

**CITY OF SPENCER**

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

**JUNE 30, 2016**

# CITY OF SPENCER

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**CITY OF SPENCER**  
**DIRECTORY OF CITY OFFICIALS AND RELATED ORGANIZATIONS' TRUSTEES**  
**AS OF JUNE 30, 2016**

**MAYOR**

Reynold L. Peterson

**MAYOR PRO-TEM**

Frank Petska

**COUNCIL MEMBERS**

Randy Swanson  
Rich Prentice  
William Orrison

Ron Hanson  
Frank Petska

Steve Bomgaars  
George Moriarty

**CITY MANAGER**

Bob Fagen

**CITY CLERK**

Theresa Reardon

**FINANCE DIRECTOR**

Brian Weuve

**DIRECTOR OF PUBLIC WORKS**

Mark White

**CHIEF OF POLICE**

Mark Warburton

**FIRE CHIEF**

Douglas Duncan

**PLANNING DIRECTOR**

Kirby Schmidt

**CEMETERY SUPT.**

Tim Hamrick

**PARK DIRECTOR**

DelRay Bredehoeft

**STREET SUPERINTENDENT**

Mark Glander

**CITY ATTORNEY**

Donald J. Hemphill

**GOLF COURSE SUPT.**

Brian Mohr

**LANDFILL SUPT.**

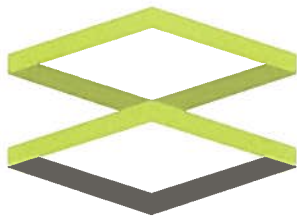
Chuck Duhn

**SOLID WASTE SUPT.**

Kent Herbold

**LIBRARY DIRECTOR**

Mandie Roberts



**WINTHER STAVE & CO | LLP™**  
Certified Public Accountants

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## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
Members of the City Council  
City of Spencer  
Spencer, IA 51301

### **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 primary government of the City of Spencer, Iowa, (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as 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.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 on Aggregate Discretely Presented Component Unit**

The financial statements referred to above do not include the financial data for the City's legally separate component unit, Spencer Municipal Hospital. Accounting principles generally accepted in the United States of America require financial data for the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. Because Spencer Municipal Hospital reports in accordance with accounting principles generally accepted in the United States of America, a different reporting framework than the City's basis of accounting described in Note 1, the amounts by which this departure would affect the receipts, disbursements, and cash balances of the aggregate discretely presented component unit have not been determined.

### **Adverse Opinion on Aggregate Discretely Presented Component Unit**

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component unit of the City of Spencer, Iowa as of June 30, 2016, or the changes in financial position thereon for the year then ended in accordance with the basis of accounting described in Note 1.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Spencer, Iowa as of June 30, 2016, and the respective changes in 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 accounting principles generally accepted in the United States of America. Our opinion is 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 basic financial statements of the primary government of the City of Spencer. The supplementary information included in Schedules 1 through 6, 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis on pages 5 through 10 and the information included in Schedules 7 through 10, 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 December 9, 2016 on our consideration of the City of Spencer'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 Spencer's internal control over financial reporting and compliance.

Wintner, Stave & Co., LLA

December 9, 2016  
Spencer, Iowa

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **JUNE 30, 2016**

This discussion and analysis of the City of Spencer's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

#### **2016 Financial Highlights**

- The City's total cash basis net position increased \$1,308,733 from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased by \$902,364 and the cash basis net position of the business type activities increased by \$406,369.

#### **Overview of the Financial Statements**

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

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

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

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

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

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

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.

#### **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 of America. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

#### **Reporting The City as a Whole**

##### The Cash Basis Statement of Activities and Net Position

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 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 taxes and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer, solid waste, landfill, golf course, and airport. These activities are financed primarily by user charges.

## **Reporting the City's Most Significant Funds**

### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law or by bond requirements. The City Council also established funds to control and manage money for particular purposes (such as construction projects) and to show that it is properly using certain receipts (such as Sales Tax Receipts). The City has the following types of funds:

- 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: (a) the General Fund, (b) the Special Revenue Funds, such as the Local Option Sales Tax, (c) the Debt Service Fund, (d) the Capital Projects Fund, and (e) the Permanent Funds. 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 statement for governmental funds is a statement of cash receipts, disbursements, and changes in cash balances.

- Proprietary Funds account for the City's Enterprise Funds. Enterprise Funds are used to report business-type activities. The City maintains five Enterprise Funds to provide separate information for the sanitary sewer, solid waste, landfill, golf course, and airport funds. The City also maintains an enterprise capital projects fund to account for the acquisition and construction of capital assets to be used by the enterprise funds. The sanitary sewer, solid waste, enterprise capital projects, and landfill funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

## **The City as Trustee**

### Reporting the City's Fiduciary Responsibilities

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Fiduciary Funds. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.



## Government-Wide Financial Analysis

As stated earlier, net position may serve over time as a useful indicator of a government's financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$13,203,029 to \$14,105,393. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

### Changes in Cash Basis Net Position of Governmental Activities

	For the Year Ended <u>June 30, 2016</u>	For the Year Ended <u>June 30, 2015</u>	Increase (Decrease)
Receipts:			
Program receipts:			
Charges for services .....	\$ 626,601	\$ 551,973	\$ 74,628
Operating grants and contributions .....	1,729,135	1,521,864	207,271
Capital grants and contributions .....	242,097	487,861	(245,764)
General receipts:			
Property and other city taxes .....	5,332,468	5,306,165	26,303
Tax increment financing .....	687,244	695,254	(8,010)
Commercial and industrial replacement .....	226,554	114,312	112,242
Payments in lieu of tax .....	627,758	598,407	29,351
Local option sales tax .....	2,013,036	2,006,098	6,938
Hotel/motel tax .....	355,173	245,259	109,914
Use of money and property .....	131,492	120,978	10,514
Unrestricted miscellaneous .....	436,088	992,327	(556,239)
Debt proceeds .....		<u>360,000</u>	<u>(360,000)</u>
Total receipts	<u>12,407,646</u>	<u>13,000,498</u>	<u>(592,852)</u>
Disbursements:			
Public safety .....	3,010,045	3,289,444	(279,399)
Public works .....	1,482,858	1,386,951	95,907
Culture and recreation .....	1,516,305	1,514,083	2,222
Community and economic development .....	1,617,387	1,933,571	(316,184)
General government .....	2,295,139	2,314,559	(19,420)
Debt service .....	1,544,948	1,159,849	385,099
Capital projects .....	<u>1,385,932</u>	<u>2,609,423</u>	<u>(1,223,491)</u>
Total disbursements	<u>12,852,614</u>	<u>14,207,880</u>	<u>(1,355,266)</u>
Change in cash basis net position before transfers	(444,968)	(1,207,382)	762,414
Net transfers .....	<u>1,347,332</u>	<u>487,615</u>	<u>859,717</u>
Change in cash basis net position	902,364	(719,767)	1,622,131
Cash basis net position - beginning of year .....	<u>13,203,029</u>	<u>13,922,796</u>	<u>(719,767)</u>
Cash basis net position - end of year	<u>\$14,105,393</u>	<u>\$13,203,029</u>	<u>\$ 902,364</u>

The total business type activities cash balance increased from a year ago, increasing from \$11,209,787 to \$11,616,156. The analysis that follows focuses on the changes in cash basis net position of business type activities.

Changes in Cash Basis Net Position of Business Type Activities

	For the Year Ended <u>June 30, 2016</u>	For the Year Ended <u>June 30, 2015</u>	Increase (Decrease)
Receipts:			
Program receipts:			
Charges for services:			
Sanitary sewer .....	\$ 2,674,616	\$ 2,500,961	\$ 173,655
Solid waste .....	2,090,072	2,059,933	30,139
Landfill .....	1,723,417	1,650,098	73,319
Airport .....	122,608	118,942	3,666
Golf course .....	416,755	392,415	24,340
Operating grants and contributions .....	65,145	67,619	(2,474)
Capital grants and contributions .....	1,447,648	209,018	1,238,630
General receipts:			
Use of money and property .....	196,758	253,333	(56,575)
Unrestricted miscellaneous .....	48,463	65,773	(17,310)
Total receipts	<u>8,785,482</u>	<u>7,318,092</u>	<u>1,467,390</u>
Disbursements:			
Sanitary sewer .....	1,903,549	1,927,118	(23,569)
Solid waste .....	1,215,983	1,240,802	(24,819)
Landfill .....	864,422	765,101	99,321
Airport .....	139,231	118,994	20,237
Golf course .....	426,196	368,346	57,850
Capital projects:			
Sanitary sewer .....	2,170,115	535,017	1,635,098
Landfill .....		3,250	(3,250)
Airport .....	312,285	222,014	90,271
Total disbursements	<u>7,031,781</u>	<u>5,180,642</u>	<u>1,851,139</u>
Change in cash basis net position before transfers	1,753,701	2,137,450	(383,749)
Net transfers .....	<u>(1,347,332)</u>	<u>(487,615)</u>	<u>(859,717)</u>
Change in cash basis net position	406,369	1,649,835	(1,243,466)
Cash basis net position - beginning of year .....	<u>11,209,787</u>	<u>9,559,952</u>	<u>1,649,835</u>
Cash basis net position - end of year	<u>\$11,616,156</u>	<u>\$11,209,787</u>	<u>\$ 406,369</u>

**Individual Major Governmental Fund Analysis**

The City's governmental funds showed a combined cash basis fund balance of \$14,105,393 at June 30, 2016 which was \$902,364 more than last year. A summary of the changes is as follows:

	Cash Balances <u>June 30, 2016</u>	Cash Balances <u>June 30, 2015</u>	Increase (Decrease)
General .....	\$11,028,750	\$10,002,900	\$ 1,025,850
Road use tax .....	786,031	453,722	332,309
Local option sales tax .....	50,217	45,574	4,643
Debt service .....	446,852	802,086	(355,234)
Capital projects .....	20,557	365,240	(344,683)
Total nonmajor governmental funds .....	<u>1,772,986</u>	<u>1,533,507</u>	<u>239,479</u>
Total	<u>\$14,105,393</u>	<u>\$13,203,029</u>	<u>\$ 902,364</u>

The general fund showed an increase in cash primarily due to transfers in. The debt service and capital projects fund showed modest decreases in cash primarily due to debt service payments and capital project disbursements exceeding revenues and net transfers.

