



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

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**NEWS RELEASE**

FOR RELEASE

January 11, 2018

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Denison, Iowa.

The City's receipts totaled \$10,392,157 for the year ended June 30, 2017, a 6.4% increase over the prior year. The receipts included \$3,584,504 in property tax, \$718,893 from tax increment financing, \$1,124,464 from charges for service, \$1,317,195 from operating grants, contributions and restricted interest, \$628,289 from capital grants, contributions and restricted interest, \$791,493 from local option sales tax, \$167,630 from hotel/motel tax, \$279,916 from grants and contributions not restricted to specific purpose, \$149,058 from commercial/industrial tax replacement, \$5,176 from unrestricted interest on investments, \$1,580,054 from bond proceeds and \$45,485 from other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$10,445,355, a 2.6% increase over the prior year, and included \$2,592,238 for public safety, \$1,912,173 for capital projects and \$1,707,333 for debt service. Disbursements for business type activities totaled \$446,062.

The increase in receipts is due primarily to the receipt of bond proceeds during the current year to provide resources for capital projects.

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/1720-0220-B00F>.

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**CITY OF DENISON**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2017**

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**City of Denison**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Leinen	Mayor	Jan 2018
Brad Bonner	Mayor Pro tem	(Resigned May 2017)
Corey Curnyn	Council Member	Nov 2017
Rachel Desy	Council Member	Jan 2018
Troy Groth (Appointed May 2017)	Council Member	Nov 2017
David Loeschen	Council Member	Jan 2018
Nathan Mahrt	Council Member	Jan 2020
Terry Crawford	City Manager	Indefinite
Lisa Koch	City Clerk	Indefinite
Rick Franck	Attorney	Indefinite

**City of Denison**



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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 Denison, Iowa, as of and for the year ended June 30, 2017, 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 one of the City's legally separate component units because the Denison Municipal Utilities reports in accordance with U.S. generally accepted accounting principles, a different financial reporting framework than the City's cash basis of accounting. Accounting principles applicable to the cash basis of accounting require the financial data for all component units be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity which include the financial data for all component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and cash balances of the aggregate discretely presented component units have not been determined.

### *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 referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City of Denison as of June 30, 2017, or the changes in its cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### *Unmodified Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Denison as of June 30, 2017, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our 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 Denison'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 four years ended June 30, 2016 (which are not presented herein) and expressed unmodified opinions on the financial statements of 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. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the Denison Municipal Utilities. We also previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2012 (which are not presented herein) and 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 on the preceding page, 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 8 through 14 and 36 through 42, 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 November 15, 2017 on our consideration of the City of Denison’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Denison’s internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

November 15, 2017

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Denison 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, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 6.6%, or approximately \$617,000, from fiscal year 2016 to fiscal year 2017. Bond proceeds increased approximately \$1,580,000 and capital grants, contributions and restricted interest and operating grants, contributions and restricted interest decreased approximately \$739,000 and \$146,000, respectively.
- Disbursements for governmental activities increased 2.5%, or approximately \$246,000, over fiscal year 2016.
- The City's total cash basis net position decreased 1.6%, or approximately \$53,000, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities decreased approximately \$85,000 and the cash basis net position of the business type activities increased approximately \$32,000.

### 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 solid waste services. This activity is 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, Local Option Sales Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects 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.

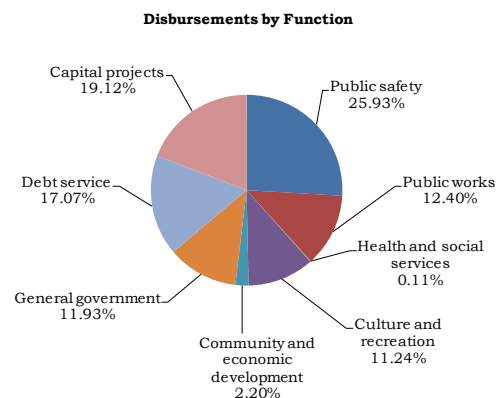
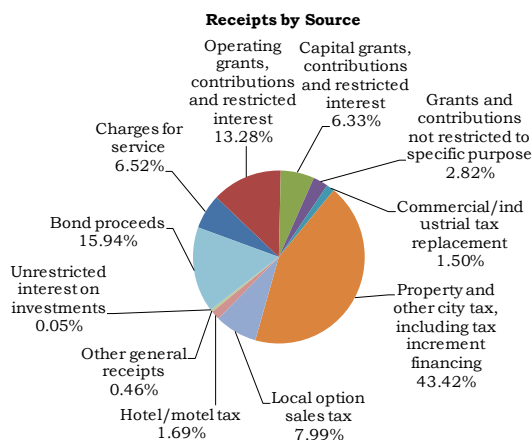
- 2) The proprietary fund accounts for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for the Solid Waste Fund, which is considered to be a major fund of the City.

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

## 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 from approximately \$3.17 million to approximately \$3.09 million. The following analysis focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service	\$ 646	703
Operating grants, contributions and restricted interest	1,317	1,463
Capital grants, contributions and restricted interest	628	1,367
General receipts:		
Property and other city tax, including tax increment financing	4,303	4,355
Local option sales tax	792	728
Hotel/motel tax	168	152
Grants and contributions not restricted to specific purpose	280	278
Commercial/industrial tax replacement	149	186
Unrestricted interest on investments	5	2
Bond proceeds	1,580	-
Other general receipts	46	63
Total receipts	<u>9,914</u>	<u>9,297</u>
Disbursements:		
Public safety	2,592	1,982
Public works	1,240	1,119
Health and social services	11	9
Culture and recreation	1,124	1,056
Community and economic development	220	236
General government	1,193	1,153
Debt service	1,707	1,682
Capital projects	1,912	2,516
Total disbursements	<u>9,999</u>	<u>9,753</u>
Change in cash basis net position	(85)	(456)
Cash basis net position beginning of year	3,171	3,627
Cash basis net position end of year	<u>\$ 3,086</u>	<u>3,171</u>



The City's total receipts for governmental activities increased 6.6%, or approximately \$617,000. The total cost of all programs and services increased approximately \$246,000, or 2.5%. The change in receipts is primarily due to the City receiving approximately \$1,580,000 of bond proceeds in fiscal year 2017 which were not received in fiscal year 2016, offset by receipt of a CDBG grant of \$975,000 in fiscal year 2016.

