

**CITY OF SANBORN, IOWA**

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

**JUNE 30, 2015**

**T. P. ANDERSON & COMPANY, P.C.  
Certified Public Accountants**

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CITY OF SANBORN, IOWA

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Duane VanVeldhuizen	Mayor	January 2016
Greg Vogelaar	Council Member	January 2016
Josh Rydberg	Council Member	January 2016
Brian Visser	Council Member	January 2016
Jerry Back	Council Member	January 2018
Randy Lyman	Council Member	January 2018
Jim Zeutenhorst	City Administrator	Appointed
Peggy Japenga	City Clerk/Accountant	Appointed
Daniel DeKoter	Attorney	Appointed



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sanborn, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Basis for Adverse Opinion**

The City has not included financial data from Sanborn Electric and Telecommunications Utility, a component unit of the City of Sanborn by definition, in the City's financial statements. Accounting principles generally accepted in the United States of America require the financial data to be presented as a discretely presented component unit in the Cash Basis Statement of Activities and Net Position. The amount by which this departure would affect the overall cash balance, cash receipts and disbursements of the City as of and for the year ended June 30, 2015 has not been determined.

## **Adverse Opinion**

In our opinion, because of the significance of the matter described in the “Basis for Adverse opinion on the City’s Component Unit” paragraph, the financial statements referred to above do not present fairly the cash balance of Sanborn Electric and Telecommunications Utility, a component unit of the City of Sanborn as of June 30, 2015 or the cash receipts and disbursements thereof for the year then ended in conformity with the basis of accounting described in Note 1.

## **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sanborn as of June 30, 2015, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## **Basis of Accounting**

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

## **Emphasis of a Matter**

As discussed in Note 4 to the financial statements, the city of Sanborn adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 8, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sanborn’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 six years ended June 30, 2014 (which are not presented herein) and expressed an adverse opinion (2014) and unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the four years ended June 30, 2008 (none of which are presented herein) were audited by other auditors. Those audit reports expressed unmodified opinions on the primary government financial statements for the four years ended June 30, 2008. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, the City’s Management’s Discussion and Analysis, the budgetary comparison information, the Schedule of City’s Proportionate Share of the Net Pension Liability, and the Schedule of City Contributions on pages 5-11 and 29-34 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2016 on our consideration of the City of Sanborn's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sanborn's internal control over financial reporting and compliance.

*T.P. Anderson & Company, P.C.*

February 11, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sanborn, Iowa 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, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2015 FINANCIAL HIGHLIGHTS**

- The City's total receipts for governmental activities decreased by approximately \$276,000 from 2014. The decrease was due in large part to reduced loan proceeds received in fiscal year 2015.
- Disbursements from the City's governmental activities decreased by approximately \$418,000 in fiscal year 2015 from fiscal year 2014. Disbursements decreased as a result of the capital project completed in 2014.
- The City's total cash basis net position decreased \$401,000 from June 30, 2014 to June 30, 2015. Of this amount, the cash basis net position of the governmental activities decreased by approximately \$312,000 and the cash basis net position of the business type activities decreased by approximately \$89,000.

### **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.

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

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

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

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

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

## **BASIS OF ACCOUNTING**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, gas, sewer rental and solid waste collection system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic service. 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, Urban Renewal Tax Increment and Local Option Sales Tax, and 3) the Debt Service 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 Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business-type activities. The City maintains four Enterprise Funds to provide separate information for the water, gas, sewer rental and solid waste collection funds. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

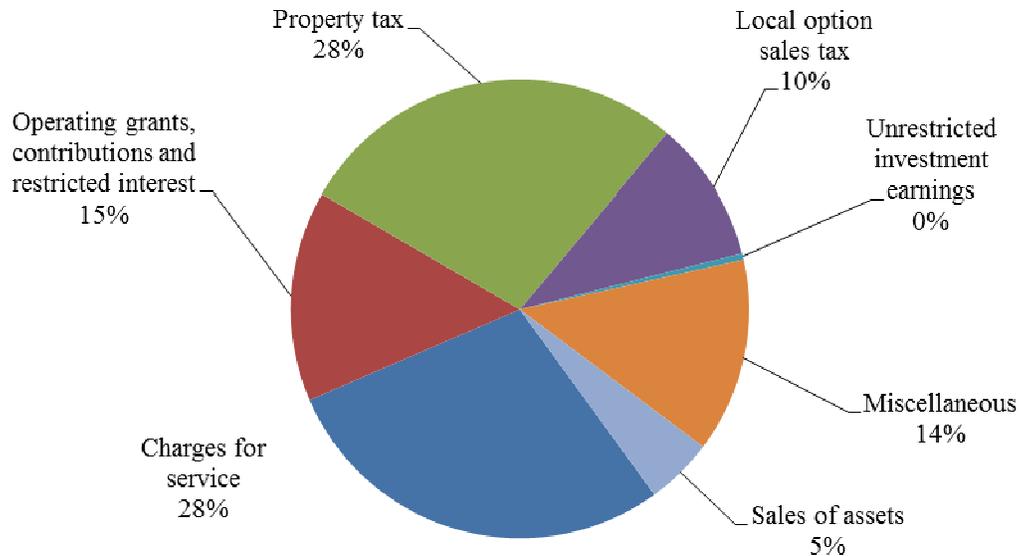
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