### Individual Major Business Type Fund Analysis

The City's business type funds showed a combined cash basis fund balance of \$11,616,156 at June 30, 2016 which was \$406,369 more than last year. A summary of the changes is as follows:

	Cash Balances <u>June 30, 2016</u>	Cash Balances <u>June 30, 2015</u>	Increase (Decrease)
Sanitary sewer .....	\$ 4,023,230	\$ 3,756,191	\$ 267,039
Solid waste .....	1,436,261	1,382,022	54,239
Landfill .....	5,925,406	5,255,505	669,901
Enterprise capital projects .....	(529,620)	42,068	(571,688)
Nonmajor proprietary funds .....	<u>760,879</u>	<u>774,001</u>	<u>(13,122)</u>
Total	<u>\$11,616,156</u>	<u>\$11,209,787</u>	<u>\$ 406,369</u>

### Budgetary Highlights

The City amended the budget once. The amendment was adopted May 16, 2016. The amendment was to budget for an increase in hotel/motel funds, road use tax receipts, SMU transfers, building permits and licenses, special assessments, and insurance reimbursement for a loader. The budgeted expenditures were amended for the dissolution of the Hoeppner Trust, loader replacement, equipment purchases, QHI Housing grants, library light project, phone system upgrade, and WTP improvements.

The City's receipts were \$120,789 less than budgeted receipts due to anticipated intergovernmental receipts not being received in the current year.

The City's total disbursements were \$5,694,725 under the budgeted amounts.

### Debt Administration

At June 30, 2016, the City had \$10,732,000 of debt outstanding, compared to \$12,569,000 last year as shown below:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
General obligation bonds and notes .....	\$ 2,808,000	\$ 4,219,000
Other long-term debt .....	474,000	535,000
Revenue bonds and notes .....	<u>7,450,000</u>	<u>7,815,000</u>
Total all debt	<u>\$10,732,000</u>	<u>\$12,569,000</u>

## **Economic Factors**

The City of Spencer continues to see a strong local economy through the receipt of local option sales taxes, local hotel/motel tax receipts, and the number of recent inquiries regarding business location and development and the number of businesses coming to town. However, the City has seen a slowdown in annual growth of the local option sales tax, but the growth continues to be positive. This overall slowdown can be attributed to the local farm economy and the dropping commodity prices and concerns for growth in that sector in the coming years. At this point, this slowing of growth is not a concern, but will continue to be monitored so that the City can make appropriate corrections in our financial projections as needed. In fiscal year 2016, the City entered into five new development agreements with businesses for either expansion or the construction of new facilities all together. Housing starts continue to be strong. In the past year, two new apartment complexes have been started, with one completed and the other continuing to develop over the winter of 2016. Housing continues to be an important factor in the City's economic development program and currently over the past few years, the City has developed programs that allow for all levels of housing to be available to any resident.

Since the end of fiscal year 2016, the City has received notice that the Eaton's manufacturing plant will cease operations sometime in calendar year 2017. While this shutdown will not have a direct effect on the City's taxable value, as this property sits outside of city limits, the loss of jobs will create opportunities for the community to tackle.

The growth seen in the tax base is key in allowing the City to continue to offer the level of services our citizens have come to expect. The City continues to monitor the State's financial condition as it is closely tied to the anticipated backfill of the Commercial/Industrial tax rollback program that was implemented several years ago. In the coming years, the City will have to monitor how the implementation of the multi-residential property tax rollback affects the revenues generated for the City. These rollbacks do not have state revenue backfilling the losses, and any substantial decrease due to multi-residential property may have an impact on future budgets.

The City of Spencer has always been financially conservative, as is demonstrated in our available fund balances, debt ratio, and user fees and will continue to do so in the future. In doing so, five-year revenue and expense projections are prepared for each of our major enterprise funds; and we model our Debt Service levy for the next ten years to show when additional debt can be issued without having an impact to the taxpayers.

## **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors 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 Finance Officer at the office of the City Clerk at 712-580-7200.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF SPENCER**  
**CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

			Program Receipts
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest
<b>FUNCTIONS/PROGRAMS:</b>			
Governmental activities:			
Public safety .....	\$ 3,010,045	\$ 159,351	\$ 182,439
Public works .....	1,482,858	22,314	1,388,165
Culture and recreation .....	1,516,305	175,330	30,042
Community and economic development .....	1,617,387	168,630	35,833
General government .....	2,295,139	22,338	92,656
Debt service .....	1,544,948	36,000	-
Capital projects .....	1,385,932	42,638	-
Total governmental activities	<u>12,852,614</u>	<u>626,601</u>	<u>1,729,135</u>
Business type activities:			
Sanitary sewer .....	1,903,549	2,674,616	65,145
Solid waste .....	1,215,983	2,090,072	-
Landfill .....	864,422	1,723,417	-
Airport .....	139,231	122,608	-
Golf course .....	426,196	416,755	-
Capital projects:			
Sanitary sewer .....	2,170,115	-	-
Airport .....	312,285	-	-
Total business type activities	<u>7,031,781</u>	<u>7,027,468</u>	<u>65,145</u>
 TOTAL	 <u>\$ 19,884,395</u>	 <u>\$ 7,654,069</u>	 <u>\$ 1,794,280</u>
General receipts and transfers:			
Property and other city taxes levied for:			
General purposes .....			
Debt service .....			
Commercial and industrial replacement .....			
Tax increment financing .....			
Payments in lieu of tax .....			
Local option sales tax .....			
Hotel/motel tax .....			
Use of money and property .....			
Unrestricted miscellaneous .....			
Operating transfers .....			
Total general receipts and transfers			
 CHANGE IN CASH BASIS NET POSITION .....			
 CASH BASIS NET POSITION - BEGINNING OF YEAR			
 CASH BASIS NET POSITION - END OF YEAR			

<u>Capital Grants, Contributions, and Restricted Interest</u>	<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Position</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 1,886	\$ (2,666,369)	\$ -	\$ (2,666,369)
-	(72,379)	-	(72,379)
-	(1,310,933)	-	(1,310,933)
47,000	(1,365,924)	-	(1,365,924)
5,051	(2,175,094)	-	(2,175,094)
-	(1,508,948)	-	(1,508,948)
188,160	(1,155,134)	-	(1,155,134)
<u>242,097</u>	<u>(10,254,781)</u>	<u>-</u>	<u>(10,254,781)</u>
-	-	836,212	836,212
-	-	874,089	874,089
5,858	-	864,853	864,853
-	-	(16,623)	(16,623)
-	-	(9,441)	(9,441)
1,237,848	-	(932,267)	(932,267)
<u>203,942</u>	<u>-</u>	<u>(108,343)</u>	<u>(108,343)</u>
<u>1,447,648</u>	<u>-</u>	<u>1,508,480</u>	<u>1,508,480</u>
<u>\$ 1,689,745</u>	<u>(10,254,781)</u>	<u>1,508,480</u>	<u>(8,746,301)</u>
	4,899,317	-	4,899,317
	433,151	-	433,151
	226,554	-	226,554
	687,244	-	687,244
	627,758	-	627,758
	2,013,036	-	2,013,036
	355,173	-	355,173
	131,492	196,758	328,250
	436,088	48,463	484,551
	<u>1,347,332</u>	<u>(1,347,332)</u>	<u>-</u>
	<u>11,157,145</u>	<u>(1,102,111)</u>	<u>10,055,034</u>
	902,364	406,369	1,308,733
	<u>13,203,029</u>	<u>11,209,787</u>	<u>24,412,816</u>
	<u>\$ 14,105,393</u>	<u>\$ 11,616,156</u>	<u>\$ 25,721,549</u>

**CITY OF SPENCER  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION - Continued  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

**CASH BASIS NET POSITION:**

Nonexpendable:  
     Permanent fund principal .....

Restricted, expendable for:  
     Debt service .....

    Capital projects .....

    Urban renewal purposes .....

    Community and economic development purposes .....

    Employee benefits .....

    Police purposes .....

    Cementary purposes .....

    Streets .....

    Park purposes .....

    Closure and/or postclosure care .....

    Landfill recycling and planning .....

Unrestricted .....