The City's total property tax rates increased 3.1% due primarily to an increase in the employee benefit levy. The increase in the City's property tax rate and assessed valuation increased the City's property tax receipts approximately \$74,000 in the fiscal year 2017.

The cost of all governmental activities this year was approximately \$10.0 million compared to approximately \$9.8 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$7.408 million because some of the cost was paid by those directly benefited from the programs (approximately \$646,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,945,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$7.322 million of property tax (some of which could only be used for certain programs) and other receipts, such as interest, bond proceeds and local option sales tax.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Program receipts:		
Charges for service:		
Solid waste	\$ 478	470
Disbursements:		
Solid waste	446	432
Change in cash basis net position	32	38
Cash basis net position beginning of year	80	42
Cash basis net position end of year	\$ 112	80

Total business type activities receipts for the fiscal year were approximately \$478,000 compared to approximately \$470,000 last year. Total disbursements for the fiscal year increased over the prior year to approximately \$446,000. The cash balance increased approximately \$32,000 over the prior year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Denison completed the year, its governmental funds reported a combined fund balance of \$3,085,920, a decrease of \$85,574 from last year's total of \$3,171,494. 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 increased approximately \$37,000 over the prior year to \$1,256,748. Receipts decreased approximately \$194,000 due in part to a decrease in grant funds for the fire station. Disbursements increased approximately \$665,000 due in part to the purchase of a fire truck and other financing sources increased approximately \$470,000 due in part to the receipt of bond proceeds.
- The Special Revenue, Road Use Tax Fund cash balance increased approximately \$41,000 to \$706,621. Receipts remained consistent to the prior year while disbursements increased due to the purchase of a new truck.
- The Special Revenue, Employee Benefits Fund cash balance decreased approximately \$99,000 to \$386,813. This was primarily due to an excess of disbursements and transfers out over receipts. Receipts increased approximately \$42,000, due in part to an increase in property tax receipts.
- 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 \$199,261, an increase of \$42,405 over the previous fiscal year. Receipts increased 8.7%, or approximately \$63,000, over the prior fiscal year. Disbursements increased approximately \$22,000 due in part to repairs at the Boulders Conference Center and Aquatic Center.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$19,868 to \$84,044. Disbursements remained the same at \$68,846. Receipts decreased approximately \$126,000.
- The Debt Service Fund cash balance increased \$7,411 to \$79,105. Property tax decreased 1.7%, or approximately \$14,000, as a result of increasing the levy from \$4.20482 per \$1,000 of taxable valuation to \$4.21208 per \$1,000 of taxable valuation and assessed valuation decreasing from \$875,377 to \$873,996. Debt service disbursements increased 1.6%, or approximately \$26,000. Scheduled principal and interest payments are expected to increase in future years due to general obligation bonds issued in the current year.
- The Capital Projects Fund cash balance decreased \$153,867 to \$195,745. The decrease in receipts and disbursement was due primarily to the receipt and disbursement of \$975,000 of Community Development Block Grant (CDBG) Funds in fiscal year 2016 and the payment of contracts during fiscal year 2017 for various projects.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Enterprise, Solid Waste Fund cash balance increased \$32,376 to \$112,413 during the fiscal year. Disbursements increased approximately \$14,000.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 2, 2017 for \$304,280 to provide for additional disbursements for public safety, public works, culture and recreation, community and economic development and business type activities. The City also increased budgeted receipts to recognize reimbursements for some of the increased disbursements. The remaining additional costs were to be absorbed by existing cash balances.

The City's receipts were \$993,220 less than the amended budget. This was due, in part, to the City receiving a CDBG grant of \$975,000 in fiscal year 2016 which was originally budgeted to be received in fiscal year 2017.

Total disbursements were \$2,134,795 less than the amended budget. Actual disbursements for the capital projects, public works and public safety were \$1,439,295, \$191,443 and \$166,537, respectively, less than the amended budget due to the City receiving and disbursing \$975,000 of grant funds from the Iowa Economic Development Authority to Quality Food Processors, LLC during fiscal year 2016 which was originally budgeted for fiscal year 2017. In addition, there was \$315,000 budgeted for LMI projects which were never spent and \$193,370 budgeted for a turning lane which was not started during fiscal year 2017.

The City did not exceed the amount budgeted by function for the year ended June 30, 2017.

## DEBT ADMINISTRATION

At June 30, 2017, the City had approximately \$8,716,000 of bonds and notes outstanding, compared to \$8,798,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2017	2016
General obligation bonds and notes	\$ 8,205	8,155
Revenue notes	165	220
Loan agreements	346	423
Total	<u>\$ 8,716</u>	<u>8,798</u>

The City issued general obligation bonds for the construction of street improvements and the acquisition of equipment for the fire department during fiscal year 2017.

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 \$8,619,398, including annual appropriation TIF debt of \$68,846, is below its constitutional debt limit of approximately \$15,773,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Denison's elected and appointed officials and citizens considered many factors when setting the fiscal year 2018 budget, tax rates and fees charged for various City activities. One of these factors is the increase in property valuations used to calculate tax askings and the increase in levy rates. The total tax asking increased approximately \$274,000 due to property valuations for fiscal year 2017 increasing approximately \$4,410,000 and the overall tax rate increasing \$.45240 per \$1,000 of taxable valuation.

These factors were taken into account when adopting the budget for fiscal year 2018. The City will use these receipts to finance programs we currently offer. Budgeted disbursements are expected to decrease approximately \$2,036,000 from the final amended fiscal year 2017 budget. The decrease is due primarily to a decrease in the amount budgeted for capital projects and public safety.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$1,071,000 by the close of fiscal year 2018.

#### **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 Lisa Koch, City Clerk, 111 North Main Street, Denison, Iowa 51442-0668.