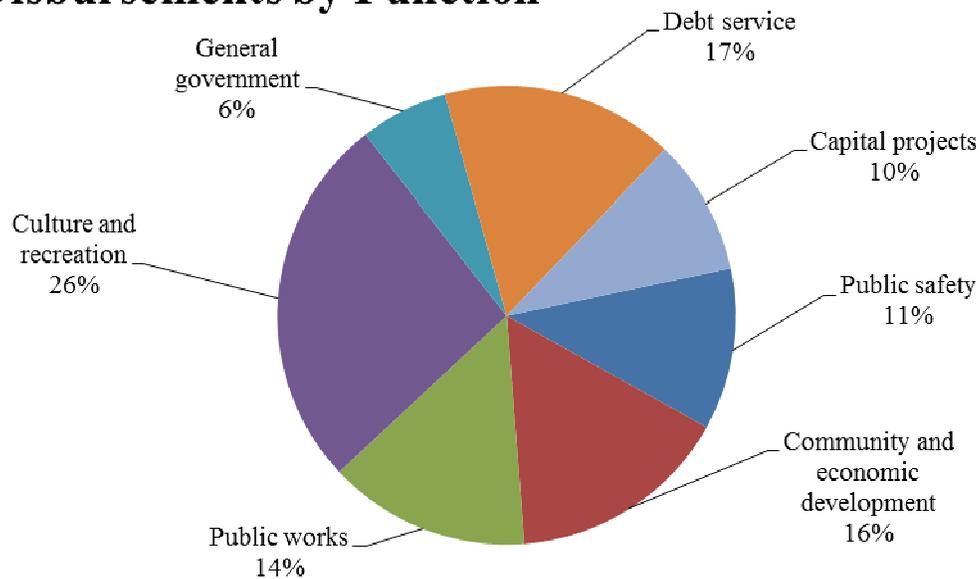
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago by approximately \$312,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30.	
	2015	2014
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 378	412
Operating grants, contributions and restricted interest	197	240
Capital grants, contributions and restricted interest	-	48
General receipts:		
Property tax	367	439
Tax increment financing	480	239
Local option sales tax	132	135
Unrestricted investment earnings	6	8
Bonds issued	350	700
Miscellaneous	169	161
Sales of assets	78	51
Total receipts	<u>2,157</u>	<u>2,433</u>
<b>Disbursements:</b>		
Public Safety	241	219
Public works	253	195
Culture and recreation	553	525
Community and economic development	376	142
General government	129	146
Debt service	346	296
Capital projects	550	1,343
Total disbursements	<u>2,448</u>	<u>2,866</u>
Change in cash basis before transfers	(291)	(433)
Transfers, net	(21)	278
Change in cash basis net position	(312)	(155)
<b>Cash basis net position beginning of year</b>	<u>1,030</u>	<u>1,185</u>
<b>Cash basis net position end of year</b>	<u>\$ 718</u>	<u>1,030</u>

## Receipts by Source



## Disbursements by Function



The City's total receipts for governmental activities decreased 11%, or approximately \$276,000. The decrease in receipts resulted from reduced bond proceeds in 2015. The total cost of all programs and services decreased by approximately \$418,000, or 15%, due mainly to the large capital project completed in 2014.

The cost of all governmental activities this year was approximately \$2.4 million compared to approximately \$2.9 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on page 12, the amount taxpayers ultimately financed for these activities was approximately \$1.9 million because some of the cost was paid by those directly benefited from the programs (approximately \$378,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$197,000). The City paid for 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. Overall, the City’s governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2015 from approximately \$700,000 in 2014 to approximately \$575,000, principally due to decreased grant proceeds.

Changes in Cash Basis Net Position of Business-Type Activities (Expressed in Thousands)		
	Year ended June 30.	
	2015	2014
<b>Receipts:</b>		
Charges for service:		
Water	\$ 273	273
Gas	1,159	1,458
Sewer rental	443	404
Solid waste collection	137	131
Note proceeds	83	-
Unrestricted interest on investments	4	4
Total receipts	<u>2,099</u>	<u>2,270</u>
<b>Disbursements:</b>		
Water	333	226
Gas	1,208	1,446
Sewer rental	539	472
Solid waste collection	128	107
Total receipts	<u>2,208</u>	<u>2,251</u>
Change in cash basis before transfers	(109)	19
Transfers, net	21	(278)
Change in cash basis net position	(88)	(259)
<b>Cash basis net position beginning of year</b>	<u>817</u>	<u>1,076</u>
<b>Cash basis net position end of year</b>	<u>\$ 729</u>	<u>817</u>

Total business type activities receipts for the fiscal year were approximately \$2.1 million compared to approximately \$2.3 million from last year. The decrease resulted from decreased gas rates generating lower gas revenue. The purchased gas cost also decreased during the year as a result of lower market rates. This reduction in expense for the business type activities was nearly offset by increased water and sewer expenditures. The increased expenditures for water and sewer were mainly capital expenditures during the year.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Sanborn completed the year, its governmental funds reported a combined fund balance of \$800,274, a decrease of approximately \$149,000 from last year’s total of \$949,263. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$10,801 during the year due to planned activities and budgeted transactions.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased by \$5,598 due to planned activities.
- The Special Revenue, Low-Moderate Housing fund cash balance decreased \$49 in fiscal year 2015 due to budgeted results for the fund for the year. The City continues to look for a low to moderate income housing project to support with these funds.
- The Special Revenue, Development Fund decreased \$85,947 due to the purchase of additional land for residential development in the City.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund decreased \$64,068 due to capital expenditures for the fund.
- The Gas Fund decreased \$33,579 mainly due to the interfund loan made to purchase land during the year.
- The Sewer Fund decreased \$17,404 due to capital expenditures for the fund.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The budget amendment was approved on May 15, 2015 resulting in an increase in revenues for charges for services of \$125,000, an increase in expenditures for public works and business type activities of \$50,000 and \$350,000, respectively, and an increase in transfers out of \$400,000. The City’s actual disbursements exceeded budgeted limits for the culture and recreation, debt service, and business type activities functions for the year ended June 30, 2015.

**DEBT ADMINISTRATION**

At June 30, 2015, the City had approximately \$2,634,000 in bonds and other long-term debt, compared to approximately \$2,930,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30.	
	2015	2014
General obligation bonds and notes	\$ 1,800	\$ 1,745
Revenue bonds and notes	1,184	1,185
Total receipts and transfers	<u>\$ 2,984</u>	<u>\$ 2,930</u>

Debt increased as a result of receiving SRF proceeds from sewer revenue planning bonds and a loan from Sanborn Electric and Telecommunications Utility during the year.

