



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

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NEWS RELEASE

FOR RELEASE

March 2, 2017

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Auditor of State Mary Mosiman today released an audit report on the City of Independence, Iowa. The City's receipts totaled \$9,400,463 for the year ended June 30, 2016, a 14.7% decrease from the prior year. The receipts included \$3,130,755 in property tax, \$166,630 from tax increment financing, \$3,748,746 from charges for service, \$942,967 from operating grants, contributions and restricted interest, \$448,035 from capital grants, contributions and restricted interest, \$532,231 from local option sales tax, \$22,402 from unrestricted interest on investments and \$408,697 from other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$9,957,342, a 14.3% increase over the prior year, and included \$2,448,405 for capital projects, \$1,680,060 for public safety and \$1,327,137 for public works. Also, disbursements for business type activities totaled \$1,811,642.

The significant decrease in receipts in fiscal year 2016 is due to the issuance of general obligation bonds in fiscal year 2015. The significant increase in disbursements is primarily due to a street project started in fiscal year 2016.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1620-0076-B00F>.

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CITY OF INDEPENDENCE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2016

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City of Independence

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bonita Davis	Mayor	Jan 2018
Dustin Dallenbach	Council Member	Jan 2016
Robert Hill	Council Member	Jan 2016
Dennis Vaughn	Council Member	Jan 2016
Donald Brown	Council Member	Jan 2018
Austin Grover	Council Member	Jan 2018
John Holland	Council Member	Jan 2018
Michael Lenius	Council Member	Jan 2018
Albert W. Roder	City Manager	Indefinite
Barbara K. Rundle	City Clerk/Treasurer	(Resigned Jul 2015)
Jeena Lynch (Appointed Sep 2015)	City Clerk/Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Bonita Davis	Mayor	Jan 2018
Dustin Dallenbach	Council Member	(Resigned Jun 2016)
Todd Kuhse (Appointed)	Council Member	(Resigned Sep 2016)
Donald Brown	Council Member	Jan 2018
Austin Grover	Council Member	Jan 2018
John Holland	Council Member	Jan 2018
Michael Lenius	Council Member	Jan 2018
Debra Hanna (Elected)	Council Member	Jan 2020
Robert Hill	Council Member	Jan 2020
Dennis Vaughn	Council Member	Jan 2020
Albert W. Roder	City Manager	Indefinite
Jeena Lynch	City Clerk/Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite

City of Independence



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for Independence Light and Power, Telecommunications, a legally separate entity which should be reported as a discretely presented component unit, because Independence Light and Power, Telecommunications reports in accordance with U.S. generally accepted accounting principles, a different financial reporting framework than the City's cash basis of accounting. The amount by which this departure affects the receipts, disbursements and cash balances of the aggregate discretely presented component units is \$12,283,118, \$11,423,886 and \$7,511,907, respectively.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements do not present fairly the cash basis financial position of the aggregate discretely presented component units as of June 30, 2016, and the respective changes in the cash basis financial position of the aggregate discretely presented component units for the year then ended in conformity with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Independence as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Independence's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the six years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. Additionally, the financial statements for the three years ended June 30, 2009 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. Because of the significance of the matter described in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph above, it is inappropriate to, and we do not, express an opinion on the supplementary information.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 9 through 14 and 38 through 44, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2017 on our consideration of the City of Independence'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 Independence's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

February 16, 2017

City of Independence

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 19.0%, or approximately \$1,534,000 from fiscal year 2015 to fiscal year 2016. Property tax receipts increased approximately \$469,000 while bond proceeds decreased approximately \$2,217,000.
- Disbursements for governmental activities increased 19.8%, or approximately \$1,348,000, in fiscal year 2016 from fiscal year 2015. Capital projects and debt service disbursements increased approximately \$1,516,000 and \$111,000 respectively, while payments to refund debt decreased approximately \$245,000.
- The City's total cash basis net position decreased 5.7%, or approximately \$557,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities decreased approximately \$1,357,000 and the cash basis net position of the business type activities increased approximately \$800,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an 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 financial statement by providing information about the most significant funds.

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

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

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

BASIS OF ACCOUNTING

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

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and its Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

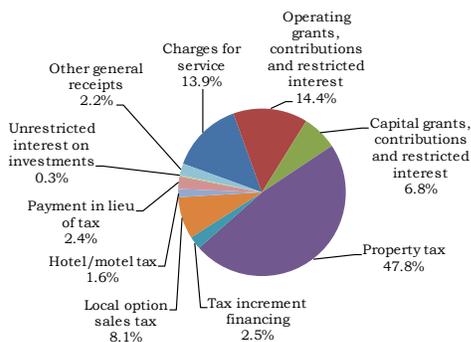
Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