## **Basic Financial Statements**

City of Denison

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 2,592,238	121,570	123,044	-
Public works	1,239,623	118,690	1,074,095	-
Health and social services	10,832	-	4,000	-
Culture and recreation	1,123,944	333,032	67,412	-
Community and economic development	220,457	-	1,200	-
General government	1,192,693	64,525	15,096	-
Debt service	1,707,333	-	32,025	-
Capital projects	1,912,173	8,209	323	628,289
Total governmental activities	9,999,293	646,026	1,317,195	628,289
Business type activities:				
Solid waste	446,062	478,438	-	-
<b>Total Primary Government</b>	<b>\$ 10,445,355</b>	<b>1,124,464</b>	<b>1,317,195</b>	<b>628,289</b>
<b>Component Units:</b>				
Denison Library Friends	\$ 1,307	-	156,095	-
Denison Volunteer Firefighters Association	44,568	-	47,373	-
<b>Total Component Units</b>	<b>\$ 45,875</b>	<b>-</b>	<b>203,468</b>	<b>-</b>
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purpose				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Bond proceeds, including premium of \$99,134 and net of underwriters discount of \$24,080				
Miscellaneous				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted for:				
Debt service				
Streets				
Employee benefits				
Capital projects				
Infrastructure or other city purposes				
Urban renewal				
Culture, recreation and tourism				
Law enforcement				
Library gifts and memorials				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Units	
Governmental Activities	Business Type Activities	Total	Denison Library Friends	Denison Volunteer Firefighters Association
(2,347,624)	-	(2,347,624)		
(46,838)	-	(46,838)		
(6,832)	-	(6,832)		
(723,500)	-	(723,500)		
(219,257)	-	(219,257)		
(1,113,072)	-	(1,113,072)		
(1,675,308)	-	(1,675,308)		
(1,275,352)	-	(1,275,352)		
(7,407,783)	-	(7,407,783)		
-	32,376	32,376		
(7,407,783)	32,376	(7,375,407)		
			154,788	-
			-	2,805
			154,788	2,805
\$ 2,707,451	-	2,707,451	-	-
877,053	-	877,053	-	-
718,893	-	718,893	-	-
791,493	-	791,493	-	-
167,630	-	167,630	-	-
279,916	-	279,916	-	-
149,058	-	149,058	-	-
5,176	-	5,176	-	-
1,580,054	-	1,580,054	-	-
45,485	-	45,485	-	-
7,322,209	-	7,322,209	-	-
(85,574)	32,376	(53,198)	154,788	2,805
3,171,494	80,037	3,251,531	66,808	184,728
\$ 3,085,920	112,413	3,198,333	221,596	187,533
\$ 124,658	-	124,658	-	-
661,068	-	661,068	-	-
449,515	-	449,515	-	-
195,745	-	195,745	-	-
199,261	-	199,261	-	-
84,044	-	84,044	-	-
40,006	-	40,006	-	-
10,278	-	10,278	-	-
103,822	-	103,822	-	-
205,039	-	205,039	-	113,078
1,012,484	112,413	1,124,897	211,596	74,455
\$ 3,085,920	112,413	3,198,333	211,596	187,533

City of Denison

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

As of and for the year ended June 30, 2017

	General	Special Revenue			Urban Renewal Tax Increment
		Road Use Tax	Employee Benefits	Local Option Sales Tax	
Receipts:					
Property tax	\$ 1,822,800	-	816,570	-	-
Tax increment financing	-	-	-	-	718,893
Other city tax	215,483	-	20,228	791,493	-
Licenses and permits	81,145	-	-	-	-
Use of money and property	204,163	-	-	-	322
Intergovernmental	493,396	1,030,144	35,716	-	-
Charges for service	288,031	-	-	-	-
Special assessments	7,594	-	-	-	-
Miscellaneous	178,253	-	25,992	-	-
Total receipts	3,290,865	1,030,144	898,506	791,493	719,215
Disbursements:					
Operating:					
Public safety	2,126,368	-	465,870	-	-
Public works	209,014	819,852	210,756	-	-
Health and social services	10,140	-	692	-	-
Culture and recreation	930,106	-	191,358	-	-
Community and economic development	104,972	-	-	45,000	68,846
General government	1,038,874	-	98,734	55,086	-
Debt service	-	35,590	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	4,419,474	855,442	967,410	100,086	68,846
Excess (deficiency) of receipts over (under) disbursements	(1,128,609)	174,702	(68,904)	691,407	650,369
Bond proceeds, including premium of \$99,134 and net of underwriters discount of \$24,080	511,147	-	-	-	-
Transfers in	677,337	-	-	23,335	-
Transfers out	(23,335)	(133,407)	(30,000)	(672,337)	(630,501)
Total other financing sources (uses)	1,165,149	(133,407)	(30,000)	(649,002)	(630,501)
Change in cash balances	36,540	41,295	(98,904)	42,405	19,868
Cash balances beginning of year	1,220,208	665,326	485,717	156,856	64,176
Cash balances end of year	\$ 1,256,748	706,621	386,813	199,261	84,044
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Debt service	\$ -	45,553	-	-	-
Streets	-	661,068	-	-	-
Employee benefits	62,702	-	386,813	-	-
Capital projects	-	-	-	-	-
Infrastructure or other city purposes	-	-	-	199,261	-
Urban renewal	-	-	-	-	84,044
Culture, recreation and tourism	40,006	-	-	-	-
Law enforcement	10,278	-	-	-	-
Library gifts and memorials	103,822	-	-	-	-
Other purposes	27,456	-	-	-	-
Assigned for:					
Fire station	146,181	-	-	-	-
Capital equipment and improvements	172,967	-	-	-	-
Culture, recreation and tourism	40,007	-	-	-	-
Unassigned	653,329	-	-	-	-
Total cash basis fund balances	\$ 1,256,748	706,621	386,813	199,261	84,044

