

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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

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

**NEWS RELEASE**

FOR RELEASE

January 25, 2018

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Independence, Iowa. The City's receipts totaled \$14,684,898 for the year ended June 30, 2017, a 56.21% increase over the prior year. The receipts included \$3,292,358 in property tax, \$98,892 from tax increment financing, \$3,974,814 from charges for service, \$970,021 from operating grants, contributions and restricted interest, \$360,216 from capital grants, contributions and restricted interest, \$604,349 from local option sales tax \$114,152 from unrestricted interest on investments, \$4,864,515 from bond proceeds and \$405,581 from other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$13,110,452, a 31.67% increase over the prior year, and included \$4,958,095 for capital projects, \$1,654,724 for public safety and \$1,530,453 for public works. Also, disbursements for business type activities totaled \$2,014,289.

The significant increase in receipts in fiscal year 2017 is due to the issuance of general obligation bonds in fiscal year 2017. The significant increase in disbursements is primarily due to repairs and improvements to the aquatic center and a street project started in fiscal year 2017.

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/1720-0076-B00F>.

###



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

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-7
Management’s Discussion and Analysis		9-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	16-17
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	18-19
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	21
Notes to Financial Statements		23-36
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Enterprise Funds		38-39
Notes to Other Information – Budgetary Reporting		40
Schedule of the City’s Proportionate Share of the Net Pension Liability		41
Schedule of City Contributions		42-43
Notes to Other Information – Pension Liability		44
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	46-47
Schedule of Indebtedness	2	48-49
Bond and Note Maturities	3	50-51
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	52-53
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 <u>Government Auditing Standards</u>		55-56
Schedule of Findings		57-62
Staff		63

## City of Independence

### Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Bonita Davis	Mayor	Jan 2018
Todd Kuhse (Appointed)	Council Member	(Resigned Sep 2016)
Donald Brown	Council Member	(Resigned Jan 2017)
Jon Holland	Council Member	(Resigned Jan 2017)
Austin Grover	Council Member	Jan 2018
John Kurtz (Elected)	Council Member	Jan 2018
Michael Lenius	Council Member	Jan 2018
Mike O'Loughlin (Elected)	Council Member	Jan 2018
Debra Hanna	Council Member	Jan 2020
Robert Hill	Council Member	Jan 2020
Dennis Vaughn	Council Member	Jan 2020
Albert W. Roder	City Manager	Indefinite
Jeena Lynch	City Clerk/Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite

**City of Independence**



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

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

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 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 Independence Light and Power, Telecommunications, a legally separate entity which should be reported as a discretely presented component unit, because Independence Light and Power, Telecommunications reports in accordance with U.S. generally accepted accounting principles, a different financial reporting framework than the City's cash basis of accounting. The amount by which this departure affects the receipts, disbursements and cash balances of the aggregate discretely presented component units is \$12,394,253, \$12,511,666 and \$7,394,494, respectively.

### *Adverse Opinion*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements do not present fairly the cash basis financial position of the aggregate discretely presented component units as of June 30, 2017, and the respective changes in the cash basis financial position of the aggregate discretely presented component units for the year then ended in conformity with the basis of accounting described in Note 1.

### *Unmodified Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Independence as of June 30, 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 discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Independence's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended June 30, 2016 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. Additionally, the financial statements for the two years ended June 30, 2009 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 17, 2018 on our consideration of the City of Independence’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Independence’s internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

January 17, 2018

**City of Independence**

---

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

---

The City of Independence provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 77.15%, or approximately \$5,057,000 from fiscal year 2016 to fiscal year 2017. Bond proceeds increased approximately \$4,865,000.
- Disbursements for governmental activities increased 36.22%, or approximately \$2,950,000 in fiscal year 2017 over fiscal year 2016. Capital projects and debt service disbursements increased approximately \$2,510,000 and \$236,000 respectively.
- The City's total cash basis net position increased 17.07%, or approximately \$1,575,000, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities increased approximately \$748,000 and the cash basis net position of the business type activities increased approximately \$827,000.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