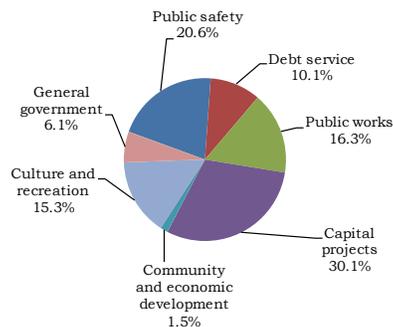
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$4,431,122 to \$3,074,011. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 908,127	898,904
Operating grants, contributions and restricted interest	942,967	825,133
Capital grants, contributions and restricted interest	448,035	240,538
General receipts:		
Property tax	3,130,755	2,662,011
Tax increment financing	166,630	261,462
Local option sales tax	532,231	554,097
Hotel/motel tax	106,090	110,556
Payment in lieu of tax	156,000	169,000
Unrestricted interest on investments	17,195	6,663
Bond proceeds	-	2,217,490
Other general receipts	146,607	142,872
Total receipts	<u>6,554,637</u>	<u>8,088,726</u>
Disbursements:		
Public safety	1,680,060	1,660,668
Public works	1,327,137	1,259,991
Health and social services	1,000	1,000
Culture and recreation	1,247,479	1,251,579
Community and economic development	121,721	139,502
General government	498,446	597,281
Debt service	821,452	710,490
Capital projects	2,448,405	932,651
Payment to refund debt	-	245,000
Total disbursements	<u>8,145,700</u>	<u>6,798,162</u>
Change in cash basis net position before transfers	(1,591,063)	1,290,564
Transfers, net	233,952	151,103
Change in cash basis net position	(1,357,111)	1,441,667
Cash basis net position beginning of year	4,431,122	2,989,455
Cash basis net position end of year	<u>\$ 3,074,011</u>	<u>4,431,122</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 19.0%, or approximately \$1,534,000, from the prior year. The total cost of all programs and services increased approximately \$1,348,000, or 19.8%, with no new programs added this year. The decrease in receipts was primarily the result of a bond issuance in the prior fiscal year with no new bond issuance in fiscal year 2016. The increase in disbursements was primarily the result of the street improvement projects which started in fiscal year 2016.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 741,932	700,533
Sewer	2,098,687	2,180,256
Capital grants, contributions and restricted interest	-	3,233
General receipts:		
Unrestricted interest on investments	5,207	43,025
Other general receipts	-	4,063
Total receipts	<u>2,845,826</u>	<u>2,931,110</u>
Disbursements:		
Water	515,852	502,868
Sewer	1,295,790	1,412,437
Total disbursements	<u>1,811,642</u>	<u>1,915,305</u>
Change in cash basis net position before transfers	1,034,184	1,015,805
Transfers, net	<u>(233,952)</u>	<u>(151,103)</u>
Change in cash basis net position	800,232	864,702
Cash basis net position beginning of year	<u>5,347,139</u>	<u>4,482,437</u>
Cash basis net position end of year	<u>\$ 6,147,371</u>	<u>5,347,139</u>

Total business type activities receipts decreased approximately \$85,000, or 2.9%, from the prior year, primarily due to decreased sewer billings of a major customer. Total disbursements for the fiscal year decreased 5.4%, or approximately \$104,000, due to the completion of a water project in the prior fiscal year and there were additional equipment purchases made in the prior year and no new equipment purchases in fiscal year 2016. The cash balance increased approximately \$800,000 during the year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Independence completed the year, its governmental funds reported a combined fund balance of \$3,074,011, a decrease of \$1,357,124 compared to last year's total of \$4,431,135. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$106,759 from the prior year to \$1,026,788. The decrease is attributable to a decrease in transfers in from the Special Revenue, Employee Benefits Fund and an increase in property tax receipts during fiscal year 2016.
- The Special Revenue, Road Use Tax Fund cash balance increased \$76,404 to \$232,736 during the fiscal year. This increase was primarily due to the City receiving a larger amount of road use receipts in fiscal year 2016 compared to fiscal year 2015.

- The Special Revenue, Employee Benefits Fund cash balance increased \$259,490 from \$105,375 to \$364,865. In fiscal year 2015 the City transferred excess funds to the General Fund. The excess funds are a result of the City levying for the full amount of benefits and then transferring from the Special Revenue, Local Option Sales Tax Fund for property tax relief. There were no similar transactions in fiscal year 2016.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$23,993 from \$472,866 to \$448,873. This decrease was primarily due to legal fees for services provided in association with new developer agreements. The legal fees will be reimbursed with tax increment financing (TIF) receipts in future fiscal years.
- The Special Revenue, Local Option Sales Tax Fund was established to account for special sales tax collected. At the end of the fiscal year, the cash balance was \$382,260. Receipts were \$21,866 lower and transfers out to other funds were \$185,776 lower than the prior year.
- The Debt Service Fund cash balance increased \$65,437 to \$116,223 at the end of the fiscal year. This increase was primarily due to an increase in special assessments received to repay loan obligations.
- The Capital Projects Fund cash balance decreased \$1,870,079 to \$230,084 at the end of the fiscal year. The City spent a total of \$2,436,614 on construction projects in the current year, compared to \$931,792 in the prior year. Receipts increased \$207,495 over the prior year, primarily due to federal reimbursements for an airport building project which was started in fiscal year 2016.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased from \$2,371,474 to \$2,597,580. Total receipts increased \$14,665 and disbursements decreased \$12,984.
- The Enterprise, Sewer Fund cash balance increased \$574,139 to \$3,549,804. Total receipts decreased \$99,949 from the prior year due to decreased usage by Tyson Pet Products. Disbursements also decreased \$116,660 from the prior year due to decreased payments made for sewer repairs made in the prior years.

BUDGETARY HIGHLIGHTS

The City did not amend its budget over the course of the year. The City's receipts were \$1,059,349 more than budgeted. This is a result of the City receiving more sewer receipts than anticipated. Total disbursements were \$2,365,423, or 19.2%, less than the final budget. This was primarily due to the City not completing some of the projects as originally planned.

Disbursements did not exceed the amounts budgeted for the year ended June 30, 2016.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$7,609,758 of bonds/notes and other long-term debt outstanding, compared to \$8,457,579 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2016	2015
General obligation bonds/notes	\$ 5,190,000	5,880,000
Sewer revenue bonds	2,380,000	2,530,000
Revenue loan agreement	39,758	47,579
Total	\$ 7,609,758	8,457,579

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all property within the City's corporate limits. The City's outstanding general obligation debt of \$5,224,236, including annually appropriated TIF developer agreements of \$34,236, is significantly below its constitutional debt limit of approximately \$16,148,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Independence's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the County averaged 4.3% for fiscal year 2016. This compares with the State's unemployment rate of 4.1%.

These factors were taken into account when adopting the budget for fiscal year 2017. Property tax receipts available for appropriation in the fiscal year 2017 operating budget are similar to the fiscal year 2016. The City will use these receipts to operate and keep the levy the same for fiscal year 2017. Budgeted disbursements are expected to increase \$4,244,550 over the final fiscal year 2016 budget to \$16,549,210. This increase is due to the capital projects function.

If these estimates are realized, the City's June 30, 2017 cash balance is expected to decrease approximately \$1,066,000 by the close of fiscal year 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeena Lynch, City Clerk, 331 - 1st Street East, City of Independence, Iowa 50644.