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 of \$1.8 million is within the City's constitutional debt limit of \$3.11 million.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In completing the fiscal year 2015 budget the elected and appointed officials of Sanborn considered many factors. Those factors included the economy, employment rates, operating expenses, capital projects, and other government mandates. A conservative approach was used and a balanced budget is anticipated.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Clerk, 102 Main Street, Sanborn, Iowa.

## **Basic Financial Statements**

CITY OF SANBORN, IOWA

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
<b>Governmental activities:</b>				
Public safety	240,465	36,975	-	-
Public works	252,439	-	145,991	-
Culture and recreation	552,805	333,431	12,565	-
Community and economic development	376,263	-	-	-
General government	129,258	7,850	38,000	-
Debt service	345,558	-	-	-
Capital projects	550,000	-	-	-
Total government activities	2,446,788	378,256	196,556	-
<b>Business type activities:</b>				
Water	333,345	272,665	-	-
Gas	1,207,841	1,157,849	-	-
Sewer rental	538,673	443,023	-	-
Solid waste collection	128,062	136,949	-	-
Total business type activities	2,207,921	2,010,486	-	-
Total	4,654,709	2,388,742	196,556	-

**General Receipts**

Property tax levied for:
General purposes
Employee benefits
Debt service
Tax increment financing
Local option sales tax
Unrestricted interest on investments
Note proceeds
Other general receipts
Sales of assets
Transfers in (out)
Total general receipts and transfers
Change in cash basis net position
Cash beginning of year
Cash end of year

**Cash Basis Net Position**

Restricted
Expendable
Urban renewal purposes
Streets
Debt service
Other purposes
Unrestricted

See notes to financial statements.

Exhibit A

<u>Net (Disbursements) Receipts and Changes in Cash Basis Net</u>		
<u>Governmental</u>	<u>Business Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
(203,490)	-	(203,490)
(106,448)	-	(106,448)
(206,809)	-	(206,809)
(376,263)	-	(376,263)
(83,408)	-	(83,408)
(345,558)	-	(345,558)
(550,000)	-	(550,000)
<u>(1,871,976)</u>	<u>-</u>	<u>(1,871,976)</u>
-	(60,680)	(60,680)
-	(49,992)	(49,992)
-	(95,650)	(95,650)
-	8,887	8,887
<u>-</u>	<u>(197,435)</u>	<u>(197,435)</u>
<u>(1,871,976)</u>	<u>(197,435)</u>	<u>(2,069,411)</u>
232,929	-	232,929
72,033	-	72,033
61,741	-	61,741
479,522	-	479,522
131,510	-	131,510
5,710	5,435	11,145
350,000	82,919	432,919
168,792	-	168,792
77,750	-	77,750
(20,500)	20,500	-
<u>1,559,487</u>	<u>108,854</u>	<u>1,668,341</u>
(312,489)	(88,581)	(401,070)
<u>1,030,095</u>	<u>817,381</u>	<u>1,847,476</u>
<u>717,606</u>	<u>728,800</u>	<u>1,446,406</u>
10,995	-	10,995
62,997	-	62,997
10,326	101,603	111,929
255,360	-	255,360
377,928	627,197	1,005,125
<u>717,606</u>	<u>728,800</u>	<u>1,446,406</u>

## CITY OF SANBORN, IOWA

Exhibit B

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	General	Special Revenue			Nonmajor Governmental Funds	Total
		Urban Renewal Tax Increment	Low-Moderate Housing	Development		
<b>Receipts:</b>						
Property tax	\$ 232,929	-	-	-	133,774	366,703
Tax increment financing	-	479,522	-	-	-	479,522
Other city tax	12,046	-	-	-	131,510	143,556
Licenses and permits	2,763	-	-	-	-	2,763
Use of money and property	6,031	631	743	961	344	8,710
Intergovernmental	50,565	-	-	-	145,991	196,556
Charges for service	378,256	-	-	-	-	378,256
Miscellaneous	145,009	-	-	5,974	-	150,983
	<u>827,599</u>	<u>480,153</u>	<u>743</u>	<u>6,935</u>	<u>411,619</u>	<u>1,727,049</u>
<b>Disbursements:</b>						
Public safety	197,704	-	-	-	42,761	240,465
Public works	61,963	-	-	-	190,476	252,439
Culture and recreation	541,551	-	-	-	11,254	552,805
Community and economic development	-	1,059	792	245,382	129,030	376,263
General government	125,307	-	-	-	3,951	129,258
Debt service	-	14,998	-	-	330,560	345,558
	<u>926,525</u>	<u>16,057</u>	<u>792</u>	<u>245,382</u>	<u>708,032</u>	<u>1,896,788</u>
Excess (deficiency) of receipts over (under) disbursements	(98,926)	464,096	(49)	(238,447)	(296,413)	(169,739)
<b>Other financing sources (uses):</b>						
Sales of assets	6,750	-	-	56,000	-	62,750
Operating transfers in	102,875	-	-	96,500	282,373	481,748
Operating transfers out	(21,500)	(458,498)	-	-	(43,750)	(523,748)
	<u>88,125</u>	<u>(458,498)</u>	<u>-</u>	<u>152,500</u>	<u>238,623</u>	<u>20,750</u>
Net change in cash balances	(10,801)	5,598	(49)	(85,947)	(57,790)	(148,989)
Balance beginning of year	481,329	5,397	178,436	128,085	156,016	949,263
Balance end of year	<u>\$ 470,528</u>	<u>10,995</u>	<u>178,387</u>	<u>42,138</u>	<u>98,226</u>	<u>800,274</u>
<b>Cash Basis Fund Balance</b>						
Restricted for:						
Urban renewal purposes	\$ -	10,995	-	-	-	10,995
Streets	-	-	-	-	62,997	62,997
Debt service	-	-	-	-	10,326	10,326
Other purposes	-	-	178,387	42,138	34,835	255,360
Assigned for:						
Library	31,212	-	-	-	-	31,212
Unassigned	439,316	-	-	-	(9,932)	429,384
Total cash basis fund balances	<u>\$ 470,528</u>	<u>10,995</u>	<u>178,387</u>	<u>42,138</u>	<u>98,226</u>	<u>800,274</u>

See notes to financial statements.