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
858,240	-	-	3,497,610
-	-	-	718,893
18,813	-	-	1,046,017
-	-	-	81,145
607	323	353	205,768
33,746	613,473	-	2,206,475
-	-	-	288,031
-	8,209	-	15,803
31,418	14,816	23,444	273,923
942,824	636,821	23,797	8,333,665
-	-	-	2,592,238
-	-	-	1,239,622
-	-	-	10,832
-	-	2,480	1,123,944
-	-	1,639	220,457
-	-	-	1,192,694
1,671,743	-	-	1,707,333
-	1,912,173	-	1,912,173
1,671,743	1,912,173	4,119	9,999,293
(728,919)	(1,275,352)	19,678	(1,665,628)
-	1,068,907	-	1,580,054
736,330	52,578	-	1,489,580
-	-	-	(1,489,580)
736,330	1,121,485	-	1,580,054
7,411	(153,867)	19,678	(85,574)
71,694	349,612	157,905	3,171,494
79,105	195,745	177,583	3,085,920
79,105	-	-	124,658
-	-	-	661,068
-	-	-	449,515
-	195,745	-	195,745
-	-	-	199,261
-	-	-	84,044
-	-	-	40,006
-	-	-	10,278
-	-	-	103,822
-	-	177,583	205,039
-	-	-	146,181
-	-	-	172,967
-	-	-	40,007
-	-	-	653,329
79,105	195,745	177,583	3,085,920

**City of Denison**

City of Denison

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balance  
Proprietary Fund

As of and for the year ended June 30, 2017

	<u>Enterprise</u>
	<u>Solid Waste</u>
Operating receipts:	
Charges for service	\$ 478,438
Operating disbursements:	
Business type activities	446,062
Change in cash balance	32,376
Cash balance beginning of year	80,037
Cash balance end of year	<u>\$ 112,413</u>
<b>Cash Basis Fund Balance</b>	
Unrestricted	<u>\$ 112,413</u>

See notes to financial statements.

City of Denison

Notes to Financial Statements

June 30, 2017

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

The City of Denison is a political subdivision of the State of Iowa located in Crawford County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council 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 solid waste services to its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Denison 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 Denison (the primary government) and its component units. The financial statements do not include financial data for the Denison Municipal Utilities, a legally separate entity which should be reported as a discretely presented component unit. 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.

Discretely Presented Component Units

Denison Library Friends, Inc. (Friends) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Denison Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, Friends meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by Friends are substantially for the direct benefit of the City of Denison Library.

The Denison Volunteer Firefighters Association, Inc. (Association) has been incorporated under the Iowa Nonprofit Corporation Act to protect human life and property through fighting fires and providing community education in fire prevention and first aid/safety practices. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Association are substantially for the direct benefit of the City of Denison Fire Department.



### Excluded Component Unit

The Denison Municipal Utilities was established under Chapter 388 of the Code of Iowa to operate the City's municipal utilities. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Municipal Utilities meets the definition of a component unit which should be discretely presented. Financial statements for the Municipal Utilities were prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles but are not included in the City's financial statements since the City prepares its financial statements on the cash basis. Complete financial statements can be obtained from the Denison Municipal Utilities, W. Broadway & 7<sup>th</sup> Street, PO Box 518, Denison, Iowa 51442.

### Jointly Governed Organizations

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

## B. Basis of Presentation

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

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

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 category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

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 and the payment of principal and interest on Road Use Tax Fund debt.

The Employee Benefits Fund is used to account for the collection and use of tax for pension, retirement and insurance benefits.

The Local Option Sales Tax Fund is utilized to account for the collection and use of the local option sales tax.

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

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

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

The City also reports the following major proprietary fund:

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's garbage operations.

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 is 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:

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.

Assigned – Amounts the City Council intends 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, 2017, disbursements did not exceed the amounts budgeted by function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2017 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 (IPAIT) which are valued at an amortized cost of \$1,050,783 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions or withdrawals for the IPAIT investments. The investment in the IPAIT is unrated.

### Component Units

At June 30, 2017, the component units had the following investments:

<u>Investment</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
Denison Library Friends			
Mutual Funds	\$ 5,190	9,095	N/A
U.S. Equities	150,057	164,796	N/A
Total Denison Library Friends	<u>\$ 155,247</u>	<u>173,891</u>	
Denison Volunteer Firefighters Association			
Mutual Funds	<u>\$ 96,907</u>	<u>111,673</u>	N/A

The component units use the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The recurring fair value of the Denison Library Friends and Denison Volunteer Firefighters Association mutual funds and U.S. equities were determined using quoted market prices. (Level 1 inputs)

### **(3) Bonds, Notes and Loan Agreements Payable**

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

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Notes		Loan Agreements		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,430,000	169,050	60,000	8,626	42,000	7,540	1,532,000	185,216
2019	1,380,000	142,058	60,000	5,438	43,000	7,036	1,483,000	154,532
2020	1,030,000	120,947	25,000	2,206	44,000	6,391	1,099,000	129,544
2021	1,040,000	102,263	20,000	855	46,000	5,665	1,106,000	108,783
2022	910,000	82,150	-	-	47,000	4,814	957,000	86,964
2023-2027	2,415,000	138,645	-	-	123,552	9,715	2,538,552	148,360
Total	<u>\$ 8,205,000</u>	<u>755,113</u>	<u>165,000</u>	<u>17,125</u>	<u>345,552</u>	<u>41,161</u>	<u>8,715,552</u>	<u>813,399</u>

During the year ended June 30, 2017, the City issued \$1,505,000 of general obligation bonds and retired \$1,455,000 of general obligation bonds and notes, \$55,000 of revenue notes and \$77,091 of loan agreements.

### Childhood Center Revenue Notes

On July 1, 2001, the City entered into a revenue note agreement with United Bank of Iowa in Ida Grove to borrow \$350,000 to construct a building to be leased to the Crawford County Early Childhood Center (Childhood Center). The notes are payable through 2021 solely from revenues received by the City from the Childhood Center pursuant to a lease. Annual principal and interest payments on the notes will require 100% of the lease payments. The total principal and interest remaining to be paid on the notes is \$106,700. For the current year, principal and interest paid and receipts from the Childhood Center were \$31,418 and \$31,418, respectively. The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the revenues received by the City from the Childhood Center and the note holder holds a lien on the future earnings of the Childhood Center.
- (b) Sufficient amounts shall be set aside in a revenue note sinking account for the purpose of making the note principal and interest payments when due.

