fire Department should determine and document the public purpose served by these expenditures before authorizing further payments and should consider legally separating donation and fund raising activities from Department operations.

Response – We will contact the City Attorney to set this up.

Conclusion – Response accepted.

- IV-K-17 Financial Condition – At June 30, 2016, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
Special Revenue:	
Tax Increment Financing	\$ (480,408)
Capital Projects	(317,506)
Enterprise:	
Sanitation	(4,920)

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial position.

Response – The City will review available resources to return these funds to a sound financial position.

Conclusion – Response accepted.

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

IV-L-16 Other Information Required by the Revenue Note Resolution

Insurance – The following insurance policies were in force at June 30, 2016:

Insurer	Description	Amount	Expiration Date
Iowa Communities Assurance Pool (ICAP)	Property Coverage	\$ 20,000,000	Apr 1, 2017
CAP	Liability coverage:		
	General aggregate	10,000,000	Apr 1, 2017
	Products aggregate	10,000,000	Apr 1, 2017
	Personal injury	3,000,000	Apr 1, 2017
	Each occurrence	3,000,000	Apr 1, 2017
	Fire Damage	100,000	Apr 1, 2017
	Medical expense	5,000	Apr 1, 2017
ICAP	Inland Marine:		
	Location 3	100,000	Apr 1, 2017
	Location 4	500,000	Apr 1, 2017
	Miscellaneous property	50,000	Apr 1, 2017
ICAP	Automobile coverage:		
	Liability	10,000,000	Apr 1, 2017
	Auto medical	5,000	Apr 1, 2017
	Uninsured motorist	50,000	Apr 1, 2017
	Underinsured motorist	50,000	Apr 1, 2017
	Comprehensive/collision	Lesser of cash value or cost of repair	Apr 1, 2017
Iowa Municipalities Workers' Compensation Association (IMWCA)	Workers' compensation:		
	Bodily injury by accident	1,000,000	Apr 1, 2017
	Bodily injury by disease	1,000,000	Apr 1, 2017
	Policy limit	1,000,000	Apr 1, 2017
ICAP	Umbrella:		
	Retained limit	10,000	Apr 1, 2017
	Occurrence limit	3,000,000	Apr 1, 2017
	Aggregate limit	10,000,000	Apr 1, 2017
ICAP	Linebacker:		
	Each loss	3,000,000	Apr 1, 2017
	Aggregate	10,000,000	Apr 1, 2017
ICAP	Airport liability:		
	Combined single:		
	Each occurrence	3,000,000	Jul 1, 2016
	Malpractice aggregate	10,000,000	Jul 1, 2016
	Fire Damage	50,000	Jul 1, 2016
	Medical expense	1,000	Jul 1, 2016
	Hangarkeepers-per aircraft	200,000	Jul 1, 2016
	Hangarkeepers-per occurrence	200,000	Jul 1, 2016
	Personal injury and advertising injury aggregate limit	10,000,000	Jul 1, 2016

Sample GAAP City
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2016

Insurer	Description	Amount	Expiration Date
ICAP	Airport public officials and employees' liability	100,000	Jul 1, 2016
Smith Insurance	Employees blanket bond	100,000	Continuous until canceled

Statistical Information:

Description	Amount
Customers served at June 30, 2016 - water	2,300
Customers served at June 30, 2016 - sewer	2,250

Water rates in effect at June 30, 2016:

Per month:

- First 1,000 gallons – \$2.85 minimum charge
- 1,000 to 20,000 gallons – \$2.15 per 1,000 gallons
- Over 20,000 gallons – \$1.75 per 1,000 gallons

Sewer rates in effect at June 30, 2016:

- Minimum charge per month of \$5.00 plus \$3.10 per 1,000 gallons of water used

Sample GAAP City

Staff

This audit was performed by:

Jerome Warning, CPA, Manager
Janice Brinkley, CPA, Senior Auditor
Stanley Hood, CPA, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State