**TOTAL CASH BASIS NET POSITION**



<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 436,635	\$ -	\$ 436,635
446,852	416,387	863,239
20,557	-	20,557
278,491	-	278,491
60,952	-	60,952
994,323	-	994,323
21,147	-	21,147
19,068	-	19,068
786,031	-	786,031
12,587	-	12,587
-	2,507,120	2,507,120
-	362,115	362,115
<u>11,028,750</u>	<u>8,330,534</u>	<u>19,359,284</u>
<u>\$ 14,105,393</u>	<u>\$ 11,616,156</u>	<u>\$ 25,721,549</u>

**CITY OF SPENCER**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES**  
**GOVERNMENTAL FUNDS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Road Use</u>	<u>Local Option Sales Tax</u>
RECEIPTS:			
Property tax .....	\$ 3,507,137	\$ -	\$ -
Tax increment financing .....	-	-	-
Other city taxes .....	559,077	-	2,013,036
Licenses and permits .....	70,121	-	-
Use of money and property .....	109,673	-	765
Intergovernmental .....	1,071,614	1,388,165	-
Charges for service .....	269,823	-	-
Special assessments .....	118,630	-	-
Miscellaneous .....	288,156	-	-
TOTAL RECEIPTS	<u>5,994,231</u>	<u>1,388,165</u>	<u>2,013,801</u>
DISBURSEMENTS:			
Public safety .....	2,519,384	-	-
Public works .....	1,412,362	-	-
Culture and recreation .....	1,401,567	-	-
Community and economic development .....	416,707	-	900,140
General government .....	825,774	-	-
Debt service .....	-	-	-
Capital projects .....	-	-	-
TOTAL DISBURSEMENTS	<u>6,575,794</u>	<u>-</u>	<u>900,140</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(581,563)</u>	<u>1,388,165</u>	<u>1,113,661</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in .....	3,051,516	215,720	-
Operating transfers out .....	<u>(1,444,103)</u>	<u>(1,271,576)</u>	<u>(1,109,018)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,607,413</u>	<u>(1,055,856)</u>	<u>(1,109,018)</u>
NET CHANGE IN CASH BALANCES	1,025,850	332,309	4,643
CASH BALANCES - BEGINNING OF YEAR .....	<u>10,002,900</u>	<u>453,722</u>	<u>45,574</u>
CASH BALANCES - END OF YEAR	<u>\$ 11,028,750</u>	<u>\$ 786,031</u>	<u>\$ 50,217</u>
CASH BASIS FUND BALANCE:			
Nonspendable:			
Permanent fund principal .....	\$ -	\$ -	\$ -
Restricted for:			
Debt service .....	-	-	-
Capital projects .....	-	-	-
Urban renewal purposes .....	-	-	-
Community and economic development purposes .....	-	-	50,217
Employee benefits .....	-	-	-
Police purposes .....	-	-	-
Cemetery purposes .....	-	-	-
Streets .....	-	786,031	-
Park purposes .....	-	-	-
Committed for:			
Public safety purposes .....	781,090	-	-
Public work purposes .....	5,097,827	-	-
Culture and recreation purposes .....	568,072	-	-
Community and economic development purposes .....	1,441,735	-	-
General government purposes .....	308,696	-	-
Unassigned .....	<u>2,831,330</u>	<u>-</u>	<u>-</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 11,028,750</u>	<u>\$ 786,031</u>	<u>\$ 50,217</u>

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 429,065	\$ -	\$ 1,149,436	\$ 5,085,638
-	-	687,244	687,244
4,086	-	38,840	2,615,039
-	-	-	70,121
7,380	6,900	6,774	131,492
54,530	125,803	112,684	2,752,796
-	-	6,600	276,423
-	42,638	-	161,268
-	62,357	277,112	627,625
<u>495,061</u>	<u>237,698</u>	<u>2,278,690</u>	<u>12,407,646</u>
-	-	490,661	3,010,045
-	-	70,496	1,482,858
-	-	114,738	1,516,305
-	-	300,540	1,617,387
-	-	1,469,365	2,295,139
1,544,948	-	-	1,544,948
-	<u>1,385,932</u>	-	<u>1,385,932</u>
<u>1,544,948</u>	<u>1,385,932</u>	<u>2,445,800</u>	<u>12,852,614</u>
<u>(1,049,887)</u>	<u>(1,148,234)</u>	<u>(167,110)</u>	<u>(444,968)</u>
1,054,653	803,551	781,430	5,906,870
<u>(360,000)</u>	-	<u>(374,841)</u>	<u>(4,559,538)</u>
<u>694,653</u>	<u>803,551</u>	<u>406,589</u>	<u>1,347,332</u>
(355,234)	(344,683)	239,479	902,364
<u>802,086</u>	<u>365,240</u>	<u>1,533,507</u>	<u>13,203,029</u>
<u>\$ 446,852</u>	<u>\$ 20,557</u>	<u>\$ 1,772,986</u>	<u>\$ 14,105,393</u>
\$ -	\$ -	\$ 436,635	\$ 436,635
446,852	-	-	446,852
-	20,557	-	20,557
-	-	278,491	278,491
-	-	10,735	60,952
-	-	994,323	994,323
-	-	21,147	21,147
-	-	19,068	19,068
-	-	-	786,031
-	-	12,587	12,587
-	-	-	781,090
-	-	-	5,097,827
-	-	-	568,072
-	-	-	1,441,735
-	-	-	308,696
-	-	-	<u>2,831,330</u>
<u>\$ 446,852</u>	<u>\$ 20,557</u>	<u>\$ 1,772,986</u>	<u>\$ 14,105,393</u>

See Notes to Financial Statements

**CITY OF SPENCER**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES**  
**PROPRIETARY FUNDS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Sanitary Sewer</u>	<u>Solid Waste</u>	<u>Landfill</u>	<u>Enterprise Capital Projects</u>
OPERATING RECEIPTS:				
Charges for services .....	\$ 2,674,616	\$ 2,090,072	\$ 1,723,417	\$ -
Miscellaneous .....	4,927	21,056	7,948	-
TOTAL OPERATING RECEIPTS	<u>2,679,543</u>	<u>2,111,128</u>	<u>1,731,365</u>	<u>-</u>
OPERATING DISBURSEMENTS:				
Salaries .....	235,456	628,840	391,713	-
Payroll taxes and employee benefits .....	37,059	99,995	61,375	-
Repairs and maintenance .....	35,474	118,139	105,108	-
Utilities .....	5,309	14,002	7,520	-
Contract services .....	839,959	2,339	37,780	-
Insurance premiums .....	-	-	-	-
Gas and oil .....	1,954	64,244	59,799	-
Supplies .....	3,702	21,822	18,203	-
Miscellaneous .....	6,082	29,197	65,493	-
Statewide ASR fees .....	-	-	25,000	-
Collection fee .....	26,100	26,100	-	-
Sales tax paid .....	43,324	35,916	-	-
Tipping tax .....	-	-	91,219	-
TOTAL OPERATING DISBURSEMENTS	<u>1,234,419</u>	<u>1,040,594</u>	<u>863,210</u>	<u>-</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>1,445,124</u>	<u>1,070,534</u>	<u>868,155</u>	<u>-</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):				
Interest on investments .....	39,207	13,365	50,105	-
Farm income .....	15,000	-	22,502	-
Interest subsidy on Build American Bonds .....	65,145	-	-	-
Intergovernmental grants .....	-	-	5,858	1,441,790
Capital outlay .....	(50,142)	(175,389)	(1,212)	(2,482,400)
Debt service payments:				
Revenue bonds/notes principal .....	(365,000)	-	-	-
Revenue bonds/notes interest and fees .....	(253,988)	-	-	-
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>(549,778)</u>	<u>(162,024)</u>	<u>77,253</u>	<u>(1,040,610)</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>895,346</u>	<u>908,510</u>	<u>945,408</u>	<u>(1,040,610)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in .....	61,715	-	614,337	487,323
Operating transfers out .....	(690,022)	(854,271)	(889,844)	(18,401)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(628,307)</u>	<u>(854,271)</u>	<u>(275,507)</u>	<u>468,922</u>
NET CHANGE IN CASH BALANCES	267,039	54,239	669,901	(571,688)
CASH BALANCES - BEGINNING OF YEAR .....	<u>3,756,191</u>	<u>1,382,022</u>	<u>5,255,505</u>	<u>42,068</u>
CASH BALANCES - END OF YEAR	<u>\$ 4,023,230</u>	<u>\$ 1,436,261</u>	<u>\$ 5,925,406</u>	<u>\$ (529,620)</u>

<u>Nonmajor Proprietary Funds</u>	<u>Total</u>
\$ 539,363	\$ 7,027,468
14,532	48,463
<u>553,895</u>	<u>7,075,931</u>
194,025	1,450,034
23,317	221,746
48,165	306,886
50,978	77,809
41,666	921,744
1,086	1,086
9,976	135,973
85,598	129,325
33,716	134,488
-	25,000
-	52,200
14,500	93,740
-	91,219
<u>503,027</u>	<u>3,641,250</u>
<u>50,868</u>	<u>3,434,681</u>
6,579	109,256
50,000	87,502
-	65,145
-	1,447,648
(62,400)	(2,771,543)
-	(365,000)
-	(253,988)
<u>(5,821)</u>	<u>(1,680,980)</u>
<u>45,047</u>	<u>1,753,701</u>
18,401	1,181,776
<u>(76,570)</u>	<u>(2,529,108)</u>
<u>(58,169)</u>	<u>(1,347,332)</u>
(13,122)	406,369
<u>774,001</u>	<u>11,209,787</u>
<u>\$ 760,879</u>	<u>\$ 11,616,156</u>

CITY OF SPENCER  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS - Continued  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	<u>Sanitary Sewer</u>	<u>Solid Waste</u>	<u>Landfill</u>	<u>Enterprise Capital Projects</u>
CASH BASIS FUND BALANCES:				
Restricted, expendable for:				
Debt service .....	\$ 416,387	\$ -	\$ -	\$ -
Closure and/or postclosure care .....	-	17,276	2,489,844	-
Landfill recycling and planning .....	-	-	362,115	-
Unrestricted .....	<u>3,606,843</u>	<u>1,418,985</u>	<u>3,073,447</u>	<u>(529,620)</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 4,023,230</u>	<u>\$ 1,436,261</u>	<u>\$ 5,925,406</u>	<u>\$ (529,620)</u>

<u>Nonmajor Proprietary Funds</u>	<u>Total</u>
\$ -	\$ 416,387
-	2,507,120
-	362,115
<u>760,879</u>	<u>8,330,534</u>
<u>\$ 760,879</u>	<u>\$ 11,616,156</u>

**CITY OF SPENCER  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - FIDUCIARY FUND  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

ADDITIONS:	
Use of money and property .....	\$ 4,295
Intergovernmental .....	77,760
Miscellaneous .....	<u>12,810</u>
TOTAL ADDITIONS	<u>94,865</u>
DEDUCTIONS:	
Community and economic development .....	403,348
General government .....	<u>83,250</u>
TOTAL DEDUCTIONS	<u>486,598</u>
NET CHANGE IN CASH BALANCES	(391,733)
CASH BALANCES - BEGINNING OF YEAR .....	<u>647,963</u>
CASH BALANCES - END OF YEAR	<u>\$ 256,230</u>



**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Spencer, Iowa is a political subdivision of the State of Iowa located in Clay County. It was first incorporated in 1880 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 of Spencer provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, public improvements, and general government services.