CITY OF SANBORN, IOWA

Exhibit C

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

As of and for the year ended June 30, 2015

<b>Total governmental funds cash balances</b>	\$ 800,274
<i>Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:</i>	
The Internal Service Fund is used by management to charge the cost of using city equipment to individual funds. This portion of the cash basis net position of the Internal Service Fund are included in governmental activities in the Cash Basis Statement of Activities and Net Position.	<u>(82,668)</u>
<b>Cash basis net position of governmental activities</b>	<u><u>717,606</u></u>
<b>Net change in cash balances</b>	(148,989)
<i>Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position - Cash Basis are different because:</i>	
The Internal Service fund is used by management to charge the costs of the use of city equipment to individual funds. This portion of change in the cash basis net position of the Internal Service Fund is reported with the governmental activities.	<u>(163,500)</u>
Change in cash balance of governmental activities	<u><u>\$ (312,489)</u></u>

See notes to financial statements.

## CITY OF SANBORN, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Enterprise Funds				Total
	Water	Gas	Sewer Rental	Non-Major Solid Waste Collection	
Receipts					
Charges for service	272,665	1,157,849	443,023	136,949	2,010,486
Use of money and property	-	1,810	-	-	1,810
	<u>272,665</u>	<u>1,159,659</u>	<u>443,023</u>	<u>136,949</u>	<u>2,012,296</u>
Disbursements					
Total operating disbursements	211,388	1,046,888	371,375	128,062	1,757,713
	<u>211,388</u>	<u>1,046,888</u>	<u>371,375</u>	<u>128,062</u>	<u>1,757,713</u>
Excess of operating receipts over operating disbursements	61,277	112,771	71,648	8,887	254,583
Non-operating receipts (disbursements):					
Interest on investments	612	2,603	327	83	3,625
Debt service	(53,770)	-	(58,963)	-	(112,733)
Capital projects	(68,187)	(160,953)	(108,335)	-	(337,475)
	<u>(121,345)</u>	<u>(158,350)</u>	<u>(166,971)</u>	<u>83</u>	<u>(446,583)</u>
Excess (deficiency) of receipts over (under) disbursements	(60,068)	(45,579)	(95,323)	8,970	(192,000)
Other financing sources (uses):					
Note proceeds	-	-	82,919	-	82,919
Operating transfers in	-	96,500	-	-	96,500
Operating transfers out	(4,000)	(84,500)	(5,000)	(10,000)	(103,500)
	<u>(4,000)</u>	<u>12,000</u>	<u>77,919</u>	<u>(10,000)</u>	<u>75,919</u>
Net change in cash balances	(64,068)	(33,579)	(17,404)	(1,030)	(116,081)
Balance beginning of year	77,523	576,653	46,156	(14,063)	686,269
Balance end of year	<u>13,455</u>	<u>543,074</u>	<u>28,752</u>	<u>(15,093)</u>	<u>570,188</u>
Cash Basis Fund Balances					
Restricted for debt service	95,588	-	6,015	-	101,603
Unrestricted	(82,133)	543,074	22,737	(15,093)	468,585
	<u>13,455</u>	<u>543,074</u>	<u>28,752</u>	<u>(15,093)</u>	<u>570,188</u>

See notes to financial statements.

Exhibit D

Internal Service Fund	Total
-	2,010,486
<u>15,000</u>	<u>16,810</u>
15,000	2,027,296
550,000	2,307,713
<u>550,000</u>	<u>2,307,713</u>
(535,000)	(280,417)
-	3,625
-	(112,733)
-	(337,475)
<u>-</u>	<u>(446,583)</u>
<u>(535,000)</u>	<u>(727,000)</u>
350,000	432,919
49,000	145,500
-	(103,500)
<u>399,000</u>	<u>474,919</u>
(136,000)	(252,081)
<u>211,944</u>	<u>898,213</u>
<u>75,944</u>	<u>646,132</u>
-	101,603
<u>75,944</u>	<u>544,529</u>
<u>75,944</u>	<u>646,132</u>

CITY OF SANBORN, IOWA

Exhibit E

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

As of and for the year ended June 30, 2015

**Total enterprise funds cash balances** \$ 570,188

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

The Internal Service Fund is used by management to charge the costs of using city equipment to individual funds. This portion of the cash basis net position of the Internal Service Fund are included in business-type activities in the Cash Basis Statement of Activities and Net Position.

158,612

**Cash basis net position of business type activities**

728,800

**Net change in cash balances** (116,081)

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

The Internal Service fund is used by management to charge the costs of the use of city equipment to individual funds. This portion of the change in cash basis net position in the Internal Service Fund is reported with the enterprise activities in the Cash Basis Statement of Activities and Net Position.

27,500

Change in cash balance of business-type activities

\$ (88,581)

See notes to financial statements.

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

The City of Sanborn is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, gas, sewer rental and solid waste collection services to its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sanborn 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 (GASB) 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.

Excluded Component Unit

The financial statements do not include financial data for Sanborn Electric and Telecommunications Utility, a legally separate entity which should be reported as a discretely presented component unit.

The Sanborn Electric and Telecommunications Utility, established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Utilities is governed by a Board of Trustees appointed by the Mayor and approved by the City Council to six-year terms. The Utility provides electric service to the residents and businesses of the City of Sanborn. Cable television, internet and telephone service is provided through the Utility's involvement with the Community Cable Television Agency of O'Brien County. Complete financial statements for the year ended December 31, 2014, can be obtained from the Municipal Utilities administration office, 102 Main Street, Sanborn, Iowa.