Basic Financial Statements

City of Independence

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,680,060	54,310	143,635	-
Public works	1,327,137	541,674	741,032	-
Health and social services	1,000	-	-	-
Culture and recreation	1,246,512	261,189	58,300	-
Community and economic development	121,721	-	-	-
General government	499,413	50,954	-	-
Debt service	821,452	-	-	-
Capital projects	2,448,405	-	-	448,035
Total governmental activities	8,145,700	908,127	942,967	448,035
Business type activities:				
Water	515,852	741,932	-	-
Sewer	1,295,790	2,098,687	-	-
Total business type activities	1,811,642	2,840,619	-	-
Total	\$ 9,957,342	3,748,746	942,967	448,035
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Payment in lieu of tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Employee benefits				
Urban renewal purposes				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(1,482,115)	-	(1,482,115)
(44,431)	-	(44,431)
(1,000)	-	(1,000)
(927,023)	-	(927,023)
(121,721)	-	(121,721)
(448,459)	-	(448,459)
(821,452)	-	(821,452)
(2,000,370)	-	(2,000,370)
(5,846,571)	-	(5,846,571)
-	226,080	226,080
-	802,897	802,897
-	1,028,977	1,028,977
(5,846,571)	1,028,977	(4,817,594)
2,838,258	-	2,838,258
292,497	-	292,497
166,630	-	166,630
532,231	-	532,231
106,090	-	106,090
156,000	-	156,000
17,195	5,207	22,402
146,607	-	146,607
233,952	(233,952)	-
4,489,460	(228,745)	4,260,715
(1,357,111)	800,232	(556,879)
4,431,122	5,347,152	9,778,274
\$ 3,074,011	6,147,384	9,221,395
\$ 95,000	-	95,000
232,736	-	232,736
364,865	-	364,865
448,873	-	448,873
116,223	256,935	373,158
230,084	175,000	405,084
627,475	-	627,475
958,755	5,715,449	6,674,204
\$ 3,074,011	6,147,384	9,221,395

City of Independence

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

As of and for the year ended June 30, 2016

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Tax Increment Financing
Receipts:				
Property tax	\$ 1,801,406	-	1,034,443	-
Tax increment financing	-	-	-	166,630
Other city tax	107,568	-	931	-
Licenses and permits	89,195	-	-	-
Use of money and property	141,413	2	-	-
Intergovernmental	329,231	737,263	18,665	-
Charges for service	603,005	-	-	-
Special assessments	-	-	-	-
Miscellaneous	145,955	-	8,770	-
Total receipts	3,217,773	737,265	1,062,809	166,630
Disbursements:				
Operating:				
Public safety	1,249,065	-	412,903	-
Public works	543,463	660,861	122,813	-
Health and social services	1,000	-	-	-
Culture and recreation	1,062,213	-	184,299	-
Community and economic development	40,891	-	-	80,830
General government	416,109	-	83,304	-
Debt service	-	-	-	-
Capital projects	11,791	-	-	-
Total disbursements	3,324,532	660,861	803,319	80,830
Excess (deficiency) of receipts over (under) disbursements	(106,759)	76,404	259,490	85,800
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	(109,793)
Total other financing sources (uses)	-	-	-	(109,793)
Change in cash balances	(106,759)	76,404	259,490	(23,993)
Cash balances beginning of year	1,133,547	156,332	105,375	472,866
Cash balances end of year	\$ 1,026,788	232,736	364,865	448,873
Cash Basis Fund Balances				
Nonspendable - Cemetery perpetual care	\$ -	-	-	-
Restricted for:				
Streets	-	232,736	-	-
Employee benefits	-	-	364,865	-
Urban renewal purposes	-	-	-	448,873
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	68,033	-	-	-
Committed for library purposes	57,750	-	-	-
Unassigned	901,005	-	-	-
Total cash basis fund balances	\$ 1,026,788	232,736	364,865	448,873

See notes to financial statements.

Local Option Sales Tax	Debt Service	Capital Projects	Nonmajor	Total
-	292,240	-	-	3,128,089
-	-	-	-	166,630
532,231	257	-	-	640,987
-	-	-	-	89,195
-	-	-	-	141,415
-	6,801	309,748	-	1,401,708
-	-	-	-	603,005
-	55,045	-	-	55,045
-	-	138,287	35,551	328,563
532,231	354,343	448,035	35,551	6,554,637
-	-	-	18,105	1,680,073
-	-	-	-	1,327,137
-	-	-	-	1,000
-	-	-	-	1,246,512
-	-	-	-	121,721
-	-	-	-	499,413
-	821,452	-	-	821,452
-	-	2,436,614	-	2,448,405
-	821,452	2,436,614	18,105	8,145,713
532,231	(467,109)	(1,988,579)	17,446	(1,591,076)
-	532,546	118,500	-	651,046
(307,301)	-	-	-	(417,094)
(307,301)	532,546	118,500	-	233,952
224,930	65,437	(1,870,079)	17,446	(1,357,124)
157,330	50,786	2,100,163	254,736	4,431,135
382,260	116,223	230,084	272,182	3,074,011
-	-	-	95,000	95,000
-	-	-	-	232,736
-	-	-	-	364,865
-	-	-	-	448,873
-	116,223	-	-	116,223
-	-	230,084	-	230,084
382,260	-	-	177,182	627,475
-	-	-	-	57,750
-	-	-	-	901,005
382,260	116,223	230,084	272,182	3,074,011

City of Independence

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

As of and for the year ended June 30, 2016

Change in cash balances (page 19) \$ (1,357,124)

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

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

13

Change in cash basis net position of governmental activities (page 17) \$ (1,357,111)

See notes to financial statements.