**A. Reporting Entity**

For financial reporting purposes, the 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.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that the Spencer Municipal Hospital (SMH) is a component unit of the City. Financial information for SMH has not been reported in the City's financial statements. Accordingly, these financial statements present the activities of the primary government only and are not a complete presentation in accordance with accounting principles generally accepted in the United States of America as they relate to the exclusion of component units. Spencer Municipal Hospital's financial statements can be obtained at their administrative offices or at City Hall.

Spencer Municipal Utilities (SMU) provides electric, communication, and water utility services to the citizens of Spencer. SMU is not considered a component unit of the primary government of the City because it does not meet the criteria stated above. Currently, SMU made voluntary payments of \$627,758 in lieu of property tax payments to the City. In addition, SMU paid the City \$47,000 for the storefront initiative and \$24,908 for a land purchase.

Jointly Governed Organization - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete.

**B. Basis of Presentation**

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the primary government 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. The City's net position is reported in the following categories:

*Nonexpendable net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

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

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Unrestricted net position* consists of net cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances 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 and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

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 not paid from other funds.

*Special Revenue:*

*The Local Option Sales Tax Fund* is used to account for the receipts from the tax authorized by referendum and to be used for various purposes.

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

*The Capital Projects Fund* is used to account for all resources used in the acquisition and construction of capital facilities other than those used by enterprise activities.

The City reports the following major proprietary funds:

*Enterprise:*

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

*The Solid Waste Fund* is used to account for the operation and maintenance of the City's solid waste collection activities.

*The Landfill Fund* is used to account for the operation and maintenance of the City's landfill activities.

*The Enterprise Capital Projects Fund* is used to account for all resources used in the acquisition and construction of capital facilities used by enterprise activities.

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C. Measurement Focus and Basis of Accounting**

The City of Spencer 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 of America.

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

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

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

**D. Governmental Cash Basis Fund Balances**

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

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

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or 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 purposes 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 Other Information. During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the debt service function.

**2. CASH AND POOLED INVESTMENTS**

The City's demand deposits, savings accounts, and certificates of deposit 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 members of the pool to insure there will be no loss of public funds.

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**2. CASH AND POOLED INVESTMENTS - Continued**

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's cash and investments consisted of the following at June 30, 2016:

Cash on hand .....	\$ 5,300
Demand deposits .....	12,972,479
Money market account .....	<u>13,000,000</u>
Total cash and investments	25,977,779
Less Agency Funds .....	<u>256,230</u>
City's Cash and Investments	<u>\$25,721,549</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) in 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 the City's bonds and notes payable are as follows:

Year Ending June 30,	General Obligation Bonds/Notes		Governmental Activities		Total	
			Other Long-Term Debt		Governmental Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 922,000	\$ 61,596	\$ 61,000	\$ -	\$ 983,000	\$ 61,596
2018	552,000	46,468	61,000	-	613,000	46,468
2019	483,000	34,485	61,000	-	544,000	34,485
2020	164,000	24,901	61,000	-	225,000	24,901
2021	164,000	21,267	61,000	-	225,000	21,267
2022-2026	464,000	54,182	169,000	-	633,000	54,182
2027-2031	<u>59,000</u>	<u>2,670</u>	<u>-</u>	<u>-</u>	<u>59,000</u>	<u>2,670</u>
Total	<u>\$2,808,000</u>	<u>\$ 245,569</u>	<u>\$ 474,000</u>	<u>\$ -</u>	<u>\$3,282,000</u>	<u>\$ 245,569</u>

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**3. BONDS AND NOTES PAYABLE - Continued**

Year Ending June 30,	Business-Type Activities Revenue Bonds Notes		Total All Bonds and Notes	
	Principal	Interest	Principal	Interest
2017	\$ 378,000	\$ 242,125	\$ 1,361,000	\$ 303,721
2018	390,000	229,840	1,003,000	276,308
2019	403,000	217,165	947,000	251,650
2020	416,000	204,068	641,000	228,969
2021	429,000	190,547	654,000	211,814
2022-2026	2,367,000	734,045	3,000,000	788,227
2027-2031	2,567,000	326,885	2,626,000	329,555
2032	<u>500,000</u>	<u>16,250</u>	<u>500,000</u>	<u>16,250</u>
Total	<u>\$7,450,000</u>	<u>\$2,160,925</u>	<u>\$10,732,000</u>	<u>\$2,406,494</u>

**General Obligation Bonds/Notes**

General obligation bonds and notes to be serviced by the Debt Service Fund totaled \$2,808,000 at June 30, 2016. A portion of these bonds and notes are anticipated to be repaid by transfers from other funds. In compliance with statutory requirements, all payments on these bonds and notes are recorded as disbursements from the Debt Service Fund; and any payments from other funds are recorded as transfers into the Debt Service Fund.

**Other Long-Term Debt**

The other long-term debt represents loans from Spencer Municipal Utilities as follows.

1) Shine Brothers loan .....	\$ 150,000
2) E-911 Communication loan .....	<u>324,000</u>
Total	<u>\$ 474,000</u>

Both loans are interest free and will be paid from the General Fund as loan receivable payments are received from Shine Brothers Corporation and the E-911 Emergency Communications Board.

**Revenue Notes**

The City has pledged future sanitary sewer customer receipts, net of specific operating disbursements, to repay the \$1,520,000 sewer revenue bonds issued in October 2009 and the \$7,500,000 sewer revenue bonds issued in December 2010. Proceeds from the bonds provided financing for wastewater treatment plant improvements. The bonds are payable solely from the sanitary sewer customer net receipts and are payable through June 2032. Annual principal and interest payments are expected to require less than 50% of net receipts. Total principal and interest remaining to be paid on the bonds is \$9,610,925. For the current year, principal and interest paid on the bonds was \$599,450 and customer net receipts were \$1,445,124. The bonds bear interest at 3.25% including a .25% loan service fee.

The resolution providing for the issuance of the two sewer revenue bonds include the following provisions:

- (A) The bonds will only be redeemed from the future earnings of the sanitary sewer activity and bond holders hold a lien on future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate sewer sinking fund for the purpose of making principal and interest payments when due.

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**3. BONDS AND NOTES PAYABLE - Continued**

(C) User rates shall be established which produce and maintain net receipts at a level not less than 110% of the principal and interest on the bonds falling due in the same year.

During the year ended June 30, 2016, the City was in compliance with the revenue bond resolutions.

The \$7,500,000 sewer revenue bonds issued December 2010 have been designated by the City as Build America Bonds. Under the terms of the Build America Bonds, it is anticipated that 35% of the interest paid on the bonds (net of the loan service fee) will be refunded to the City by the Federal government.

**4. RELATED PARTY TRANSACTIONS**

The City had business transactions between the City and City officials, totaling \$2,255 during the year ended June 30, 2016. See item IV-D-15 in the Schedule of Findings and Questioned Costs.

**5. COMPENSATED ABSENCES**

City employees accumulate a limited amount of earned but unused vacation, holiday, and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2016 is as follows:

Governmental activities:	
General fund .....	\$ <u>586,499</u>
Business type activities:	
Proprietary:	
Enterprise:	
Solid waste .....	80,055
Landfill .....	17,037
Golf course .....	<u>15,005</u>
Total business type activities	<u>112,097</u>
TOTAL	\$ <u>698,596</u>

**6. IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)**

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 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, IA 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 information purposes only. Refer to the plan documents for more information.

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**6. IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS) - Continued**

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, anytime 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 for members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

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

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

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 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 - 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 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% for a total rate of 14.88%. Protective occupation members contributed 6.76% of covered payroll, and the City contributed 9.84% for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$274,519.

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**6. IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS) - Continued**

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$2,108,084 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 proportion was .042779% which was a decrease of .001204% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources, and deferred inflows of resources totaled \$179,334, \$406,155, and \$498,606, respectively.

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 geometric real rates of return for each major asset class are summarized in the following table:



**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**6. IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS) - Continued**

Actuarial Assumptions - Continued

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>1</u>	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. 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, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of 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%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
City's proportionate share of the net pension liability	\$3,711,477	\$2,108,084	\$ 754,733

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

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**7. 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, IA 50266 or at [www.mfprsi.org](http://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.

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 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 percent 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 percent of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**7. MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (MFPRSI) - Continued**

Disability and Death Benefits - Continued - 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 was \$378,636.

If approved by the state legislature, state appropriations may further reduce the employer'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 the Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*.