During the year ended June 30, 2017, the City was in compliance with the note provisions.

### Road Use Tax Revenue Notes

On May 1, 2004, the City entered into a revenue note agreement with Ruan Securities Corporation to borrow \$395,000 to purchase equipment for the street department and street improvement projects. The notes are payable solely from road use tax funds received from the State of Iowa and are payable through 2019. Annual principal and interest payments on the notes are expected to require less than 4% of road use tax receipts. The total principal and interest remaining to be paid on the notes is \$75,425. For the current year, principal and interest paid and road use tax receipts were \$35,090 and \$1,030,144, respectively. The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the road use tax funds received from the State of Iowa.
- (b) Upon delivery of the notes, a separate reserve account of \$39,275 shall be established.
- (c) Sufficient monthly transfers shall be made to a separate road use tax revenue sinking account for the purpose of making note principal and interest payments when due.
- (d) All funds remaining in the Special Revenue, Road Use Tax Fund after payment of road related improvements and services authorized by state law and required transfers shall be placed in a surplus revenue account. This account is restricted to payments to the sinking and reserve accounts if these accounts are in default. If the sinking and reserve accounts are fully funded, the surplus may be used for road related improvements and services authorized by state law.

During the year ended June 30, 2017, the City was in compliance with the note provisions.

### Loan Agreements

On January 31, 2014, the City entered into a loan agreement for a General Fund fire training facility note to borrow \$140,000 to construct a fire training facility. The loan bears interest at rates ranging from 0.75% to 4.50% per annum and matures in varying annual amounts ranging from \$2,074 to \$12,000, with a final maturity date of June 1, 2027. The loan will be repaid from the General Fund of the City.

On June 1, 2015, the City entered into a loan agreement for a General Fund City Hall improvement note to borrow \$400,000 to remodel City hall. The loan bears interest at rates ranging from 0.75% to 2.45% per annum and matures in varying annual amounts ranging from \$39,000 to \$50,000, with a final maturity date of June 1, 2024. The loan will be repaid from the General Fund of the City.

#### **(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](http://www.ipers.org).

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

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

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

Protection occupation members may retire at normal retirement age which is generally age 55. 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 2017, 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, 2017 totaled \$206,629.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$1,318,721 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 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, 2016, the City's proportion was 0.020954%, which was an increase of 0.002875% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$207,704, \$307,759 and \$28,978, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 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, 2016 valuation were based on the results of an 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%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	<u>100%</u>	

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



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

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 2,463,424	1,318,721	353,001

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](http://www.ipers.org).

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory leave and sick leave hours for subsequent use or for payment upon termination, retirement or death. Employees who have accumulated at least 90 days of sick leave may elect to convert earned sick leave above 90 days to cash at one-half of their rate of pay or may elect to convert sick leave to additional vacation time at a rate of one-half day of vacation time for each day of sick leave converted.

These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory leave and sick leave payable to employees at June 30, 2017, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 32,000
Compensatory leave	47,000
Sick leave	13,000
Total	<u>\$ 92,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 30,000
	Local Option Sales Tax	647,337
		<u>677,337</u>
Special Revenue:	General	
Local Option Sales Tax		<u>23,335</u>
Debt Service	Special Revenue:	
	Road Use Tax	105,829
	Urban Renewal Tax Increment	630,501
		<u>736,330</u>
Capital Projects	Special Revenue:	
	Road Use Tax	27,578
	Local Option Sales Tax	25,000
		<u>52,578</u>
Total		<u>\$ 1,489,580</u>

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

**(7) Risk Management**

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

The City self-funds dental coverage for its employees. The plan is funded by the City and is administered by Employee Benefit Systems. The agreement is subject to automatic renewal. The City provides annual coverage up to \$2,000 per individual. Monthly payments of administrative services fees and claims are paid from the City's General Fund. During the year ended June 30, 2017, the City transferred \$30,000 from the Special Revenue, Employee Benefits Fund to the General Fund to fund the fees and claims paid by the City.

**(8) Development Agreements**

The City has entered into a development agreement with David and Diane Reisz. The City agreed to provide tax increment payments in an amount not to exceed \$206,537 in exchange for the construction of certain street and related public improvements. Payments of \$68,846 will be made annually for a period of three years or when the maximum has been paid to the developer provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2017, the City made payments of \$68,846 to the developer. The balance remaining under the agreement at June 30, 2017 is \$68,846.

**(9) Construction Contracts**

The City entered into various construction contracts for a total of \$1,765,751. Unpaid contract commitments as of June 30, 2017 on those contracts totaled \$533,749. The balance on these contracts will be paid as work on the projects progresses.

**(10) Tax Abatements**

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

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2017, the City abated \$28,048 of property tax under the urban renewal and economic development projects.

**(11) New Accounting Pronouncement**

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial Statements include information about the City's tax abatements and tax abatements of other entities which impact the City.