City of Independence

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

As of and for the year ended June 30, 2016

	Enterprise			Internal
	Water	Sewer	Total	Health Insurance
Operating receipts:				
Charges for service	\$ 741,932	2,094,911	2,836,843	86,857
Miscellaneous	-	3,776	3,776	-
Total operating receipts	741,932	2,098,687	2,840,619	86,857
Operating disbursements:				
Public safety	-	-	-	44,584
Public works	-	-	-	814
Culture and recreation	-	-	-	20,352
General government	-	-	-	8,958
Business type activities	480,447	959,271	1,439,718	12,149
Total operating disbursements	480,447	959,271	1,439,718	86,857
Excess of operating receipts over operating disbursements	261,485	1,139,416	1,400,901	-
Non-operating receipts (disbursements):				
Interest on investments	26	5,181	5,207	-
Debt service	-	(272,788)	(272,788)	-
Equipment	(35,405)	-	(35,405)	-
Capital projects	-	(63,718)	(63,718)	-
Net non-operating disbursements	(35,379)	(331,325)	(366,704)	-
Excess of receipts over disbursements	226,106	808,091	1,034,197	-
Transfers out	-	(233,952)	(233,952)	-
Change in cash balances	226,106	574,139	800,245	-
Cash balances beginning of year	2,371,474	2,975,665	5,347,139	-
Cash balances end of year	\$ 2,597,580	3,549,804	6,147,384	-
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ -	256,935	256,935	-
Future capital outlay	-	175,000	175,000	-
Unrestricted	2,597,580	3,117,869	5,715,449	-
Total cash basis fund balances	\$ 2,597,580	3,549,804	6,147,384	-

See notes to financial statements.

City of Independence

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

As of and for the year ended June 30, 2016

Change in cash balances (page 21) \$ 800,245

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

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

(13)

Change in cash basis net position of business type activities (page 17) \$ 800,232

See notes to financial statements.

City of Independence

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Independence is a political subdivision of the State of Iowa located in Buchanan County. It was first incorporated in 1864 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Independence 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.

Except as noted, these financial statements present the City of Independence and its component units. The financial statements do not include financial data for Independence Light and Power, Telecommunications (Utility), a legally separate entity which should be reported as a discretely presented component unit, because Independence Light and Power, Telecommunications reports in accordance with U.S. generally accepted accounting principles, a different financial reporting framework than the City's cash basis of accounting. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Unit

The following component unit is legally separate from the City, but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate fund.

The Independence Fire Department has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting the Fire Department. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Independence Fire Department meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City.

Discretely Presented Component Unit

The Independence Public Library Foundation, Inc. (Foundation) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable, educational and scientific purposes which benefit or support the Independence Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Foundation are substantially for the direct benefit of the City of Independence Library. Condensed financial information of the Foundation is presented in Note 11.

Jointly Governed Organizations

The City participates in several jointly governed organizations for which the City is not financially accountable or 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. City officials are members of the following boards and commissions: Buchanan County Assessor's Conference Board, Buchanan County Landfill Commission, Buchanan County Emergency Management Commission and Buchanan County Joint E911 Service Board.

B. Basis of Presentation

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

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

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Employee Benefits Fund is used to account for property tax receipts to be used for payment of employee benefits.

The Tax Increment Financing Fund is used to account for tax increment financing collections and repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for receipts from the tax authorized by referendum and used for community betterment and property tax relief.

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

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

The City reports the following major proprietary funds:

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

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

The City also reports the following proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Committed – Amounts the City Council has committed to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

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

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$960,689 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There are no limitations or restrictions on withdrawals for the IPAIT investments. The City’s investment in the Iowa Public Agency Investment Trust is unrated.

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

(3) Long-Term Debt

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

Year Ending June 30,	General Obligation		Sewer Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2017	\$ 740,000	115,615	160,000	115,587	900,000	231,202	1,131,202
2018	755,000	101,088	165,000	108,388	920,000	209,476	1,129,476
2019	685,000	84,965	175,000	100,397	860,000	185,362	1,045,362
2020	655,000	69,627	180,000	92,660	835,000	162,287	997,287
2021	560,000	53,778	190,000	84,110	750,000	137,888	887,888
2022-2026	1,620,000	107,095	1,510,000	223,530	3,130,000	330,625	3,460,625
2027	175,000	3,937	-	-	175,000	3,937	178,937
Total	\$ 5,190,000	536,105	2,380,000	724,672	7,570,000	1,260,777	8,830,777

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3,325,000 of sewer revenue bonds issued in May 2005. Proceeds from the bonds provided financing for improvements and extensions to the system. The bonds are payable solely from sewer customer net receipts and are payable through 2025. For the year ended June 30, 2016, principal and interest payments on the bonds required approximately 24% of net receipts. Total principal and interest remaining to be paid on the bonds is \$3,104,672. For the current year, principal and interest paid and total customer net receipts were \$272,188 and \$1,139,416, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The City will provide for the establishment of rates to produce gross receipts at least sufficient to pay the expenses of operation and maintenance of the utility and to have a balance of net receipts equal to at least 125% of the annual payments of principal and interest on the bonds.
- (c) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Sewer Fund for the purpose of making the bond principal and interest payments when due.
- (d) A reserve account of \$256,935 is to be established and maintained. Monthly transfers to the reserve account equal to 25% of the required transfer to the sinking account shall be made until the required balance has been accumulated. This account is restricted for paying the principal and interest on the bonds if the sinking account balance is insufficient.
- (e) Additional monthly transfers of \$5,000 to a future capital outlay account within the Sewer Fund shall be made until \$175,000 is accumulated. The account is restricted for deficiencies in the sinking or reserve accounts or capital improvements, extensions or repairs to the system.

Revenue Loan Agreement

On July 13, 2011, the City entered into a loan agreement for an LED street light project for \$78,213. The agreement requires 120 monthly payments of \$652 starting in August 2011. The City is not required to pay interest unless a payment is delinquent or in the event of default. The City has pledged its annual road use tax receipts from the State of Iowa to repay the loan. The loan is payable solely from road use tax receipts and is payable through 2021. For the current year, principal paid and total road use tax receipts were \$7,821 and \$737,263, respectively. The outstanding loan balance at June 30, 2016 was \$39,758.

(4) Pension Plan

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

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

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, 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 members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

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

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

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

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

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

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

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

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

The City's contributions to IPERS for the year ended June 30, 2016 were \$192,064.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City's liability of \$767,215 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 0.015529%, which was an increase of 0.000202% over 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 \$100,102, \$300,048 and \$354,975, respectively.