There were no state appropriations to MFPRSI during the fiscal 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 \$2,325,731 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 .495032% which was a decrease of .009283% from its proportions measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense, deferred outflows of resources, and deferred inflows of resources totaled \$215,904, \$630,770, and \$636,627, respectively.

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**7. MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (MFPRSI) - Continued**

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 from July 1, 2002 to 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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 .....	<u>12.5</u>	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 .....	<u>5.0</u>	6.8
Real Estate	<u>10.0</u>	
Total	<u>100.0%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. 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 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.

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**7. MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (MFPRSI) - Continued**

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 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	\$4,049,170	\$2,325,731	\$ 893,758

Pension Plan Fiduciary Net Position - Detailed information about the 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](http://www.mfprsi.org).

**8. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Plan Description**

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 78 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Employee Benefit Systems (EBS). 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 approximately \$662 for single coverage and \$1,590 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2016, the City contributed \$906,868 (for active members only); and plan members eligible for benefits contributed \$230,226 (both active and retired members) to the plan. In addition, Clay County contributed \$38,182 to the plan for communication center employees.

**9. RISK MANAGEMENT**

The City is a member in 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.

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**9. RISK MANAGEMENT - Continued**

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 risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$172,337.

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.

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 claim 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 has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**10. INDUSTRIAL DEVELOPMENT REVENUE BONDS**

The City has issued industrial development revenue bonds in prior years under the provisions of Chapter 419 of the Code of Iowa. The balances outstanding at June 30, 2016 cannot be approximated since the various companies do not provide this information to the City. 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.

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**11. CONTRACT AND OTHER COMMITMENTS**

The City has entered into contracts totaling \$4,039,143 for various construction projects. As of June 30, 2016, disbursements on those contracts totaled \$2,999,139. The remaining \$1,040,004 will be paid as the work on the projects is completed.

The City has also entered into several tax increment financing developer agreements with local businesses. The City has agreed to rebate the taxes paid by the business over a period of years. The City will expense the rebates as the taxes are collected and returned to the businesses.

**12. INTERFUND TRANSFERS**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Local Option Sales Tax	\$1,109,018
	Road Use Tax	1,263,707
	Debt Service	360,000
	Proprietary:	
	Enterprise:	
	Sanitary Sewer	139,000
	Solid Waste	38,000
	Landfill	24,000
	Nonmajor Governmental:	
	Special Revenue:	
	Tax Increment Financing	92,291
	Nonmajor Proprietary:	
	Enterprise:	
	Airport	21,000
	Golf Course	4,500
Total General Fund		<u>3,051,516</u>
Road Use Tax	General	<u>215,720</u>
Debt Service	Proprietary:	
	Enterprise:	
	Sanitary Sewer	54,845
	Landfill	717,258
	Nonmajor Governmental:	
	Special Revenue:	
	Tax Increment Financing	282,550
Total Debt Service		<u>1,054,653</u>
Capital Projects	General	795,682
	Road Use Tax	7,869
Total Capital Projects		<u>803,551</u>
Nonmajor Governmental:		
Special Revenue:		
Federal and State Retirement	General	<u>319,693</u>

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**12. INTERFUND TRANSFERS - Continued**

Transfer to	Transfer from	Amount
Nonmajor Governmental - Continued:		
Special Revenue - Continued:		
Workers' Compensation Insurance	Proprietary:	
	Enterprise:	
	Sanitary Sewer	\$ 3,000
	Solid Waste	45,000
	Landfill	15,000
	Nonmajor Proprietary:	
	Enterprise:	
	Golf Course	2,370
Total Workers' Compensation Insurance		<u>65,370</u>
Group Medical/Life Insurance	General	113,008
	Proprietary:	
	Enterprise:	
	Sanitary Sewer	37,804
	Solid Waste	156,934
	Landfill	71,871
	Nonmajor Proprietary:	
	Enterprise:	
	Golf Course	16,750
Total Group Medical/Life Insurance		<u>396,367</u>
Total Nonmajor Governmental		<u>781,430</u>
Total Governmental Funds		<u>5,906,870</u>
Proprietary:		
Enterprise:		
Sanitary Sewer	Proprietary:	
	Enterprise:	
	Landfill	61,715
Landfill	Enterprise:	
	Solid Waste	614,337
Enterprise Capital Projects	Proprietary:	
	Enterprise:	
	Sanitary Sewer	455,373
	Nonmajor Proprietary:	
	Enterprise:	
	Airport	31,950
Total Enterprise Capital Projects		<u>487,323</u>
Nonmajor Proprietary:	Proprietary:	
Airport	Enterprise:	
	Enterprise capital projects	18,401
Total Proprietary Funds		<u>1,181,776</u>
TOTAL OPERATING TRANSFERS		<u>\$7,088,646</u>

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



**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**13. LANDFILL CLOSURE/POST CLOSURE CARE COSTS**

To comply with federal and state regulations, the City is required to complete a monitoring system plan and a closure/postclosure plan and to provide funding necessary to effect closure and postclosure, including the proper monitoring and care of the landfill after closure. Environmental Protection Agency (EPA) requirements have established closure and thirty-year care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and postclosure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collection and treating leachate (the liquid that drains out of waste) for thirty years.

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and postclosure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total costs consist of four components: (1) the cost of equipment and facilities used in postclosure monitoring and care, (2) the cost of final cover (material and labor), (3) the cost of monitoring the landfill during the postclosure period, and (4) the cost of any environmental cleanup required after closure. Estimated total cost is based on the cost to purchase those services and equipment currently and is required to be updated annually due to the potential for changes due to inflation or deflation, technology, or applicable laws or regulations.

These costs for the City have been estimated to be \$922,252 for closure and \$1,787,163 for postclosure, for a total of \$2,709,415 as of June 30, 2016. In the current year, no disbursements were made for landfill closure costs. Currently the estimated remaining life of the landfill is 21 months with approximately 43% of the landfill's capacity used at June 30, 2016.

Chapter 455B.306(9)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure care accounts to accumulate resources for the payment of closure and postclosure care costs. The City has begun to accumulate resources to fund these costs; and at June 30, 2016, assets of \$2,489,844 are restricted for these purposes and reported as restricted cash balance in the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Proprietary Funds.

Also, pursuant to Chapter 567-113.14 of the Iowa Administrative Code (IAC), since the estimated closure and post closure care costs are not fully funded, the City is required to demonstrate financial assurance for the unfunded costs. The City has adopted the dedicated fund financial assurance mechanism. Under this mechanism, the City must certify the following to the Iowa Department of Natural Resources:

- The fund is dedicated by local government statute as a reserve fund.
- Payments into the fund are made annually over a pay-in period of ten years or the permitted life of the landfill, whichever is shorter.
- Annual deposits to the fund are determined by the following formula:

$$NP = \frac{CE - CB}{Y}$$

NP = next payment

CE = total required financial assurance

CB = current balance of the fund

Y = number of years remaining in the pay-in period

**CITY OF SPENCER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016**

**13. LANDFILL CLOSURE/POST CLOSURE CARE COSTS - Continued**

Chapter 567-113.14(8) of the IAC allows a government to choose the dedicated fund mechanism to demonstrate financial assurance and use the accounts established to satisfy the closure and postclosure care account requirements. Accordingly, the City is not required to establish closure and postclosure accounts in addition to the accounts established to comply with the dedicated fund financial assurance mechanism.

**14. SUBSEQUENT EVENTS**

In September 2016, the City authorized the issuance of \$3,600,000 Sewer Revenue Bonds, Series 2016.

Subsequent to June 30, 2016, the City entered into various construction contracts and equipment purchases, including a \$3,553,000 contract for wastewater system improvements.

Subsequent events were evaluated by management for disclosure up to the date of the independent auditors' report, which is the date the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

**CITY OF SPENCER  
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue Funds	Permanent Funds	Total Governmental Nonmajor Funds
RECEIPTS:			
Property tax .....	\$ 1,149,436	\$ -	\$ 1,149,436
Tax increment financing .....	687,244	-	687,244
Other city taxes .....	38,840	-	38,840
Use of money and property .....	5,175	1,599	6,774
Intergovernmental .....	112,684	-	112,684
Charges for services .....	-	6,600	6,600
Miscellaneous .....	277,112	-	277,112
TOTAL RECEIPTS	<u>2,270,491</u>	<u>8,199</u>	<u>2,278,690</u>
DISBURSEMENTS:			
Public safety .....	490,661	-	490,661
Public works .....	70,496	-	70,496
Culture and recreation .....	114,263	475	114,738
Community and economic development .....	299,985	555	300,540
General government .....	1,469,365	-	1,469,365
TOTAL DISBURSEMENTS	<u>2,444,770</u>	<u>1,030</u>	<u>2,445,800</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	<u>(174,279)</u>	<u>7,169</u>	<u>(167,110)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in .....	781,430	-	781,430
Operating transfers out .....	(374,841)	-	(374,841)
TOTAL OTHER FINANCING SOURCES (USES)	<u>406,589</u>	<u>-</u>	<u>406,589</u>
NET CHANGE IN CASH BALANCES	232,310	7,169	239,479
CASH BALANCES - BEGINNING OF YEAR .....	<u>1,073,234</u>	<u>460,273</u>	<u>1,533,507</u>
CASH BALANCES - END OF YEAR	<u>\$ 1,305,544</u>	<u>\$ 467,442</u>	<u>\$ 1,772,986</u>
CASH BASIS FUND BALANCES:			
Nonspendable:			
Permanent fund principal .....	\$ -	\$ 436,635	\$ 436,635
Restricted for:			
Urban renewal purposes .....	278,491	-	278,491
Community and economic development purposes .....	10,356	379	10,735
Employee benefits .....	994,323	-	994,323
Police purposes .....	21,147	-	21,147
Cemetery purposes .....	-	19,068	19,068
Park purposes .....	1,227	11,360	12,587
TOTAL CASH BASIS FUND BALANCES	<u>\$ 1,305,544</u>	<u>\$ 467,442</u>	<u>\$ 1,772,986</u>