## **BASIS OF ACCOUNTING**

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

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

### *Government-wide Financial Statement*

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

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

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

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

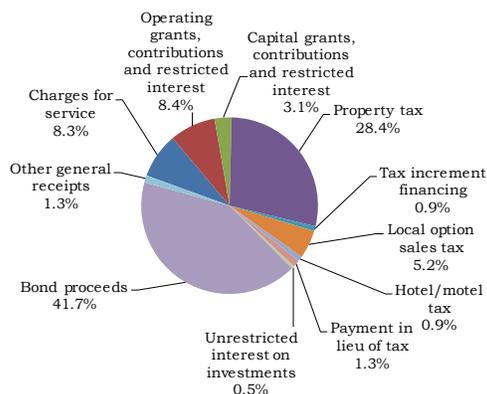
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

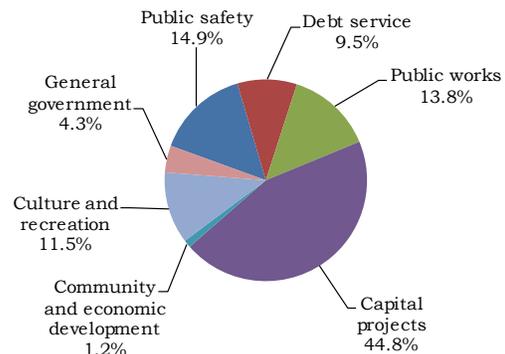
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$3,074,011 to \$3,821,669. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

	Changes in Cash Basis Net Position of Governmental Activities	
	Year ended June 30,	
	2017	2016
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 958,128	908,127
Operating grants, contributions and restricted interest	970,021	942,967
Capital grants, contributions and restricted interest	360,216	448,035
General receipts:		
Property tax	3,292,358	3,130,755
Tax increment financing	98,892	166,630
Local option sales tax	604,349	532,231
Hotel/motel tax	103,158	106,090
Payment in lieu of tax	156,000	156,000
Unrestricted interest on investments	57,448	17,195
Bond proceeds	4,864,515	-
Other general receipts	146,423	146,607
<b>Total receipts</b>	<b>11,611,508</b>	<b>6,554,637</b>
<b>Disbursements:</b>		
Public safety	1,654,724	1,680,060
Public works	1,530,453	1,327,137
Health and social services	1,000	1,000
Culture and recreation	1,280,887	1,247,479
Community and economic development	134,901	121,721
General government	478,584	498,446
Debt service	1,057,519	821,452
Capital projects	4,958,095	2,448,405
<b>Total disbursements</b>	<b>11,096,163</b>	<b>8,145,700</b>
Change in cash basis net position before transfers	515,345	(1,591,063)
Transfers, net	232,313	233,952
Change in cash basis net position	747,658	(1,357,111)
Cash basis net position beginning of year	3,074,011	4,431,122
Cash basis net position end of year	\$ 3,821,669	3,074,011

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities increased 77.15%, or approximately \$5,057,000, over the prior year. The total cost of all programs and services increased approximately \$2,950,000, or 36.22%, with no new programs added this year. The increase in receipts was primarily the result of a bond issuance in the current fiscal year. The increase in disbursements was primarily the result of aquatic center and street improvement projects which started in fiscal year 2017.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service:		
Water	761,850	741,932
Sewer	2,254,836	2,098,687
General receipts:		
Unrestricted interest on investments	56,704	5,207
Total receipts	<u>3,073,390</u>	<u>2,845,826</u>
Disbursements:		
Water	619,498	515,852
Sewer	1,394,791	1,295,790
Total disbursements	<u>2,014,289</u>	<u>1,811,642</u>
Change in cash basis net position before transfers	1,059,101	1,034,184
Transfers, net	<u>(232,313)</u>	<u>(233,952)</u>
Change in cash basis net position	826,788	800,232
Cash basis net position beginning of year	<u>6,147,384</u>	<u>5,347,152</u>
Cash basis net position end of year	<u>\$ 6,974,172</u>	<u>6,147,384</u>

Total business type activities receipts increased approximately \$228,000, or 8.0%, over the prior year, primarily due to increased sewer billings of a major customer. Total disbursements for the fiscal year increased 11.19%, or approximately \$203,000, due to additional equipment purchases made in the current year. The cash balance increased approximately \$827,000 during the year.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Independence completed the year, its governmental funds reported a combined fund balance of \$3,821,669, an increase of \$747,658 compared to last year's total of \$3,074,011. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$243,166 from the prior year to \$783,622. The decrease is primarily attributable to transfers of franchise tax receipts and annual transfers related to the City's capital plan to the Capital Projects Fund.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$8,172 to \$224,564 during the fiscal year. This decrease was primarily due to the City spending more on road improvements than in fiscal year 2016.