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

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

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

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

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

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

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate 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 (asset)	\$ 1,812,098	767,215	(114,145)

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

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 39 active and 6 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefits are provided through a partially self-funded plan with Wellmark. The City pays the single premium for certain retirees under age 65. Although the City has discontinued this benefit, 2 retirees who were grandfathered in under the prior policy are receiving this benefit at June 30, 2016. Under another prior City policy, the City pays the Medicare supplement premium for 4 retirees age 65 or older. These retirees are required to contribute \$140 per month towards the premium.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for health and dental for the City and plan members are \$396 and \$24 for single coverage and \$893 and \$81 for family coverage, respectively. The same monthly premiums apply to retirees. For the year ended June 30, 2016, the City contributed \$402,650 and plan members eligible for benefits contributed \$88,753 to the plan.

(6) Development Agreements

The City has entered into various development agreements to assist in certain urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers.

The total to be paid by the City under the agreements is not to exceed \$738,913. The total amount rebated during the year ended June 30, 2016 was \$61,498. The City has rebated a total of \$100,997 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2016 was \$637,916.

These agreements are not a general obligation of the City. However, the agreements are subject to the constitutional debt limitation of the City. Since the development agreements are subject to annual appropriation by the City Council, only the \$34,236 which has been appropriated at June 30, 2016 is subject to the debt limitation calculation.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and other leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and other leave payable to employees at June 30, 2016, primarily relating to the General Fund and the Enterprise, Water and Sewer Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 99,000
Compensatory time	26,000
Holiday	29,000
Casual	12,000
Total	<u>\$166,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

(8) Employee Health Insurance Plan

The City has a group insurance policy through Wellmark which provides comprehensive medical coverage for eligible employees and, if elected, their spouses and dependents. The City provides for a fully insured benefit through Wellmark with a plan deductible of \$24,000 and \$17,333 for in-network and out-of-network services, respectively. The City partially self-funds the deductibles. The responsibilities for covered charges are as follows:

In-Network					
	First \$250	Next \$3,750	Next \$1,250	Next \$18,750	Thereafter
City	0%	90%	10%	20%	0%
Employee	100%	10%	10%	0%	0%
Wellmark	0%	0%	80%	80%	100%

Out-of-Network					
	First \$250	Next \$1,667	Next \$2,083	Next \$13,333	Thereafter
City	0%	70%	100%	30%	0%
Employee	100%	30%	0%	0%	0%
Wellmark	0%	0%	0%	70%	100%

The City contracts with Group Services to administer the portion of health claims self-funded by the City. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Group Services from the Internal Service, Health Insurance Fund. During the year ended June 30, 2016, the City paid \$86,857 to Group Services for claims and administrative fees.

(9) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 109,793
	Local Option Sales Tax	188,801
	Enterprise:	
	Sewer	233,952
		<u>532,546</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	118,500
Total		<u>\$ 651,046</u>

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

(10) Risk Management

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

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

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

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$89,098.

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 claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

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

(11) Independence Public Library Foundation, Inc.

The Independence Public Library Foundation, Inc. (Foundation) is incorporated under the Iowa Nonprofit Corporation Act and directly benefits the Independence Public Library. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. The following is the condensed financial information for the Foundation for the year ended December 31, 2015.

Receipts:	
Capital donations	\$ 6,940
Material donations	8,288
Summer reading program	4,626
Programming	4,046
Interest, net of depreciation in fair value	(12,905)
Miscellaneous	5,782
Total receipts	<u>16,777</u>
Disbursements:	
Equipment and additional furnishings	635
Landscaping	1,913
Materials	20,556
Summer reading program	4,587
Programming	7,547
Miscellaneous	2,633
Total disbursements	<u>37,871</u>
Excess of disbursements over receipts	(21,094)
Balance beginning of year	<u>336,761</u>
Balance end of year	<u>\$ 315,667</u>

(12) Subsequent Event

In September 2016, the City entered into a loan agreement to issue general obligation corporate purpose bonds of \$4,800,000 to finance the construction of street, water system and sanitary system improvements, construct, furnish, and equip a municipal swimming pool and sidewalk improvements.

(13) New Accounting Pronouncement

The City of Independence adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

City of Independence

Other Information

City of Independence
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Enterprise Funds

Other Information

Year ended June 30, 2016

	Governmental Funds Actual	Enterprise Funds Actual	Less Funds not Required to be Budgeted	Total
Receipts:				
Property tax	\$ 3,128,089	-	-	3,128,089
Tax increment financing	166,630	-	-	166,630
Other city tax	640,987	-	-	640,987
Licenses and permits	89,195	-	-	89,195
Use of money and property	141,415	5,207	-	146,622
Intergovernmental	1,401,708	-	-	1,401,708
Charges for service	603,005	2,923,700	86,857	3,439,848
Special assessments	55,045	-	-	55,045
Miscellaneous	328,563	3,776	35,551	296,788
Total receipts	6,554,637	2,932,683	122,408	9,364,912
Disbursements:				
Public safety	1,680,073	44,584	62,689	1,661,968
Public works	1,327,137	814	814	1,327,137
Health and social services	1,000	-	-	1,000
Culture and recreation	1,246,512	20,352	20,352	1,246,512
Community and economic development	121,721	-	-	121,721
General government	499,413	8,958	8,958	499,413
Debt service	821,452	-	-	821,452
Capital projects	2,448,405	-	-	2,448,405
Business type activities	-	1,823,778	12,149	1,811,629
Total disbursements	8,145,713	1,898,486	104,962	9,939,237
Excess (deficiency) of receipts over (under) disbursements	(1,591,076)	1,034,197	17,446	(574,325)
Other financing sources (uses), net	233,952	(233,952)	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,357,124)	800,245	17,446	(574,325)
Balances beginning of year	4,431,135	5,347,139	27,332	9,750,942
Balances end of year	\$ 3,074,011	6,147,384	44,778	9,176,617

See accompanying independent auditor's report.

Budgeted Amounts	Final to Total
Original and Final	Variance
3,068,592	59,497
160,743	5,887
626,296	14,691
66,205	22,990
1,374,892	(1,228,270)
965,839	435,869
1,877,625	1,562,223
22,500	32,545
142,871	153,917
<u>8,305,563</u>	<u>1,059,349</u>
1,781,406	119,438
1,327,357	220
1,000	-
1,246,875	363
162,230	40,509
573,278	73,865
1,155,182	333,730
4,238,166	1,789,761
1,819,166	7,537
<u>12,304,660</u>	<u>2,365,423</u>
(3,999,097)	3,424,772
<u>3,863,000</u>	<u>(3,863,000)</u>
(136,097)	(438,228)
<u>7,911,190</u>	<u>1,839,752</u>
<u><u>7,775,093</u></u>	<u><u>1,401,524</u></u>

City of Independence

Notes to Other Information – Budgetary Reporting

June 30, 2016

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund and the component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

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

During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted.