CITY OF SPENCER  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Tax Increment <u>Financing</u>	<u>SSMID</u>	Police Retirement <u>Systems</u>	Civil Service <u>Expenses</u>	Police Special <u>Proceeds</u>
RECEIPTS:					
Property tax .....	\$ -	\$ 80,403	\$ 263,408	\$ 6,827	\$ -
Tax increment financing .....	687,244	-	-	-	-
Other city taxes .....	28,113	-	2,643	98	-
Use of money and property .....	3,286	-	1,406	88	127
Intergovernmental .....	-	-	11,989	326	-
Miscellaneous .....	-	-	-	4,033	6,577
TOTAL RECEIPTS	<u>718,643</u>	<u>80,403</u>	<u>279,446</u>	<u>11,372</u>	<u>6,704</u>
DISBURSEMENTS:					
Public safety .....	-	-	294,230	12,968	-
Public works .....	-	-	-	-	-
Culture and recreation .....	-	-	-	-	-
Community and economic development	216,063	83,922	-	-	-
General government .....	1,888	-	-	-	-
TOTAL DISBURSEMENTS	<u>217,951</u>	<u>83,922</u>	<u>294,230</u>	<u>12,968</u>	<u>-</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>500,692</u>	<u>(3,519)</u>	<u>(14,784)</u>	<u>(1,596)</u>	<u>6,704</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in .....	-	-	-	-	-
Operating transfers out .....	<u>(374,841)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(374,841)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN CASH BALANCES	125,851	(3,519)	(14,784)	(1,596)	6,704
CASH BALANCES - BEGINNING OF YEAR	<u>152,640</u>	<u>13,875</u>	<u>174,453</u>	<u>10,602</u>	<u>14,443</u>
CASH BALANCES - END OF YEAR	<u>\$ 278,491</u>	<u>\$ 10,356</u>	<u>\$ 159,669</u>	<u>\$ 9,006</u>	<u>\$ 21,147</u>
CASH BASIS FUND BALANCES:					
Restricted for:					
Urban renewal purposes .....	\$ 278,491	\$ -	\$ -	\$ -	\$ -
Community and economic development purposes .....	-	10,356	-	-	-
Employee benefits .....	-	-	159,669	9,006	-
Police purposes .....	-	-	-	-	21,147
Park purposes .....	-	-	-	-	-
TOTAL CASH BASIS FUND BALANCES	<u>\$ 278,491</u>	<u>\$ 10,356</u>	<u>\$ 159,669</u>	<u>\$ 9,006</u>	<u>\$ 21,147</u>

<u>Fire Pension Accumulation</u>	<u>Federal and State Retirement</u>	<u>Workers' Compensation Insurance</u>	<u>Trees Forever</u>	<u>Unemployment Insurance Claims</u>	<u>Group Medical/Life Insurance</u>	<u>Total</u>
\$ 78,581	\$ -	\$ 139,387	\$ -	\$ 29,199	\$ 551,631	\$ 1,149,436
-	-	-	-	-	-	687,244
789	-	1,399	-	293	5,505	38,840
210	-	-	58	-	-	5,175
3,568	25,855	6,358	-	1,314	63,274	112,684
-	-	3,653	2,685	-	260,164	277,112
<u>83,148</u>	<u>25,855</u>	<u>150,797</u>	<u>2,743</u>	<u>30,806</u>	<u>880,574</u>	<u>2,270,491</u>
84,405	99,058	-	-	-	-	490,661
-	70,496	-	-	-	-	70,496
-	108,985	-	5,278	-	-	114,263
-	-	-	-	-	-	299,985
-	34,390	177,845	-	27,524	1,227,718	1,469,365
<u>84,405</u>	<u>312,929</u>	<u>177,845</u>	<u>5,278</u>	<u>27,524</u>	<u>1,227,718</u>	<u>2,444,770</u>
<u>(1,257)</u>	<u>(287,074)</u>	<u>(27,048)</u>	<u>(2,535)</u>	<u>3,282</u>	<u>(347,144)</u>	<u>(174,279)</u>
-	319,693	65,370	-	-	396,367	781,430
-	-	-	-	-	-	(374,841)
-	319,693	65,370	-	-	396,367	406,589
(1,257)	32,619	38,322	(2,535)	3,282	49,223	232,310
<u>28,122</u>	<u>240,304</u>	<u>157,880</u>	<u>3,762</u>	<u>12,692</u>	<u>264,461</u>	<u>1,073,234</u>
<u>\$ 26,865</u>	<u>\$ 272,923</u>	<u>\$ 196,202</u>	<u>\$ 1,227</u>	<u>\$ 15,974</u>	<u>\$ 313,684</u>	<u>\$ 1,305,544</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 278,491
-	-	-	-	-	-	10,356
26,865	272,923	196,202	-	15,974	313,684	994,323
-	-	-	-	-	-	21,147
-	-	-	1,227	-	-	1,227
<u>\$ 26,865</u>	<u>\$ 272,923</u>	<u>\$ 196,202</u>	<u>\$ 1,227</u>	<u>\$ 15,974</u>	<u>\$ 313,684</u>	<u>\$ 1,305,544</u>

See Accompanying Independent Auditors' Report

**CITY OF SPENCER**  
**COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS - PERMANENT FUNDS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

	Cemetery Perpetual Care Fund	Riverside Cemetery Memorial Trust	Columbarium Vault Fund	Northlawn Perpetual Care Fund
RECEIPTS:				
Use of money and property .....	\$ -	\$ 190	\$ 36	\$ 630
Charges for services .....	5,500	-	400	700
TOTAL RECEIPTS	<u>5,500</u>	<u>190</u>	<u>436</u>	<u>1,330</u>
DISBURSEMENTS:				
Culture and recreation .....	100	375	-	-
Community and economic development .....	-	-	-	-
TOTAL DISBURSEMENTS	<u>100</u>	<u>375</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>5,400</u>	<u>(185)</u>	<u>436</u>	<u>1,330</u>
CASH BALANCES - BEGINNING OF YEAR .....	<u>281,479</u>	<u>21,803</u>	<u>4,618</u>	<u>69,622</u>
CASH BALANCES - END OF YEAR	<u>\$ 286,879</u>	<u>\$ 21,618</u>	<u>\$ 5,054</u>	<u>\$ 70,952</u>
CASH BASIS FUND BALANCES:				
Nonspendable:				
Permanent fund principal .....	\$ 286,879	\$ 2,550	\$ 5,054	\$ 70,952
Restricted for:				
Cemetery purposes .....	-	19,068	-	-
Community development purposes .....	-	-	-	-
Park purposes .....	-	-	-	-
TOTAL CASH BASIS FUND BALANCES	<u>\$ 286,879</u>	<u>\$ 21,618</u>	<u>\$ 5,054</u>	<u>\$ 70,952</u>

Griffin Trust Fund	Leach Park Fund	Total
\$ 571	\$ 172	\$ 1,599
-	-	6,600
<u>571</u>	<u>172</u>	<u>8,199</u>
-	-	475
555	-	555
<u>555</u>	<u>-</u>	<u>1,030</u>
16	172	7,169
<u>63,363</u>	<u>19,388</u>	<u>460,273</u>
<u>\$ 63,379</u>	<u>\$ 19,560</u>	<u>\$ 467,442</u>
\$ 63,000	\$ 8,200	\$ 436,635
-	-	19,068
379	-	379
<u>-</u>	<u>11,360</u>	<u>11,360</u>
<u>\$ 63,379</u>	<u>\$ 19,560</u>	<u>\$ 467,442</u>



CITY OF SPENCER  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 NONMAJOR PROPRIETARY FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds		
	Airport	Golf Course	Total Nonmajor Proprietary Funds
OPERATING RECEIPTS:			
Charges for services .....	\$ 122,608	\$ 416,755	\$ 539,363
Miscellaneous .....	349	14,183	14,532
TOTAL OPERATING RECEIPTS	122,957	430,938	553,895
OPERATING DISBURSEMENTS:			
Salaries .....	22,526	171,499	194,025
Payroll taxes and employee benefits .....	3,438	19,879	23,317
Repairs and maintenance .....	31,039	17,126	48,165
Utilities .....	31,600	19,378	50,978
Contract services .....	35,000	6,666	41,666
Insurance premiums .....	-	1,086	1,086
Gas and oil .....	257	9,719	9,976
Supplies .....	1,091	84,507	85,598
Miscellaneous .....	14,280	19,436	33,716
Sales tax paid .....	-	14,500	14,500
TOTAL OPERATING DISBURSEMENTS	139,231	363,796	503,027
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	(16,274)	67,142	50,868
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments .....	5,387	1,192	6,579
Farm income .....	50,000	-	50,000
Capital outlay .....	-	(62,400)	(62,400)
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	55,387	(61,208)	(5,821)
EXCESS OF RECEIPTS OVER DISBURSEMENTS	39,113	5,934	45,047
OTHER FINANCING SOURCES (USES):			
Operating transfers in .....	18,401	-	18,401
Operating transfers out .....	(52,950)	(23,620)	(76,570)
TOTAL OTHER FINANCING SOURCES (USES)	(34,549)	(23,620)	(58,169)
NET CHANGE IN CASH BALANCES	4,564	(17,686)	(13,122)
CASH BALANCES - BEGINNING OF YEAR	574,698	199,303	774,001
CASH BALANCES - END OF YEAR	\$ 579,262	\$ 181,617	\$ 760,879
CASH BASIS FUND BALANCES:			
Unrestricted .....	\$ 579,262	\$ 181,617	\$ 760,879