- The Special Revenue, Employee Benefits Fund cash balance increased \$95,974 from \$364,865 to \$460,839. The City's levy was greater than the benefits paid from the fund.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$101,286 from \$448,873 to \$347,587. This decrease was primarily due to less tax increment financing collections.
- 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 \$599,442. Receipts were \$72,118 higher and transfers out to other funds were \$79,866 higher than the prior year.
- The Debt Service Fund cash balance increased \$142,631 to \$258,854 at the end of the fiscal year. This increase was primarily due to an increase in property tax levied and transfers from other funds to pay for principal and interest.
- The Capital Projects Fund cash balance increased \$602,974 to \$833,058 at the end of the fiscal year. The City spent a total of \$4,958,095 on construction projects in the current year, compared to \$2,436,614 in the prior year. The City also issued bonds and deposited \$4,810,000 in bond proceeds in the Capital Projects Fund to pay for the increase in construction projects.

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

- The Enterprise, Water Fund cash balance increased from \$2,597,580 to \$2,788,499. Total receipts increased \$68,459 and disbursements increased \$103,646.
- The Enterprise, Sewer Fund cash balance increased \$635,869 to \$4,185,673. Total receipts increased \$159,105 over the prior year due to increased receipts from Tyson Pet Products and Wapsie Valley Creamery. Disbursements also increased \$99,014 over the prior year primarily due to the purchase of equipment in fiscal year 2017 and additional costs of professional services.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once which was approved on March 13, 2017 and resulted in an increase in budgeted disbursements of \$854,692, primarily related to the capital projects and business type activities functions.

The City's receipts were \$35,685 less than budgeted. This is a result of the City receiving less tax increment financing collections than anticipated and more charges for service than budgeted.

Total disbursements were \$4,310,969, or 24.77%, less than the final budget. This was primarily due to the City not completing some of the projects as originally planned and having fewer business type activity disbursements than budgeted.

Disbursements did not exceed the amounts budgeted for the year ended June 30, 2017.

## DEBT ADMINISTRATION

At June 30, 2017, the City had \$11,381,937 of bonds/notes and other long-term debt outstanding, compared to \$7,609,758 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2017	2016
General obligation bonds/notes	\$ 9,130,000	5,190,000
Sewer revenue bonds	2,220,000	2,380,000
Revenue loan agreement	31,937	39,758
Total	<u>\$ 11,381,937</u>	<u>7,609,758</u>

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 \$9,191,808, including annually appropriated TIF developer agreements of \$61,808 is significantly below its constitutional debt limit of approximately \$17,391,000.

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

The City of Independence's elected and appointed officials and citizens considered many factors when setting the fiscal year 2018 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the County averaged 3.0% for fiscal year 2017. This compares with the State's unemployment rate of 3.2%.

These factors were taken into account when adopting the budget for fiscal year 2018. Property tax receipts available for appropriation in the fiscal year 2018 operating budget are budgeted at approximately \$181,000 less than the final 2017 budget. The City will use these receipts to operate and keep the levy the same for fiscal year 2018. Budgeted disbursements are expected to decrease \$7,667,590 from the final fiscal year 2017 budget to \$9,736,312. This decrease is primarily due to the capital projects function.

If these estimates are realized, the City's June 30, 2018 cash balance is expected to decrease approximately \$547,000 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 Jeena Lynch, City Clerk, 331 - 1st Street East, Independence, Iowa 50644.