City of Independence

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

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

Other Information

	2016	2015
City's proportion of the net pension liability	0.015529%	0.015327%
City's proportionate share of the net pension liability	\$ 767	608
City's covered-employee payroll	\$ 1,974	2,021
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	38.86%	30.08%
IPERS' net position as a percentage of the total liability pension	85.19%	87.61%

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

See accompanying independent auditor's report.

City of Independence

Schedule of City Contributions

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

Other Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 192	186	189	177
Contributions in relation to the statutorily required contribution	(192)	(186)	(189)	(177)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 2,068	1,974	2,021	1,914
Contributions as a percentage of covered-employee payroll	9.28%	9.42%	9.35%	9.25%

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
168	149	126	140	67	73
(168)	(149)	(126)	(140)	(67)	(73)
-	-	-	-	-	-
1,911	1,850	1,651	1,830	1,053	1,193
8.79%	8.05%	7.63%	7.65%	6.36%	6.12%

City of Independence

Notes to Other Information – Pension Liability

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 a quadrennial experience study:

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

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

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

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

Supplementary Information

City of Independence

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

As of and for the year ended June 30, 2016

	Special	
	LMI	Economic
	Urban	Development
	Renewal	Development
Receipts:		
Miscellaneous	\$ -	-
Disbursements:		
Operating:		
Public safety	-	-
Change in cash balances	-	-
Cash balances beginning of year	121,065	11,339
Cash balances end of year	\$ 121,065	11,339
Cash Basis Fund Balances		
Nonspendable – Cemetery perpetual care	\$ -	-
Restricted for other purposes	121,065	11,339
Total cash basis fund balances	\$ 121,065	11,339

See accompanying independent auditor’s report.

Revenue	Permanent	
Independence	Cemetery	
Fire	Perpetual	
Department	Care	Total
35,551	-	35,551
18,105	-	18,105
17,446	-	17,446
27,332	95,000	254,736
44,778	95,000	272,182
-	95,000	95,000
44,778	-	177,182
44,778	95,000	272,182

City of Independence
Schedule of Indebtedness
Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Urban renewal street improvement, series 2009	Apr 1, 2009	2.25-4.10%	\$ 995,000
Sewer improvement, series 2011	Feb 24, 2011	1.00-3.15	650,000
Refunding, series 2013A	Jun 25, 2013	0.40-2.50	2,270,000
City hall, recreation center and fire truck, series 2013B	Oct 9, 2013	2.00-3.00	1,150,000
Street improvements, sidewalk project and library refunding, series 2015A	May 26, 2015	2.00-2.25	2,200,000
Total			
Revenue bonds:			
Sewer revenue improvement, series 2005A	May 1, 2005	4.40-5.00%	\$ 3,325,000
Revenue loan agreement:			
LED street light project	Jul 13, 2011	0.00	\$ 78,213

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
500,000	-	90,000	410,000	19,292
415,000	-	65,000	350,000	11,413
1,720,000	-	205,000	1,515,000	28,452
1,045,000	-	105,000	940,000	24,573
2,200,000	-	225,000	1,975,000	45,222
<u>\$ 5,880,000</u>	<u>-</u>	<u>690,000</u>	<u>5,190,000</u>	<u>128,952</u>
2,530,000	-	150,000	2,380,000	122,188
47,579	-	7,821	39,758	-

City of Independence
Bond and Note Maturities
June 30, 2016

Year Ending June 30,	General Obligation Bonds/Notes					
	Urban Renewal Street Improvement Bonds, Series 2009		Sewer Improvement Bonds, Series 2011		Refunding Bonds, Series 2013A	
	Issued Apr 1, 2009		Issued Feb 24, 2011		Issued Jun 25, 2013	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2017	3.70%	\$ 95,000	2.25%	\$ 65,000	1.00%	\$ 205,000
2018	4.00	100,000	2.80	70,000	1.25	205,000
2019	4.05	105,000	2.80	70,000	1.50	215,000
2020	4.10	110,000	3.15	70,000	1.75	215,000
2021		-	3.15	75,000	2.00	220,000
2022		-		-	2.25	225,000
2023		-		-	2.50	230,000
2024		-		-		-
2025		-		-		-
2026		-		-		-
2027		-		-		-
Total		<u>\$ 410,000</u>		<u>\$ 350,000</u>		<u>\$ 1,515,000</u>

Year Ending June 30,	Revenue Bonds	
	Sewer Revenue Improvement, Series 2005A	
	Issued May 1, 2005	
Interest Rates	Amount	
2017	4.50% \$ 160,000	
2018	4.60 165,000	
2019	4.65 175,000	
2020	4.75 180,000	
2021	4.80 190,000	
2022	4.85 200,000	
2023	4.90 210,000	
2024	5.00 535,000	
2025	5.00 565,000	
Total	<u>\$ 2,380,000</u>	

See accompanying independent auditor's report.

City Hall, Recreation Center and Fire Truck Series 2013B Issued Oct 9, 2013		Street Improvements, Sidewalk Project and Library Refunding Series 2015A Issued May 26, 2015		
Interest		Interest		
Rates	Amount	Rates	Amount	Total
2.00%	\$ 110,000	2.00%	\$ 265,000	740,000
2.00	110,000	2.00	270,000	755,000
2.00	110,000	2.00	185,000	685,000
2.15	115,000	2.00	145,000	655,000
2.40	120,000	2.00	145,000	560,000
2.60	120,000	2.00	150,000	495,000
2.80	125,000	2.00	155,000	510,000
3.00	130,000	2.00	155,000	285,000
	-	2.00	165,000	165,000
	-	2.10	165,000	165,000
	-	2.25	175,000	175,000
	<u>\$ 940,000</u>		<u>\$ 1,975,000</u>	<u>5,190,000</u>