**(12) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

**City of Denison**

## **Other Information**

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

Other Information

Year ended June 30, 2017

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual
Receipts:			
Property tax	\$ 3,497,610	-	3,497,610
Tax increment financing	718,893	-	718,893
Other city tax	1,046,017	-	1,046,017
Licenses and permits	81,145	-	81,145
Use of money and property	205,768	-	205,768
Intergovernmental	2,206,475	-	2,206,475
Charges for service	288,031	478,438	766,469
Special assessments	15,803	-	15,803
Miscellaneous	273,923	-	273,923
Total receipts	<u>8,333,665</u>	<u>478,438</u>	<u>8,812,103</u>
Disbursements:			
Public safety	2,592,238	-	2,592,238
Public works	1,239,622	-	1,239,622
Health and social services	10,832	-	10,832
Culture and recreation	1,123,944	-	1,123,944
Community and economic development	220,457	-	220,457
General government	1,192,694	-	1,192,694
Debt service	1,707,333	-	1,707,333
Capital projects	1,912,173	-	1,912,173
Business type activities	-	446,062	446,062
Total disbursements	<u>9,999,293</u>	<u>446,062</u>	<u>10,445,355</u>
Excess (deficiency) of receipts over (under) disbursements	(1,665,628)	32,376	(1,633,252)
Other financing sources (uses), net	<u>1,580,054</u>	<u>-</u>	<u>1,580,054</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(85,574)	32,376	(53,198)
Balances beginning of year	<u>3,171,494</u>	<u>80,037</u>	<u>3,251,531</u>
Balances end of year	<u>\$ 3,085,920</u>	<u>112,413</u>	<u>3,198,333</u>

See notes to financial statements.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
3,571,649	3,571,649	(74,039)
699,348	699,348	19,545
837,241	837,241	208,776
65,600	65,600	15,545
213,510	213,510	(7,742)
3,239,316	3,257,516	(1,051,041)
876,160	878,160	(111,691)
11,000	11,000	4,803
238,644	271,299	2,624
9,752,468	9,805,323	(993,220)
2,661,843	2,758,775	166,537
1,329,667	1,431,065	191,443
16,987	16,987	6,155
1,216,069	1,230,869	106,925
251,846	332,996	112,539
1,260,231	1,260,231	67,537
1,718,259	1,718,259	10,926
3,351,468	3,351,468	1,439,295
469,500	479,500	33,438
12,275,870	12,580,150	2,134,795
(2,523,402)	(2,774,827)	1,141,575
1,600,000	1,600,000	(19,946)
(923,402)	(1,174,827)	1,121,629
2,567,014	2,567,014	684,517
1,643,612	1,392,187	1,806,146

City of Denison

Notes to Other Information – Budgetary Reporting

June 30, 2017

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 discretely presented 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 and the Enterprise Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$304,280. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements did not exceed the amounts budgeted by function.



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City of Denison

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

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

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.020954%	0.018079%	0.015688%
City's proportionate share of the net pension liability	\$ 1,319	893	622
City's covered-employee payroll	\$ 2,140	1,985	1,927
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	61.64%	44.99%	32.28%
IPERS' net position as a percentage of the total pension liability	81.82%	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.

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City of Denison

Schedule of City Contributions

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

Other Information

	2017	2016	2015	2014
Statutorily required contribution	\$ 207	197	187	180
Contributions in relation to the statutorily required contribution	(207)	(197)	(187)	(180)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 2,255	2,140	1,985	1,927
Contributions as a percentage of covered-employee payroll	9.18%	9.21%	9.42%	9.34%

\* City's covered-employee payroll information was not readily available. Therefore, contributions as a percentage of covered-employee payroll could not be calculated.

See accompanying independent auditor's report.

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2013	2012	2011	2010	2009	2008
168	151	133	127	125	108
(168)	(151)	(133)	(127)	(125)	(108)
-	-	-	-	-	-
1,818	1,810	1,801	*	*	*
9.24%	8.34%	7.38%	*	*	*

City of Denison

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% 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 (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

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.

## **Supplementary Information**

City of Denison

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

As of and for the year ended June 30, 2017

	Trees Forever	Library Trust	Aquatic Trust	Special Dog Pound Trust
Receipts:				
Use of money and property	\$ -	353	-	-
Miscellaneous	1,200	-	3,904	2,874
Total receipts	1,200	353	3,904	2,874
Disbursements:				
Operating:				
Culture and recreation	-	-	-	-
Community and economic development	1,639	-	-	-
Total disbursements	1,639	-	-	-
Change in cash balances	(439)	353	3,904	2,874
Cash balances beginning of year	529	102,297	25,966	14,760
Cash balances end of year	\$ 90	102,650	29,870	17,634
<b>Cash Basis Fund Balances</b>				
Restricted for other purposes	\$ 90	102,650	29,870	17,634

See accompanying independent auditor's report.

Revenue						
Memorial Gardens	Boulders Center Trust	Johnson Park Bridge	Tuckers Park	Dog Park		Total
-	-	-	-	-	-	353
-	-	-	-	-	15,466	23,444
-	-	-	-	-	15,466	23,797
-	-	-	-	-	2,480	2,480
-	-	-	-	-	-	1,639
-	-	-	-	-	2,480	4,119
-	-	-	-	-	12,986	19,678
620	1,493	914	374	10,952		157,905
620	1,493	914	374	23,938		177,583
620	1,493	914	374	23,938		177,583

City of Denison  
Schedule of Indebtedness  
Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Corporate purpose	Nov 30, 2011	0.50-2.75%	\$ 2,665,000
Corporate purpose - refunding	Mar 21, 2013	0.45-1.95	3,310,000
Corporate purpose	Sep 30, 2014	2.00-2.75	1,830,000
Corporate purpose - refunding	Jun 1, 2015	2.00	2,405,000
Corporate purpose - refunding	Jun 1, 2015	1.10-2.75	570,000
Corporate purpose	Sep 1, 2016	2.00-3.00	1,505,000
Total			
Revenue notes:			
Childhood center	Jul 1, 2001	4.75-5.70%	\$ 350,000
Road use tax	May 1, 2004	2.05-5.20	395,000
Total			
Loan agreements:			
General Fund fire training facility note	Jan 31, 2014	0.75-4.50%	\$ 140,000
General Fund City Hall improvement note	Jun 1, 2015	0.75-2.45	400,000

See accompanying independent auditor's report.



Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
1,845,000	-	215,000	1,630,000	39,025
2,525,000	-	365,000	2,160,000	33,802
1,565,000	-	100,000	1,465,000	35,600
1,715,000	-	705,000	1,010,000	34,300
505,000	-	70,000	435,000	11,023
-	1,505,000	-	1,505,000	28,575
<u>\$ 8,155,000</u>	<u>1,505,000</u>	<u>1,455,000</u>	<u>8,205,000</u>	<u>182,325</u>
120,000	-	25,000	95,000	6,418
100,000	-	30,000	70,000	5,090
<u>\$ 220,000</u>	<u>-</u>	<u>55,000</u>	<u>165,000</u>	<u>11,508</u>
61,643	-	36,091	25,552	1,904
361,000	-	41,000	320,000	6,337
<u>\$ 422,643</u>	<u>-</u>	<u>77,091</u>	<u>345,552</u>	<u>8,241</u>

City of Denison  
Bond and Note Maturities  
June 30, 2017

Year Ending June 30,	General Obligation					
	Corporate Purpose		Corporate Purpose and Refunding		Corporate Purpose	
	Issued Nov 30, 2011		Issued Mar 21, 2013		Issued Sep 30, 2014	
	Interest		Interest		Interest	
Rates	Amount	Rates	Amount	Rates	Amount	
2018	1.60%	\$ 220,000	0.95%	\$ 365,000	2.00%	\$ 170,000
2019	1.80	225,000	1.15	370,000	2.00	170,000
2020	1.90	225,000	1.35	380,000	2.25	180,000
2021	2.20	230,000	1.55	380,000	2.25	180,000
2022	2.40	235,000	1.70	235,000	2.25	185,000
2023	2.60	245,000	1.85	240,000	2.25	185,000
2024	2.75	250,000	1.95	190,000	2.50	195,000
2025		-		-	2.75	200,000
2026		-		-		-
2027		-		-		-
Total		<u>\$ 1,630,000</u>		<u>\$ 2,160,000</u>		<u>\$ 1,465,000</u>

Year Ending June 30,	Revenue Notes				
	Childhood Center		Road Use Tax		Total
	Issued Jul 1, 2001		Issued May 1, 2004		
	Interest		Interest		
Rates	Amount	Rates	Amount		
2018	5.60%	\$ 25,000	5.10%	\$ 35,000	60,000
2019	5.65	25,000	5.20	35,000	60,000
2020	5.65-5.70	25,000		-	25,000
2021	5.70	20,000		-	20,000
Total		<u>\$ 95,000</u>		<u>\$ 70,000</u>	<u>165,000</u>

See accompanying independent auditor's report.

Bonds and Notes							
Corporate Purpose and Refunding		Corporate Purpose and Refunding		Corporate Purpose			
Issued Jun 1, 2015		Issued Jun 1, 2015		Issued Sep 1, 2016			
Interest		Interest		Interest			
Rates	Amount	Rates	Amount	Rates	Amount	Total	
2.00%	\$ 470,000	2.15%	\$ 70,000	2.00%	\$ 135,000	1,430,000	
2.00	405,000	2.15	70,000	2.00	140,000	1,380,000	
2.00	35,000	2.15	70,000	2.00	140,000	1,030,000	
2.00	30,000	2.15	75,000	2.00	145,000	1,040,000	
2.00	35,000	2.75	75,000	2.00	145,000	910,000	
2.00	35,000	2.75	75,000	3.00	150,000	930,000	
	-		-	3.00	155,000	790,000	
	-		-	3.00	160,000	360,000	
	-		-	3.00	165,000	165,000	
	-		-	3.00	170,000	170,000	
	<u>\$ 1,010,000</u>		<u>\$ 435,000</u>		<u>\$ 1,505,000</u>	<u>8,205,000</u>	

Loan Agreements					
	General Fund Fire Training Facility Note		General Fund City Hall Improvement Note		
Year	Issued Jan 31, 2014		Issued Jun 1, 2015		
Ending June 30,	Interest		Interest		Total
	Rates	Amount	Rates	Amount	
2018	2.50%	\$ -	1.20%	\$ 42,000	42,000
2019	3.00	-	1.50	43,000	43,000
2020	3.25	-	1.65	44,000	44,000
2021	3.25	-	1.85	46,000	46,000
2022	3.50	-	2.00	47,000	47,000
2023	3.75	-	2.20	48,000	48,000
2024	4.00	-	2.45	50,000	50,000
2025	4.25	2,552		-	2,552
2026	4.25	11,000		-	11,000
2027	4.50	12,000		-	12,000
Total		<u>\$ 25,552</u>		<u>\$ 320,000</u>	<u>345,552</u>

City of Denison

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

For the Last Ten Years

	2017	2016	2015	2014
Receipts:				
Property tax	\$ 3,497,610	3,418,084	3,121,748	3,116,913
Tax increment financing	718,893	845,250	812,030	879,459
Other city tax	1,046,017	971,609	957,498	839,003
Licenses and permits	81,145	67,177	65,441	84,377
Use of money and property	205,768	215,291	210,749	232,750
Intergovernmental	2,206,475	3,132,673	2,089,350	1,987,274
Charges for service	288,031	320,246	390,580	365,864
Special assessments	15,803	21,553	28,183	17,357
Miscellaneous	273,923	305,244	393,337	419,422
Total	<u>\$ 8,333,665</u>	<u>9,297,127</u>	<u>8,068,916</u>	<u>7,942,419</u>
Disbursements:				
Operating:				
Public safety	\$ 2,592,238	1,982,289	1,880,934	2,117,390
Public works	1,239,622	1,118,895	1,273,063	1,190,600
Health and social services	10,832	8,605	9,389	8,426
Culture and recreation	1,123,944	1,055,992	940,560	950,481
Community and economic development	220,457	235,619	431,485	149,030
General government	1,192,694	1,152,903	1,002,797	1,016,581
Debt service	1,707,333	1,682,546	1,861,248	1,645,746
Capital projects	1,912,173	2,515,716	1,767,534	2,664,725
Total	<u>\$ 9,999,293</u>	<u>9,752,565</u>	<u>9,167,010</u>	<u>9,742,979</u>