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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: Northwest Iowa Landfill Association, E-911 Board, Northwest Iowa League of Cities Board, Northern Municipal Distributors Group, O'Brien County Economic Development Board, Vector Safety Board and the Northwest Iowa Planning Commission.

B. Basis of Presentation

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

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

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

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding category. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

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

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

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

The City reports the following major governmental funds:

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

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Low-Moderate Housing Fund is used to account for the tax increment financing dollars allocated to the low and moderate housing obligation.

The Development Fund is used to account for lot sales in the City's housing development.

The City reports the following major proprietary funds:

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

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

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

The City also reports the following additional proprietary type fund:

The Internal Service Fund, Equipment Replacement, is used to accumulate funds for capital equipment additions the City may need in the future.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis assets available to

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

*Unassigned* – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. The City expenditures for the culture and recreation, debt service, and business type activities functions exceeded the amounts budgeted for the year ended June 30, 2015.

**(2) Cash and Investments**

The City's deposits in banks at June 30, 2015 (which include certificates of deposit totaling \$424,331) 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 insure there will be no loss of public funds.

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

At June 30, 2015, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
United States Savings Bonds Series EE – mature July 2034	\$ <u>15,513</u>	\$ <u>15,513</u>

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**(3) Bonds and Notes Payable**

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

Year Ending June 30.	General Obligation Notes		Revenue Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 375,000	41,800	91,000	29,210	466,000	71,010
2017	385,000	33,925	174,919	27,155	559,919	61,080
2018	395,000	25,130	94,000	25,070	489,000	50,200
2019	120,000	15,505	95,000	22,925	215,000	38,430
2020	120,000	14,405	97,000	20,480	217,000	34,885
2021-2025	280,000	50,218	522,000	62,275	802,000	112,493
2026-2027	<u>125,000</u>	<u>6,746</u>	<u>110,000</u>	<u>4,950</u>	<u>235,000</u>	<u>11,696</u>
	<u>\$ 1,800,000</u>	<u>187,729</u>	<u>1,183,919</u>	<u>192,065</u>	<u>2,983,919</u>	<u>379,794</u>

The Code of Iowa requires principal and interest on general obligation bonds to be paid from the Debt Service Fund. However, \$14,998 in interest was paid from the Urban Renewal Tax Increment Fund during the year ended June 30, 2015.

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$695,000 in water revenue notes issued in July 2012. Proceeds from the notes provided financing for the

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

construction of water system improvements. The notes are payable solely from water customer net receipts and are payable through 2027. The total principal and interest remaining to be paid on the notes is \$676,465. For the current year, principal and interest paid and the excess of operating receipts over operating disbursements for the water fund were \$53,770 and \$61,426 respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$916,000 in sewer revenue notes issued in June 2004. Proceeds from the notes provided financing for the construction of sewer improvements and extensions. The notes are payable solely from sewer customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$616,600. For the current year, principal and interest paid and the excess of operating receipts over operating disbursements for the sewer fund were \$58,963 and \$71,648 respectively.

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

- (a) The notes and bonds will only be redeemed from the future earnings of the enterprise activity and the note and bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue note and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) The Water and Sewer Bonds require the systems generate net revenues sufficient to pay 110% of the highest annual principal and interest installments due to maturity.

A summary of changes in long-term debt for the year ended June 30, 2015 is as follows:

	General Obligation Bonds	Revenue Bonds	Total
Balance, beginning of year	\$ 1,745,000	1,185,000	2,930,000
Additions	350,000	82,919	432,919
Decreases	295,000	84,000	379,000
Balance, end of year	<u>\$ 1,800,000</u>	<u>1,183,919</u>	<u>2,983,919</u>

Interest rates on the general obligation bonds range from 1.00 to 4.20%. Interest rates on the revenue bonds range from 0.00 to 3.00%.

**(3) Pension and Retirement Benefits**

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 Iowa Public Employees’ Retirement

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

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

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

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

A protection occupation member may retire at normal retirement age, which is generally age 55. A protection occupation member may retire any time after they reach age 50, if at least 22 years of covered employment have elapsed. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30.
- 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 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that 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** – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 2015, pursuant to the required rate, regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.76 percent of pay and the City contributed 10.14 percent for a total rate of 16.90 percent.

The City’s contributions to IPERS for the year ended June 30, 2015 were \$78,794.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City’s liability for its proportionate share of the collective net pension liability totaled \$237,215. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the collective net pension liability was based on the City’s share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City’s proportion was 0.005981 percent, which was a decrease of 0.000803 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$21,220, \$14,192 and \$120,793 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investments expense, including inflation.

The actuarial assumptions used in the June 30, 2014 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 pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan 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:

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan 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 7.5 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City’s proportionate share of the net pension liability (asset)	\$509,501	\$237,215	\$7,439

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

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

Plan Description – The City operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 14 active and 1 retired members in the plan. Participants must be age 55 or older at retirement.

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

The medical 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.

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. The most recent active member monthly premiums for the City and plan members are \$443 for single coverage and \$1,012 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2015, the City contributed the entire cost of the plan, a total of \$91,830.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon retirement, termination or death. Earned but unused sick leave hours are for subsequent use only. These accumulations are not recognized as expenditures by the City until they are used or paid. The City's approximate liability for earned vacation at June 30, 2015 was \$27,688. This liability has been computed based on rates of pay in effect at June 30, 2015.