City of Independence

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

For the Last Ten Years

	2016	2015	2014	2013
Receipts:				
Property tax	\$ 3,128,089	2,655,159	2,570,302	2,519,123
Tax increment financing	166,630	261,462	161,435	106,940
Other city tax	640,987	671,505	660,571	636,612
Licenses and permits	89,195	65,351	69,066	60,148
Use of money and property	141,415	121,041	59,219	72,964
Intergovernmental	1,401,708	1,205,469	1,382,637	1,185,984
Charges for service	603,005	677,288	706,356	701,425
Special assessments	55,045	16,532	9,308	23,108
Miscellaneous	328,563	197,429	147,337	91,872
Total	<u>\$ 6,554,637</u>	<u>5,871,236</u>	<u>5,766,231</u>	<u>5,398,176</u>
Disbursements:				
Operating:				
Public safety	\$ 1,680,073	1,660,598	1,637,455	1,670,893
Public works	1,327,137	1,259,990	1,359,286	1,499,710
Health and social services	1,000	1,000	1,000	1,000
Culture and recreation	1,246,512	1,251,561	1,239,958	1,132,898
Community and economic development	121,721	139,502	209,003	171,297
General government	499,413	597,251	507,223	467,402
Debt service	821,452	710,490	602,639	900,081
Capital projects	2,448,405	932,651	2,101,026	625,272
Total	<u>\$ 8,145,713</u>	<u>6,553,043</u>	<u>7,657,590</u>	<u>6,468,553</u>

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
2,178,481	2,029,915	2,038,194	1,928,088	1,949,099	1,801,693
950,088	1,137,199	975,591	1,045,424	850,023	924,900
612,557	603,525	613,167	95,033	101,238	22,104
102,148	59,786	29,581	67,059	33,591	34,136
68,800	93,636	85,804	72,977	89,531	95,688
1,338,587	2,366,866	1,657,781	4,918,407	5,624,583	1,806,638
695,363	650,042	644,702	544,987	540,132	622,263
2,181	6,734	8,211	10,687	14,039	33,281
105,241	133,377	178,906	359,361	1,152,369	360,942
6,053,446	7,081,080	6,231,937	9,042,023	10,354,605	5,701,645
1,541,741	1,533,732	1,208,401	1,188,864	1,604,746	1,519,395
1,362,701	1,321,296	1,046,893	1,065,016	944,049	910,403
1,000	1,000	350	-	-	-
1,075,096	1,033,014	908,038	823,228	780,356	715,978
798,111	199,882	793,123	770,263	411,246	592,420
501,051	441,649	529,177	461,238	460,743	433,101
395,928	329,762	357,810	386,846	535,053	544,152
507,019	1,763,135	920,784	4,719,815	6,346,405	1,592,051
6,182,647	6,623,470	5,764,576	9,415,270	11,082,598	6,307,500

City of Independence



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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 16, 2017. Our report expressed unmodified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of Independence Light and Power, Telecommunications.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (C) through (F) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Independence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

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.

The City of Independence's Responses to the Findings

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

Purpose of this Report

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

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


MARY MOSIMAN, CPA
Auditor of State

February 16, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

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

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

- (1) Accounting system – performing all accounting functions, including making journal entries and having custody of assets.
- (2) Cash - initiating cash receipt and disbursement functions, handling and recording cash and reconciling.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Compensated absences – no review by an independent person.
- (5) Journal entries are not reviewed and approved by an independent person.

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

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

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

City of Independence

Schedule of Findings

Year ended June 30, 2016

Response – All accounts payable are now checked after entry by the Deputy Clerk, payroll disbursements are checked by the Accounts Payable Clerk after entry and the bank reconciliation is checked by the Deputy Clerk after reconciliation is completed by the City Clerk to verify accuracy. The documentation for reconciliation which was provided to Auditors in the past were hand crafted spreadsheets. The City now only uses reports and tracking which comes directly from the financial software system matched to certified bank statements and transactions. Compensated absences are approved by Department Heads, entered in by the Deputy Clerk and then verified by the Accounts Payable Clerk, the City will now sign off on the year end compensated absences report at the recommendation of the Auditor to correct the segregation issue listed in item (4) of this comment.

Conclusion – Response accepted.

(B) Journal Entries

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

Condition – Of the 13 journal entries tested, supporting documentation was not available to support five transactions and there was no approval documented for all journal entries tested.

Cause – The City has a limited number of employees and procedures have not been designed to clearly document supporting documentation to substantiate all journal entries and document the review and approval of journal entries.

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

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

Response – The amount of journal entries has been radically reduced and they are not completed by just one individual. Entries now have supporting documentation, such as claims or resolutions.

Conclusion – Response acknowledged. The City should also have an independent person review and approve the journal entries.

City of Independence

Schedule of Findings

Year ended June 30, 2016

(C) Computer Systems

Criteria – Properly designed policies and procedures pertaining to control activities over the County’s computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have a written disaster recovery plan for its computer system.

Cause – Management has not required a written disaster recovery plan for its computer.

Effect – The failure to have a formal disaster recovery plan could result in the City’s inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop a written disaster recovery plan.

Response – The City will look into the development and implementation of a computer system disaster recovery plan.

Conclusion – Response accepted.

(D) Independence Fire Department

Criteria – An effective internal control system provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Fire Department’s transactions.

Condition – All accounting functions are handled by the Treasurer, including approval of disbursements and signing of checks.

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

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

Recommendation – The Fire Department should segregate accounting duties to the extent possible, including approval of disbursements and signing of checks.

City of Independence

Schedule of Findings

Year ended June 30, 2016

Response – We don't have many disbursements in the Fire Department, but the Treasurer keeps very good records and are available for review at any time as well as are submitted to the Council for monthly approval. The larger disbursement checks have to be signed by both the Treasurer and the Fire Chief. This was put into place at the suggestion of the Auditors last year. The Department now opens all fund raising returns in the presence of more than one individual as was also suggested last year.

Conclusion – Response accepted.

(E) Independence Public Library Foundation

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

Condition – All accounting functions are handled by one or two individuals without adequate compensating controls. In addition, pre-numbered receipts are not issued for collections.

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

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

Recommendation – The Library Foundation should segregate duties to the extent possible and require the issuance of pre-numbered receipts for all collections.