**CITY OF SPENCER  
SCHEDULE OF INDEBTEDNESS  
JUNE 30, 2016**

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Final Due Date</u>
GOVERNMENTAL ACTIVITIES:				
GENERAL OBLIGATION BONDS/NOTES:				
Sewer improvement bond	1-2007	4.41%	\$ 655,000	6-01-2026
Landfill facility improvement bonds	12-2008	3.75 - 4.00%	1,350,000	6-01-2018
Landfill facility refunding bonds	4-2010	2.25 - 3.00%	1,455,000	6-01-2019
Landfill closure bonds	2-2009	3.00%	885,000	6-01-2028
Street improvement bonds	12-2010	2.20 - 2.80%	575,000	6-01-2018
West beltway, fire station refunding bonds	4-2012	1.10 - 1.50%	1,565,000	6-01-2018
Corporate purpose and refunding bonds	5-2013	1.00 - 1.50%	2,245,000	6-01-2022
TOTAL GENERAL OBLIGATION BONDS/NOTES				
OTHER LONG-TERM DEBT:				
Spencer Municipal Utilities - Shine Brothers loan	11-2006	0.00%	375,000	12-05-2021
Spencer Municipal Utilities - E911 Communication loan	12-2014	0.00%	360,000	7-15-2024
TOTAL GOVERNMENTAL ACTIVITIES				
BUSINESS TYPE ACTIVITIES:				
REVENUE BONDS/NOTES:				
Sewer revenue bonds	10-2009	3.25% <sup>(1)</sup>	1,520,000	6-01-2029
Sewer revenue bonds (Build America Bonds)	12-2010	3.25% <sup>(1) (2)</sup>	7,500,000	6-01-2032
TOTAL BUSINESS TYPE ACTIVITIES				

<sup>(1)</sup> Interest rate includes .25% service fee.

<sup>(2)</sup> It is anticipated that 35% of the interest (excluding the .25% service fee) will be refunded per the terms of Build America Bonds.

**Schedule 5**

<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Repayments</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 450,000	\$ -	\$ 35,000	\$ 415,000	\$ 19,845	\$ -
505,000	-	505,000		19,800	-
600,000	-	145,000	455,000	15,787	-
329,000	-	21,000	308,000	9,870	-
255,000	-	85,000	170,000	6,375	-
630,000	-	245,000	385,000	7,970	-
<u>1,450,000</u>	<u>-</u>	<u>375,000</u>	<u>1,075,000</u>	<u>15,500</u>	<u>-</u>
4,219,000	-	1,411,000	2,808,000	95,147	-
175,000	-	25,000	150,000	-	-
<u>360,000</u>	<u>-</u>	<u>36,000</u>	<u>324,000</u>	<u>-</u>	<u>-</u>
<u>\$ 4,754,000</u>	<u>\$ -</u>	<u>\$1,472,000</u>	<u>\$3,282,000</u>	<u>\$ 95,147</u>	<u>\$ -</u>
\$ 1,158,000	\$ -	\$ 66,000	\$1,092,000	\$ 34,740	\$ -
<u>6,657,000</u>	<u>-</u>	<u>299,000</u>	<u>6,358,000</u>	<u>199,710</u>	<u>-</u>
<u>\$ 7,815,000</u>	<u>\$ -</u>	<u>\$ 365,000</u>	<u>\$7,450,000</u>	<u>\$234,450</u>	<u>\$ -</u>

**CITY OF SPENCER  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2016**

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program .....	20.106	3-19-0086-023-2015	\$ 177,262
Indirect:			
Department of Homeland Security:			
Iowa Homeland Security and Emergency Management:			
Hazard Mitigation Grant .....	97.039	DR-1998-0005-01	<u>1,170,793</u>
TOTAL			<u>\$1,348,055</u>

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of City of Spencer 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 City of Spencer, it is not intended to and does not present the financial position, changes in financial position or cash flows of City of Spencer.

Summary of Significant Accounting Policies - Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. 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. City of Spencer has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

## OTHER INFORMATION

**CITY OF SPENCER**  
**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS**  
**AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -**  
**ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**  
**OTHER INFORMATION (UNAUDITED)**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
RECEIPTS:			
Property taxes .....	\$ 5,085,638	\$ -	\$ 5,085,638
Tax increment financing revenues .....	687,244	-	687,244
Other city taxes .....	2,615,039	-	2,615,039
Licenses and permits .....	70,121	-	70,121
Use of money and property .....	131,492	196,758	328,250
Intergovernmental .....	2,752,796	1,512,793	4,265,589
Charges for services .....	276,423	7,027,468	7,303,891
Special assessments .....	161,268	-	161,268
Miscellaneous .....	<u>627,625</u>	<u>48,463</u>	<u>676,088</u>
TOTAL RECEIPTS	<u>12,407,646</u>	<u>8,785,482</u>	<u>21,193,128</u>
DISBURSEMENTS:			
Public safety .....	3,010,045	-	3,010,045
Public works .....	1,482,858	-	1,482,858
Culture and recreation .....	1,516,305	-	1,516,305
Community and economic development .....	1,617,387	-	1,617,387
General government .....	2,295,139	-	2,295,139
Debt service .....	1,544,948	-	1,544,948
Capital projects .....	1,385,932	-	1,385,932
Business-type activities .....		<u>7,031,781</u>	<u>7,031,781</u>
TOTAL DISBURSEMENTS	<u>12,852,614</u>	<u>7,031,781</u>	<u>19,884,395</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(444,968)</u>	<u>1,753,701</u>	<u>1,308,733</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from bonds .....			
Operating transfer in .....	5,906,870	1,181,776	7,088,646
Operating transfer out .....	<u>(4,559,538)</u>	<u>(2,529,108)</u>	<u>(7,088,646)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,347,332</u>	<u>(1,347,332)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS	902,364	406,369	1,308,733
BALANCE - BEGINNING OF YEAR .....	<u>13,203,029</u>	<u>11,209,787</u>	<u>24,412,816</u>
BALANCE - END OF YEAR	<u>\$14,105,393</u>	<u>\$11,616,156</u>	<u>\$25,721,549</u>

## Schedule 7

Budget		Final to
Original	Final	Actual
		Variance
\$ 5,083,694	\$ 5,083,694	\$ 1,944
712,111	740,111	(52,867)
2,262,814	2,517,814	97,225
52,350	82,350	(12,229)
144,205	144,205	184,045
4,848,472	5,293,472	(1,027,883)
6,913,941	6,913,941	389,950
96,343	116,343	44,925
<u>325,850</u>	<u>421,987</u>	<u>254,101</u>
<u>20,439,780</u>	<u>21,313,917</u>	<u>(120,789)</u>
3,254,285	3,263,160	253,115
1,602,859	1,812,859	330,001
1,530,305	1,561,305	45,000
1,666,297	1,686,297	68,910
2,387,092	2,492,092	196,953
1,543,948	1,543,948	(1,000)
2,829,276	2,939,276	1,553,344
<u>9,813,183</u>	<u>10,280,183</u>	<u>3,248,402</u>
<u>24,627,245</u>	<u>25,579,120</u>	<u>5,694,725</u>
<u>(4,187,465)</u>	<u>(4,265,203)</u>	<u>5,573,936</u>
3,200,000	3,200,000	(3,200,000)
10,350,853	10,350,853	(3,262,207)
<u>(10,350,853)</u>	<u>(10,350,853)</u>	<u>3,262,207</u>
<u>3,200,000</u>	<u>3,200,000</u>	<u>(3,200,000)</u>
(987,465)	(1,065,203)	2,373,936
<u>21,547,109</u>	<u>21,547,109</u>	<u>2,865,707</u>
<u>\$20,559,644</u>	<u>\$20,481,906</u>	<u>\$ 5,239,643</u>

**CITY OF SPENCER  
NOTES TO SCHEDULE 7 - BUDGETARY REPORTING  
FOR THE YEAR ENDED JUNE 30, 2016**

The budgetary comparison is presented in accordance with Government 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 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, Permanent Fund, and 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, a budget amendment increased budgeted disbursements by \$951,875. These budget amendments are reflected in the final budgeted amounts.

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



**CITY OF SPENCER  
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST FISCAL YEAR \*  
(IN THOUSANDS)**

**OTHER INFORMATION (UNAUDITED)**

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability .....	.042779%	.043983%
City's proportionate share of the net pension liability .....	\$ 2,108	\$ 1,746
City's covered-employee payroll .....	\$ 2,963	\$ 2,921
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll .....	71.14%	59.77%
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.

**CITY OF SPENCER**  
**SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - Continued**

**MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA**  
**LAST FISCAL YEAR \***  
**(IN THOUSANDS)**

**OTHER INFORMATION (UNAUDITED)**

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability .....	.495032%	.504315%
City's proportionate share of the net pension liability .....	\$ 2,326	\$ 1,828
City's covered-employee payroll .....	\$ 1,298	\$ 1,287
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll .....	179.20%	141.95%
Plan fiduciary net position as a percentage of the total pension liability .....	83.04%	86.27%

\* 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.