**(7) Economic Dependency**

The Water, Sewer and Gas enterprise funds of the City of Sanborn derived the following receipts from Associated Milk Producers, Inc. for the fiscal year ended June 30, 2015:

	<u>Amount</u>	<u>Percent of Total</u>
Sale of Water	\$ 101,226	38%
Sale of Gas	441,695	38%
Sewer Rental Fees and Assessments	306,341	69%

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**(8) Interfund Transfers**

The detail of interfund transfers, for the year ended June 30, 2015 is as follows:

Transfer In	Transfer From	Amount
General Fund	Special Revenue Fund: LOST	\$ 26,875
	Enterprise Fund: Gas	<u>76,000</u>
		<u>102,875</u>
Non-Major Fund: Employee Benefits	Special Revenue Fund: LOST	<u>16,875</u>
Non-Major Fund: Debt Service	Special Revenue Fund: TIF	<u>265,498</u>
Special Revenue Fund: Development	Special Revenue Fund: TIF	<u>96,500</u>
Enterprise Fund: Gas	Special Revenue Fund: TIF	<u>96,500</u>
Internal Service Fund:		
Equipment Replacement	General Fund	21,500
	Enterprise Fund: Water	4,000
	Enterprise Fund: Sewer	5,000
	Enterprise Fund: Gas	8,500
	Enterprise Fund: Solid Waste	<u>10,000</u>
		<u>49,000</u>
	Total	\$ <u>627,248</u>

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

**(9) Risk Management**

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

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**(11) Property Tax**

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Sanborn. Property tax becomes a lien on property as of July 1, 2014 and is payable in September 2014 and March 2015 of the fiscal year. The valuation for the taxes was based on January 1, 2013 assessed property valuations, and are based on a certified budget from March of 2014.

**(12) Deficit Fund Balance**

The City reported deficit balances of \$13,845 and \$9,932 in the Solid Waste and LOST Funds respectively at June 30, 2015. The deficit in the Solid Waste Fund is due in part to a transfer made to the General Fund during the year. The deficit in the LOST Fund deficit is expected to be repaid with future collections and or transfers.

**(13) Real Estate Purchase**

In May 2015 the City purchased land for further residential development. The total purchase was for \$910,000 and was financed internally with funds from the Gas Utility, the Development Fund, and the Equipment Replacement fund. The City also received a loan of \$350,000 from the Sanborn Electric and Telecommunications Utility (Utility) to finance the purchase. The land purchased is located in the City's Urban Renewal Area and the proceeds used to purchase the land are to be repaid with future TIF tax revenues. The loan from the Utility has an interest rate of zero percent and is payable over the next five years.

**(14) Subsequent Events**

Management has evaluated events and transactions through February 11, 2016, the date the financial statements were issued, for potential recognition or disclosure in the financial statements.

## **Other Information**

CITY OF SANBORN, IOWA

BUDGETARY COMPARISON SCHEDULE  
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

OTHER INFORMATION

YEAR ENDED JUNE 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 366,703	-	366,703
Tax Increment Financing Collections	479,522	-	479,522
Other city taxes	143,556	-	143,556
Licenses and permits	2,763	-	2,763
Use of money and property	8,710	5,435	14,145
Intergovernmental	196,556	-	196,556
Charges for service	378,256	2,010,486	2,388,742
Special assessments	-	-	-
Miscellaneous	150,983	15,000	165,983
	<u>1,727,049</u>	<u>2,030,921</u>	<u>3,757,970</u>
Disbursements:			
Program			
Public safety	240,465	-	240,465
Public works	252,439	-	252,439
Culture and recreation	552,805	-	552,805
Community and economic development	376,263	-	376,263
General government	129,258	-	129,258
Debt service	345,558	-	345,558
Business type activities	-	2,757,921	2,757,921
	<u>1,896,788</u>	<u>2,757,921</u>	<u>4,654,709</u>
Excess (deficiency) of receipts over disbursements	(169,739)	(727,000)	(896,739)
Other financing sources (uses), net	<u>20,750</u>	<u>474,919</u>	<u>495,669</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(148,989)	(252,081)	(401,070)
Balance beginning of year	<u>949,263</u>	<u>898,213</u>	<u>1,847,476</u>
Balance end of year	<u>\$ 800,274</u>	<u>646,132</u>	<u>1,446,406</u>

See accompanying independent auditor's report

Budgeted Amounts		Final to Net Variance
Original	Final	
355,966	355,966	10,737
474,000	474,000	5,522
141,503	141,503	2,053
5,225	5,225	(2,462)
17,025	17,025	(2,880)
456,452	456,452	(259,896)
2,561,415	2,686,415	(297,673)
2,500	2,500	(2,500)
51,371	51,371	114,612
<u>4,065,457</u>	<u>4,190,457</u>	<u>(432,487)</u>

328,650	328,650	88,185
217,200	267,200	14,761
517,000	517,000	(35,805)
410,000	410,000	33,737
129,450	129,450	192
345,095	345,095	(463)
2,283,652	2,633,652	(124,269)
<u>4,231,047</u>	<u>4,631,047</u>	<u>(23,662)</u>

(165,590)	(440,590)	(408,825)
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<u>170,000</u>	<u>170,000</u>	<u>325,669</u>
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4,410	(270,590)	(83,156)
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<u>1,862,853</u>	<u>1,862,853</u>	<u>(15,377)</u>
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<u><u>1,867,263</u></u>	<u><u>1,592,263</u></u>	<u><u>(98,533)</u></u>
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CITY OF SANBORN, IOWA

Notes to Other Information – Budgetary Reporting

June 30, 2015

The budgetary comparison is presented as Other 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 except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. 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, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues and disbursements by \$125,000 and \$400,000, respectively. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the budgeted amounts for the culture and recreation, debt service and business type activities functions.

CITY OF SANBORN, IOWA

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

Iowa Public Employees' Retirement System

Last Fiscal Year

	<u>2015</u>
City's proportion of the net pension liability (asset)	0.005981%
City's proportionate share of the net pension liability (asset)	\$237,215
City's covered-employee payroll	\$521,580
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	45.48%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

City of Sanborn  
Schedule of City Contributions

Iowa Public Employees' Retirement System  
Last 6 Fiscal Years

Other Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 78,794	\$ 76,467	\$ 80,884	\$ 79,121
Contributions in relation to the statutorily required contribution	<u>(78,794)</u>	<u>(76,467)</u>	<u>(80,884)</u>	<u>(79,121)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 521,580	\$ 503,187	\$ 567,838	\$ 567,838
Contributions as a percentage of covered-employee payroll	15.11%	15.20%	14.24%	13.93%

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

See Accompanying Independent Auditor's Report.