Response – The Independence Public Library Foundation will provide pre-numbered receipts for Foundation donations and Friends of the Library donations. The Friends Book Store (on-going sale) transactions are documented on a spreadsheet and the Friends Book Sale (biannual sale) volunteers will continue to use pre-numbered receipts. The Foundation will segregate duties to the amount possible for the Foundation Programming Fund, Foundation Building Fund and Friends of the Library Fund.

Conclusion – Response accepted.

(F) Capital Projects

Criteria – An effective internal control system provides for internal controls related to reconciling current capital projects disbursements to contracts awards and subsequent change orders to ensure disbursements do not exceed contract awards unless an approved change order exists.

City of Independence

Schedule of Findings

Year ended June 30, 2016

Condition – The City does not formally reconcile total contract awards and subsequent change orders to payments. The City relies on outside grant administrators and/or the contracted City Engineer to reconcile each contract and subsequent change orders to payments.

Cause – The City has a limited number of employees and procedures have not been designed to reconcile current capital projects.

Effect – The City may have disbursements greater than the contract award without a change order approved by the City Council.

Recommendation – The City should ensure all awarded contracts are appropriately reconciled to ensure approved contract totals are not exceeded and if necessary change orders are approved by the City Council.

Response – The City has since developed project files to assist with this issue and are tracked and maintained by the Accounts Payable Clerk. In fiscal year 2018 the City will be purchasing a Project Management module of its current software for better project recordkeeping.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Independence

Schedule of Findings

Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Daniel Eschen, Water Department employee, Father owns NAPA Auto Parts	Miscellaneous parts	\$ 9,957
Vonnie Hoskins, Childrens Librarian, Husband Jerry Hoskins is a sole proprietor	Tree Trim/Tree Service	2,300

Of the \$9,957 paid to NAPA Auto Parts by the City, \$284 was related to the Water Department and the remainder was purchased by various departments of the City. Therefore, \$9,673 does not appear to represent a conflict of interest in accordance with Chapter 362.5(3)(e) of the Code of Iowa since the Water Department employee’s employment is not directly affected as a result of the contract and the duties of employment do not directly involve procurement or preparation of any part of the contract. The City received a letter from the City Attorney dated December 7, 2015, which concludes the Water Department employee does not have a direct or indirect interest in NAPA Auto Parts. It also states the Water Department employee would not participate in any purchases for the City. However, prior to December 7, 2015, the Water Department employee purchased \$117 of the \$284.

The transactions with Jerry Hoskins do not appear to represent a conflict of interest in accordance with Chapter 362.5(3)(e) of the Code of Iowa since the Childrens Librarian’s employment is not directly affected as a result of the contract and the duties of employment do not directly involve procurement or preparation of any part of the contract.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

City of Independence

Schedule of Findings

Year ended June 30, 2016

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Revenue Bonds – No instances of non-compliance with the revenue bond resolution were noted.
- (9) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Except for assistance for low and moderate income family housing discussed in Chapter 403.22 of the Code of Iowa, indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5) (b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

In past years, the City certified internal loans to the County Auditor which included estimated or projected costs to be paid from the Special Revenue, Tax Increment Financing (TIF) Fund. The City did not have a system for tracking actual costs for comparison to certified costs for subsequent certification of costs in excess of the amount certified or for decertification of amounts for which the certified amount exceeded the actual costs incurred. As a result of the amounts certified and the subsequent tax increment financing receipts, the balance of \$961,873 in the Special Revenue, TIF Fund at June 30, 2012 appears excessive.

During the fiscal year ended June 30, 2013, the balance in the Special Revenue, TIF Fund decreased to \$30,019 at June 30, 2013. The City transferred \$500,000 to the Debt Service Fund. In addition, the City used a portion of the Special Revenue, TIF Fund balance to reimburse other funds for urban renewal project costs. During fiscal year 2013, the City transferred \$83,500 and \$343,092 from the Special Revenue, Tax Increment Financing Fund to the Special Revenue, Road Use Tax and the Capital Projects Funds, respectively, for urban renewal projects. During fiscal year 2014, the City transferred \$80,000, \$53,600 and \$19,240 from the Special Revenue, Tax Increment Financing Fund to the Special Revenue, Road Use Tax Fund, the Capital Projects Fund and the Sewer Fund, respectively, for urban renewal projects. During fiscal year 2015, the City transferred \$17,300, \$28,500 and \$17,500 from the Special Revenue, Tax Increment Financing Fund to the Special Revenue, Economic Development, the Capital Projects Fund and the Water Fund, respectively, for urban renewal projects. During the fiscal year 2016, the City paid \$7,500 to the Sheenan-Tidball American Legion Post and \$11,832 of legal fees directly from the Special Revenue, Tax Increment Financing Fund. However, the City has not properly reflected this activity on the TIF certifications to the County. The City did not decertify the excess balance in the Special Revenue, Tax Increment Financing Fund or certify the new debt as additional TIF debt.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City’s TIF certifications, including the need to certify the additional debt incurred for urban renewal projects.

City of Independence

Schedule of Findings

Year ended June 30, 2016

Response – The City will consult with Speer Financial, its financial advisor, as well as Dorsey & Whitney, its bonding counsel, regarding these issues. City staff have taken action in FY2017 to work through and correct years of errors with TIF funding and Certifications. The City has been in contact with the Iowa Department of Management on several occasions and continues to work towards a solution with them.

Conclusion – Response accepted.

- (10) Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1. However, the City understated the amount reported as TIF debt outstanding by not including any certified developer agreements. In addition, the amounts reported on the Levy Authority Summary for beginning balance, receipts and ending cash balance did not reconcile to the City's Special Revenue, Tax Increment Financing Fund and the Low and Moderate Income Fund.

Recommendation – The City should ensure the debt outstanding and TIF Fund amounts reported on the Levy Authority Summary agree with the City's records.

Response – The City will consult with its financial advisor to accurately define the Levy Authority Summary according to its records.

Conclusion – Response accepted.

City of Independence

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Jamie T. Reuter, Senior Auditor II
Taylor I. Cook, Assistant Auditor
Justin M. Gibbons, Assistant Auditor
Mitchell W. Shipman, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State