**CITY OF SPENCER  
SCHEDULE OF CITY CONTRIBUTIONS**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS  
(IN THOUSANDS)**

**OTHER INFORMATION (UNAUDITED)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Statutorily required contribution .....	\$ 275	\$ 265	\$ 261	\$ 255	\$ 238	\$ 202
Contributions in relation to the statutorily required contribution .....	<u>275</u>	<u>265</u>	<u>261</u>	<u>255</u>	<u>238</u>	<u>202</u>
Contribution deficiency (excess) .....	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's covered-employee payroll .....	\$3,072	\$2,963	\$2,921	\$2,939	\$2,938	\$2,900
Contributions as a percentage of covered-employee payroll .....	8.94%	8.94%	8.94%	8.68%	8.10%	6.97%

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

**CITY OF SPENCER  
SCHEDULE OF CITY CONTRIBUTIONS - Continued**

**MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA  
LAST 10 FISCAL YEARS  
(IN THOUSANDS)**

**OTHER INFORMATION (UNAUDITED)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Statutorily required contribution .....	\$ 379	\$ 395	\$ 388	\$ 330	\$ 304	\$ 237
Contributions in relation to the statutorily required contribution .....	<u>379</u>	<u>395</u>	<u>388</u>	<u>330</u>	<u>304</u>	<u>237</u>
Contribution deficiency (excess) .....	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's covered-employee payroll .....	\$1,363	\$1,298	\$1,287	\$1,265	\$1,226	\$1,191
Contributions as a percentage of covered-employee payroll .....	27.77%	30.41%	30.12%	26.12%	24.76%	19.90%

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

**CITY OF SPENCER  
NOTES TO OTHER INFORMATION - PENSION LIABILITY  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
YEAR ENDED JUNE 30, 2016**

**Changes of Benefit Terms**

Legislation passed 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 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.

**CITY OF SPENCER**  
**NOTES TO OTHER INFORMATION - PENSION LIABILITY - Continued**  
**MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA**  
**YEAR ENDED JUNE 30, 2016**

**Changes of Benefit Terms**

There were no significant changes of benefit terms.

**Changes of Assumptions**

Effective July 1, 2015, one additional step was taken to phase in the 1994 Group Annuity Mortality Table for post-retirement mortality. The additional step resulted in a weighting of 1/12 of the 1971 Group Annuity Mortality Table and 11/12 of the 1994 Group Annuity Mortality Table.

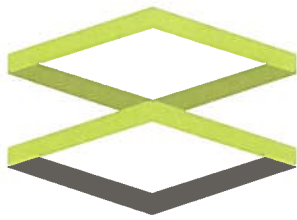
**CITY OF SPENCER**  
**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -**  
**ALL GOVERNMENTAL FUNDS**  
**FOR THE LAST TEN YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>RECEIPTS:</b>				
Property taxes .....	\$ 5,085,638	\$ 5,079,366	\$ 4,972,177	\$ 4,930,379
Tax increment financing revenues .....	687,244	695,254	524,142	442,736
Other city taxes .....	2,615,039	2,478,156	2,309,189	2,345,925
Licenses and permits .....	70,121	63,500	66,000	58,659
Use of money and property .....	131,492	120,978	137,076	160,088
Intergovernmental .....	2,752,796	2,633,718	3,104,374	2,670,257
Charges for services .....	276,423	245,956	259,864	278,030
Special assessments .....	161,268	148,630	219,308	190,218
Miscellaneous .....	<u>627,625</u>	<u>1,174,940</u>	<u>685,782</u>	<u>1,004,429</u>
 TOTAL RECEIPTS	 <u>\$12,407,646</u>	 <u>\$12,640,498</u>	 <u>\$12,277,912</u>	 <u>\$12,080,721</u>
 <b>DISBURSEMENTS:</b>				
Public safety .....	\$ 3,010,045	\$ 3,289,444	\$ 2,893,767	\$ 2,628,742
Public works.....	1,482,858	1,386,951	1,382,115	1,488,739
Culture and recreation .....	1,516,305	1,514,083	1,359,564	1,426,172
Community and economic development .....	1,617,387	1,933,571	1,671,969	1,716,338
General government .....	2,295,139	2,314,559	2,519,300	1,883,162
Debt service .....	1,544,948	1,159,849	1,226,883	2,691,798
Capital projects .....	<u>1,385,932</u>	<u>2,609,423</u>	<u>3,078,688</u>	<u>3,131,125</u>
 TOTAL DISBURSEMENTS	 <u>\$12,852,614</u>	 <u>\$14,207,880</u>	 <u>\$14,132,286</u>	 <u>\$14,966,076</u>

## Schedule 10

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 4,664,393	\$ 4,474,342	\$ 4,419,065	\$ 4,240,304	\$ 4,019,998	\$ 3,952,695
685,113	708,215	730,804	706,603	527,404	394,841
2,193,063	2,069,431	1,620,843	1,879,749	2,201,724	1,405,882
53,417	49,076	61,752	53,830	67,745	570,987
216,400	299,985	366,406	479,729	474,723	585,348
2,096,682	2,627,643	2,789,625	2,073,283	2,004,270	2,351,703
314,719	277,177	304,060	311,873	882,840	867,074
240,557	283,385	493,349	236,308	310,385	487,153
<u>1,275,826</u>	<u>2,320,639</u>	<u>2,270,949</u>	<u>2,007,211</u>	<u>830,300</u>	<u>925,570</u>
<u>\$11,740,170</u>	<u>\$13,109,893</u>	<u>\$13,056,853</u>	<u>\$11,988,890</u>	<u>\$11,319,389</u>	<u>\$11,541,253</u>
\$ 2,549,797	\$ 2,343,685	\$ 2,285,294	\$ 2,461,524	\$ 2,175,503	\$ 2,162,810
1,194,773	1,249,718	1,420,977	1,459,165	1,523,922	1,389,023
1,430,033	1,415,736	1,425,791	1,369,796	1,656,305	1,833,548
1,964,859	2,384,116	2,289,495	2,776,842	1,578,325	2,239,552
2,073,102	2,065,131	1,478,420	1,465,448	1,409,325	1,693,350
3,193,101	2,106,313	2,584,260	1,485,111	1,413,780	4,899,641
<u>662,897</u>	<u>3,299,247</u>	<u>5,828,337</u>	<u>1,820,672</u>	<u>1,630,181</u>	<u>2,589,128</u>
<u>\$13,068,562</u>	<u>\$14,863,946</u>	<u>\$17,312,574</u>	<u>\$12,838,558</u>	<u>\$11,387,341</u>	<u>\$16,807,052</u>





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**INDEPENDENT AUDITORS' 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**

The Honorable Mayor and  
Members of the City Council  
City of Spencer  
Spencer, IA 51301

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Spencer, Iowa, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the basic financial statements of the City's primary government, and have issued our report thereon dated December 9, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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'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 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.

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. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that 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.

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

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

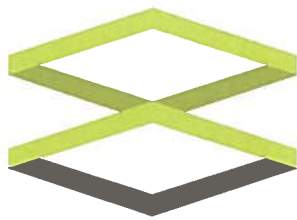
### **Purpose of this Report**

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 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.

Winther, Stave & Co., LLP

December 9, 2016  
Spencer, Iowa



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable Mayor and  
Members of the City Council  
City of Spencer  
Spencer, IA 51301

**Report on Compliance for Each Major Federal Program**

We have audited the City of Spencer, 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 the City's major federal program for the year ended June 30, 2016. The 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the 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 auditing standards generally accepted in the United States of America, 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 noncompliance 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 the 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 of the City's compliance.

**Opinion on The Major Federal Program**

In our opinion, the 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 the 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 the 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 the 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 that we consider to be material weaknesses as defined above. 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.

*Wintner, Syare & Co., LLA*

December 9, 2016  
Spencer, Iowa

**CITY OF SPENCER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Part I: Summary of the Independent Auditors' Results:**

- a. Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- b. No material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- c. The audit did not disclose any noncompliance which is material to the financial statements.
- d. No material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- e. An unmodified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit disclosed no audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.515.
- g. The major program was CFDA Number 97.039 - Hazard Mitigation Grant.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- i. The City of Spencer did not qualify as a low-risk auditee.

**CITY OF SPENCER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2016**

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

**Internal Control Deficiency:**

No findings were noted.

**Instances of Non-Compliance:**

No findings were noted.

**Part III: Findings and Questioned Costs for Federal Awards**

**Instances of Non-Compliance:**

No findings were noted.

**Reportable Conditions:**

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

**CITY OF SPENCER**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**  
**FOR THE 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 amounts budgeted in the debt service function.

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

Response - The City will make an effort to amend the budget before disbursements are exceeded, if applicable in the future.

Conclusion - Response accepted.

- IV-B-16 Questionable Disbursements - No expenditures that did not meet the requirement of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.

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

- IV-D-16 Business Transactions - The City purchased supplies totaling \$2,255 from Audio Video Connection, a business owned by Council Member Randy Swanson. The transactions may represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year and competitive bidding was not used.

Recommendation - The City should use the competitive bidding process when practical.

Response - These transactions were for normal expenses. The City will monitor spending and use competitive bidding when practical.

Conclusion - Response accepted.

- 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 that the coverage is adequate for current operations.

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

- IV-G-16 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.

- IV-H-16 Revenue Notes - No instances of noncompliance with the revenue bond and note resolutions were noted.

- IV-I-16 Financial Assurance - As of June 30, 2016, the City has demonstrated financial assurance for closure and postclosure care by establishing a local government dedicated fund as provided in Chapter 567.113.14(6) of the Iowa Administrative Code.

- IV-J-16 Urban Renewal Annual Report - The urban renewal annual report for the fiscal year ended June 30, 2015 was approved and certified to the Iowa Department of Management on or before December 1, 2015.