<u>2011</u>	<u>2010</u>
\$ 70,701	\$ 67,223
<u>(70,701)</u>	<u>(67,223)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 543,566	\$ 570,212
13.01%	11.79%

CITY OF SANBORN, IOWA

NOTES TO OTHER INFORMATION – PENSION LIABILITY

June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current 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 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action 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.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

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 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent 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 in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

CITY OF SANBORN, IOWA

NOTES TO OTHER INFORMATION – PENSION LIABILITY

June 30, 2015

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

## **Supplementary Information**

CITY OF SANBORN, IOWA

Schedule 1

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Special Revenue Funds			Debt Service	Total
	LOST	Road Use Tax	Employee Benefits		
Receipts:					
Property tax	\$ -	-	72,033	61,741	133,774
Other city tax	131,510	-	-	-	131,510
Use of money and property	198	-	-	146	344
Intergovernmental	-	145,991	-	-	145,991
	<u>131,708</u>	<u>145,991</u>	<u>72,033</u>	<u>61,887</u>	<u>411,619</u>
Disbursements:					
Public safety	-	-	42,761	-	42,761
Public works	-	165,648	24,828	-	190,476
Culture and recreation	-	-	11,254	-	11,254
Community and economic development	129,030	-	-	-	129,030
General government	-	-	3,951	-	3,951
Debt Service	-	-	-	330,560	330,560
	<u>129,030</u>	<u>165,648</u>	<u>82,794</u>	<u>330,560</u>	<u>708,032</u>
Excess (deficiency) of receipts over (under) disbursements	2,678	(19,657)	(10,761)	(268,673)	(296,413)
Other financing sources (uses):					
Operating transfers in	-	-	16,875	265,498	282,373
Operating transfers out	(43,750)	-	-	-	(43,750)
	<u>(43,750)</u>	<u>-</u>	<u>16,875</u>	<u>265,498</u>	<u>238,623</u>
Net change in cash balances:	(41,072)	(19,657)	6,114	(3,175)	(57,790)
Balance beginning of year	31,140	82,654	28,721	13,501	156,016
Balance end of year	<u>\$ (9,932)</u>	<u>62,997</u>	<u>34,835</u>	<u>10,326</u>	<u>98,226</u>
Cash basis fund balance					
Restricted for:					
Streets	\$ -	62,997	-	-	62,997
Debt Service	-	-	-	10,326	10,326
Other purposes	-	-	34,835	-	34,835
Unassigned	(9,932)	-	-	-	(9,932)
	<u>\$ (9,932)</u>	<u>62,997</u>	<u>34,835</u>	<u>10,326</u>	<u>98,226</u>

See accompanying independent auditor's report.

CITY OF SANBORN, IOWA

Schedule 2

Schedule of Indebtedness

Year Ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes and bonds:									
Street and Utility Improvements and Refunding of Notes	June 15, 2007	3.75 - 4.20%	\$ 735,000	145,000	-	45,000	100,000	6,020	-
Swimming Pool Bonds	March 9, 2010	1.00 - 3.10%	1,500,000	900,000	-	205,000	695,000	23,975	-
Street Corporate Interest Bonds	August 8, 2013	1.35 - 3.55%	700,000	700,000	-	45,000	655,000	18,563	-
Electric Utility Loan	May 1, 2015	0%	350,000	-	350,000	-	350,000	-	-
				<u>\$ 1,745,000</u>	<u>350,000</u>	<u>295,000</u>	<u>1,800,000</u>	<u>48,558</u>	<u>-</u>
Revenue notes and bonds:									
Sewer Revenue Bond	June 9, 2004	3.00%	\$ 916,000	570,000	-	44,000	526,000	13,537	-
Water Revenue Bond	July 12, 2012	0.85 - 3.00%	695,000	615,000	-	40,000	575,000	13,770	-
Sewer Project Note	March 21, 2014	0.00%	82,919	-	82,919	-	82,919	-	-
				<u>\$ 1,185,000</u>	<u>82,919</u>	<u>84,000</u>	<u>1,183,919</u>	<u>27,307</u>	<u>-</u>

See accompanying independent auditor's report.



CITY OF SANBORN, IOWA

Schedule 4

Schedule of Receipts by Source and Disbursements by Function  
All Governmental Funds

For the Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Receipts</b>										
Property tax	\$ 366,703	439,267	424,440	410,010	372,195	342,061	333,419	314,787	300,436	307,930
Tax increment financing collections	479,522	239,244	309,608	302,657	338,326	330,923	316,767	322,536	300,923	274,714
Other city tax	143,556	146,016	153,407	131,691	132,475	98,389	160,293	119,993	110,846	86,993
Licenses and permits	2,763	2,281	1,859	2,265	1,970	2,240	2,006	3,309	2,025	2,640
Use of money and property	8,710	7,825	8,513	10,339	33,675	12,398	24,453	91,992	101,889	85,642
Intergovernmental	196,556	288,410	372,994	259,249	300,828	227,850	171,152	205,972	339,906	270,420
Charges for service	378,256	412,062	404,813	413,717	416,438	367,092	321,482	211,599	147,033	140,143
Special assessments	-	-	-	-	-	-	-	14,245	13,242	19,142
Miscellaneous	149,508	108,604	115,539	79,128	435,623	455,086	160,653	123,736	95,980	255,115
<b>\$</b>	<b>1,725,574</b>	<b>1,643,709</b>	<b>1,791,173</b>	<b>1,609,056</b>	<b>2,031,530</b>	<b>1,836,039</b>	<b>1,490,225</b>	<b>1,408,169</b>	<b>1,412,280</b>	<b>1,442,739</b>
<b>Disbursements:</b>										
<b>Operating:</b>										
Public safety	\$ 240,465	219,487	599,586	197,001	223,884	355,630	237,193	206,137	325,424	156,047
Public works	299,510	195,315	175,731	152,257	195,442	173,525	178,391	173,930	193,169	158,089
Culture and recreation	552,805	525,060	506,993	525,741	2,363,203	522,902	470,737	563,835	662,809	263,336
Community and economic development	329,191	141,757	141,712	388,089	252,458	69,672	53,122	174,789	110,066	115,815
General government	131,207	146,207	164,465	133,373	120,051	120,855	129,655	114,919	116,409	109,260
Debt service	345,558	295,826	433,464	284,057	186,808	260,690	258,958	266,006	522,856	213,768
Capital projects	-	1,343,021	-	1,343,021	1,343,021	682,839	274,250	416,338	26,337	430,159
<b>\$</b>	<b>1,898,736</b>	<b>2,866,673</b>	<b>2,021,951</b>	<b>3,023,539</b>	<b>4,684,867</b>	<b>2,186,113</b>	<b>1,602,306</b>	<b>1,915,954</b>	<b>1,957,070</b>	<b>1,446,474</b>