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
2,964,959	2,823,792	2,787,553	2,444,638	2,246,204	2,148,752
754,556	897,081	600,561	635,143	738,227	662,631
804,865	766,713	806,600	696,400	659,497	674,898
69,174	87,060	87,219	149,016	66,412	69,214
210,648	199,774	180,106	190,225	181,905	210,635
2,367,130	1,277,185	1,757,978	2,022,765	1,433,805	1,323,886
392,947	371,953	259,883	312,204	455,166	265,759
20,528	29,464	27,494	38,968	29,668	37,920
371,382	460,170	307,222	876,060	478,667	492,595
<b>7,956,189</b>	<b>6,913,192</b>	<b>6,814,616</b>	<b>7,365,419</b>	<b>6,289,551</b>	<b>5,886,290</b>
2,368,217	1,970,353	1,660,329	1,495,033	1,368,729	1,368,015
1,114,074	1,323,857	1,004,931	1,300,901	1,280,531	1,051,195
7,814	6,728	7,585	8,587	7,877	9,105
925,265	974,674	970,454	879,424	914,219	809,028
325,577	312,448	163,450	222,102	293,880	217,581
953,436	922,580	1,045,519	793,121	716,396	806,279
1,592,617	1,380,095	1,380,420	1,824,434	1,226,574	1,315,254
2,706,366	628,359	771,199	2,340,834	1,137,105	1,118,990
<b>9,993,366</b>	<b>7,519,094</b>	<b>7,003,887</b>	<b>8,864,436</b>	<b>6,945,311</b>	<b>6,695,447</b>

**City of Denison**



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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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 Denison, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 15, 2017. Our report expressed unmodified opinions on the financial statements of 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 financial statements of the aggregate discretely presented component units due to the omission of the Denison Municipal Utilities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Denison'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 Denison's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Denison's internal control.

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

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 have not been identified. We identified a deficiency in internal control described in the accompanying Schedule of Findings as item (A) we consider to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Denison'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, 2017 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 Denison's Responses to the Findings

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

November 15, 2017



City of Denison

Schedule of Findings

Year ended June 30, 2017

**Finding Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCY:**

(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 in the offices identified may have control over the following areas for which no compensating controls exist:

- (1) City of Denison – The responsibilities for performing all general accounting functions, including journal entries, and having custody of the City’s assets are not segregated. The duties of opening and listing mail receipts, collecting, depositing, posting, daily reconciling and custodian of the petty cash fund are not segregated. Bank accounts are not reconciled monthly by an individual who does not handle cash and the reconciliations are not reviewed periodically by an independent person for propriety. A list of checks received in the mail is not periodically compared with recorded receipts.
- (2) Denison Library Friends – One person is responsible for receipt, disbursement, recording and reconciling functions.
- (3) Denison Volunteer Firefighters Association – One person performs all receipt, disbursement and recording functions.

Cause – The entities noted above have 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, Denison Library Friends’ and Denison Volunteer Firefighters Association’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, Denison Library Friends and Denison Volunteer Firefighters Association should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including elected officials and other City personnel. Current personnel should be utilized to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons to the extent possible and should be documented by the signature or initials of the reviewer and the date of review.

City of Denison

Schedule of Findings

Year ended June 30, 2017

Responses –

City – The City will establish internal procedures adequate to ensure a greater degree of both segregation and oversight are incorporated in cash handling, bank reconciliations, accounting functions, investment and receipting procedures.

Denison Library Friends (Friends) – A person who is a member of the Friends will prepare deposits and the Board will review and sign bank reconciliations and financial reports.

Denison Volunteer Firefighters Association – A person who is a member of the Association will prepare deposits and the Association will review and sign bank reconciliations and financial reports.

Conclusions – Responses accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Denison

Schedule of Findings

Year ended June 30, 2017

**Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 did not exceed the amounts budgeted by function.
- (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.

One of three travel disbursements tested included mileage reimbursements at a rate in excess of the rate allowed under Internal Revenue Service Rules. In accordance with Chapter 70A.9 of the Code of Iowa, mileage should be paid at a rate approved by the City Council, but not in excess of the rate allowed under Internal Revenue Service Rules.

Recommendation – The City should comply with Chapter 70A.9 of the Code of Iowa and reimburse mileage at an allowable rate.

Response – The City adopted a new policy on September 6, 2016 changing the mileage reimbursement rate from \$.55 to \$.54 and bringing us into compliance with Chapter 70A.9 of the Code of Iowa. The City will monitor the mileage rate in the future to make sure we remain in compliance.

Conclusion – Response accepted.

- (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
Verlin Koch, Father-in-law of the City Clerk, owner of Verlin Plumbing	Plumbing services	\$2,661
Troy Groth, Council Member owner of Sundquist Engineering, Inc.	Various capital projects	5,080

In accordance with Chapter 362.5(3)(e) of the Code of Iowa, the transactions with Verlin Koch do not appear to represent a conflict of interest because the City Clerk’s remuneration of employment does not directly involve the procurement or preparation of any part of the contract. In accordance with Chapter 362.5(3)(g) of the Code of Iowa, the transactions with Sundquist Engineering, Inc. do not appear to represent a conflict of interest because the contract was made before Troy Groth was appointed to the City Council.

- (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.

City of Denison

Schedule of Findings

Year ended June 30, 2017

- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

The City Council went into closed session August 16, 2016. In accordance with Chapter 21.5(1) of the Code of Iowa, approval to enter into closed session requires an affirmative vote by either two thirds of the Council members present or all the members present. Proper approval to enter into closed session was not evident in minutes record.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa.

Response – The City will make sure to comply with Chapter 21 of the Code of Iowa. A correction to the minutes from August 16, 2016 will be approved by the City Council on September 5, 2017 to add the roll call to the motion.

Conclusion – Response accepted.

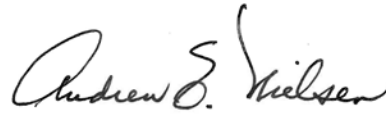
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – No instances of non-compliance with the revenue note resolutions were noted.
- (9) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1. The cash balances and debt amounts reported on the Levy Authority Summary agree with the City's records.

City of Denison

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager  
Ryan J. Pithan, CPA, Senior Auditor II  
Mallory A. Sims, Staff Auditor  
Ian N. Judson, Assistant Auditor  
Taryn M. Plunkett, 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