See accompanying independent auditor's report



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sanborn, Iowa, as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 11, 2016. Our report expressed an adverse opinion and unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Sanborn's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sanborn's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Part I of the accompanying Schedule of Findings as items I-A-15 and I-B-15 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Sanborn'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 II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## **City of Sanborn's Responses to Findings**

The City of Sanborn's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The 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 result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sanborn 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.

*T.P. Anderson & Company, P.C.*

February 11, 2016

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS

June 30, 2015

**Part I: Findings Related to the Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-15      Segregation of Duties – We noted that the cash receipts function and the recording of the cash receipts is, on occasion, performed by the same person.

Criteria - \_One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Cause - The City’s staff size does not allow for separate employees from handling incompatible duties.

Effect – The City’s internal control system is not as strong as it would be if incompatible duties could be separated among different employees.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible with existing personnel, and utilize administrative personnel to provide additional control through oversight and review.

Response - We will review our operating procedures and to the extent possible, segregate duties among our staff.

Conclusion – Response accepted.

I-B-15      Vehicle Policy –The City has not adopted a formal policy to regulate the personal use of City vehicles.

Criteria – The Internal Revenue Service has regulations that govern vehicles provided by an employer and what should happen with any personal use of an employer sponsored vehicle.

Cause – The City does not feel that there is any personal use and never felt the need to adopt a policy over the usage of City vehicles.

Effect – There is no clear policy that documents what is allowed, not allowed, or expected by the City when there is use of a City provided vehicle.

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS

June 30, 2015

Recommendation – The City should adopt a formal written policy regulating the use of vehicles for authorized employees. The policy, at a minimum, should define when use of the vehicle is appropriate and when use of the vehicle for personal use would be inappropriate.

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

Conclusion – Response accepted.

**Part II: Other Findings Related to Statutory Reporting:**

II-A-15 Certified Budget - Disbursements during the year ended June 30, 2015 exceed the amount budgeted in the culture and recreation, debt service, and business type activities functions.

Criteria – 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.”

Cause – The City did not identify the potential areas of noncompliance in time to amend the budget appropriately.

Effect – With respect to the culture and recreation, debt service, and business type activities functions, the City did not comply with its budgeted limitations.

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

II-B-15 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-15 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

II-D-15 Business Transactions – No transactions between the city and city officials were noted.

II-E-15 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS

June 30, 2015

provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-15 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-15 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-15 General obligation bonds – We noted that during the year that principal and interest on general obligation bonds were paid from the Urban Renewal Tax Increment Fund instead of the Debt Service Fund.

Criteria – Chapter 384.4 of the Code of Iowa requires that general obligation debt payments be paid from the Debt Service Fund.

Cause – The bonds in question were eligible to be paid from the TIF property tax levy for the City and therefore the City made the payments from the Urban Renewal Tax Increment Fund.

Effect – The debt payments made from the Urban Renewal Tax Increment Fund did not comply with Chapter 384.4 of the Code of Iowa.

Recommendation – In the future, transfer proceeds that will be used to pay general obligation bonds to the Debt Service fund and pay all general obligation debt from the Debt Service fund.

Response - We will make all general obligation debt payments from our Debt Service Fund in the future.

Conclusion – Response accepted.

II-I-15 Revenue Bonds and Notes – No instances of non-compliance with the revenue and note resolutions were noted.

II-J-15 Christmas Bonuses - We noted that the City has made a practice of providing Christmas bonuses in the form of Chamber dollars to its employees.

Criteria – Compensation for work performed by City employees regardless of the form of that compensation is subject to all applicable withholdings and tax reporting.

Cause – The City believed the chamber dollars to be de minimis.

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS

June 30, 2015

Effect – The Christmas “gifts” technically are not in compliance with IRS payroll regulations.

Recommendation – The City should include all employee payments, including chamber dollars, as earnings on the employees’ W-2 payroll forms.

Response – The City considered the payments a de minimis fringe benefit that would not be required to be added to the W-2. We will take action to report all pay correctly in the future should the bonuses exceed the de minimis limitation.

Conclusion – Response accepted.

II-K-15 Financial Condition – As of June 30, 2015, the Solid Waste and LOST funds had deficit balances of \$15,063 and \$9,932 respectively.

Criteria – Funds with a deficit fund balance may indicate a fund that is not in a sound financial position.

Cause – Solid Waste rates charged were not high enough to cover applicable expenses. The LOST collections were slower than expected.

Effect – The funds ended the year with deficit cash balances.

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

Response – The Solid Waste deficit of \$15,093 does not reflect the accumulation of cash in the Equipment Replacement fund for future capital needs. We also anticipate the cash balance to improve in 2016.

The LOST deficit will be eliminated with the 2015-16 collections.

Conclusion – Response accepted.