## **Basic Financial Statements**

City of Independence

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,654,724	34,663	169,456	-
Public works	1,530,453	548,290	740,642	-
Health and social services	1,000	-	-	-
Culture and recreation	1,280,887	325,117	59,113	-
Community and economic development	134,901	-	-	-
General government	478,584	50,058	810	-
Debt service	1,057,519	-	-	-
Capital projects	4,958,095	-	-	360,216
Total governmental activities	11,096,163	958,128	970,021	360,216
Business type activities:				
Water	619,498	761,850	-	-
Sewer	1,394,791	2,254,836	-	-
Total business type activities	2,014,289	3,016,686	-	-
Total	\$ 13,110,452	3,974,814	970,021	360,216
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Payment in lieu of tax				
Unrestricted interest on investments				
Bond proceeds, including premium of \$54,515				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Employee benefits				
Urban renewal purposes				
Debt service				
Capital projects				
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

Governmental Activities	Business Type Activities	Total
(1,450,605)	-	(1,450,605)
(241,521)	-	(241,521)
(1,000)	-	(1,000)
(896,657)	-	(896,657)
(134,901)	-	(134,901)
(427,716)	-	(427,716)
(1,057,519)	-	(1,057,519)
<u>(4,597,879)</u>	<u>-</u>	<u>(4,597,879)</u>
<u>(8,807,798)</u>	<u>-</u>	<u>(8,807,798)</u>
-	142,352	142,352
-	860,045	860,045
-	1,002,397	1,002,397
<u>(8,807,798)</u>	<u>1,002,397</u>	<u>(7,805,401)</u>
2,806,265	-	2,806,265
486,093	-	486,093
98,892	-	98,892
604,349	-	604,349
103,158	-	103,158
156,000	-	156,000
57,448	56,704	114,152
4,864,515	-	4,864,515
146,423	-	146,423
232,313	(232,313)	-
<u>9,555,456</u>	<u>(175,609)</u>	<u>9,379,847</u>
747,658	826,788	1,574,446
3,074,011	6,147,384	9,221,395
<u>\$ 3,821,669</u>	<u>6,974,172</u>	<u>10,795,841</u>
\$ 95,000	-	95,000
224,564	-	224,564
460,839	-	460,839
347,587	-	347,587
258,854	256,935	515,789
833,058	175,000	1,008,058
901,090	-	901,090
700,677	6,542,237	7,242,914
<u>\$ 3,821,669</u>	<u>6,974,172</u>	<u>10,795,841</u>

City of Independence

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

As of and for the year ended June 30, 2017

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Tax Increment Financing
<b>Receipts:</b>				
Property tax	\$ 1,833,281	-	868,784	-
Tax increment financing	-	-	-	98,892
Other city tax	204,350	-	3,008	-
Licenses and permits	69,914	-	-	-
Use of money and property	194,209	21	-	-
Intergovernmental	327,977	740,641	13,984	-
Charges for service	667,417	-	-	-
Special assessments	-	-	-	-
Miscellaneous	133,367	-	6,228	13,532
Total receipts	<u>3,430,515</u>	<u>740,662</u>	<u>892,004</u>	<u>112,424</u>
<b>Disbursements:</b>				
Operating:				
Public safety	1,234,849	-	388,897	-
Public works	658,897	748,834	122,722	-
Health and social services	1,000	-	-	-
Culture and recreation	1,078,567	-	202,320	-
Community and economic development	58,007	-	-	76,894
General government	396,493	-	82,091	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>3,427,813</u>	<u>748,834</u>	<u>796,030</u>	<u>76,894</u>
Excess (deficiency) of receipts over (under) disbursements	<u>2,702</u>	<u>(8,172)</u>	<u>95,974</u>	<u>35,530</u>
<b>Other financing sources (uses):</b>				
Bond proceeds, including premium of \$54,515	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(245,868)	-	-	(136,816)
Total other financing sources (uses)	<u>(245,868)</u>	<u>-</u>	<u>-</u>	<u>(136,816)</u>
Change in cash balances	(243,166)	(8,172)	95,974	(101,286)
Cash balances beginning of year	1,026,788	232,736	364,865	448,873
Cash balances end of year	<u>\$ 783,622</u>	<u>224,564</u>	<u>460,839</u>	<u>347,587</u>
<b>Cash Basis Fund Balances</b>				
Nonspendable - Cemetery perpetual care	\$ -	-	-	-
Restricted for:				
Streets	-	224,564	-	-
Employee benefits	-	-	460,839	-
Urban renewal purposes	-	-	-	347,587
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	82,945	-	-	-
Committed for library purposes	39,414	-	-	-
Unassigned	661,263	-	-	-
Total cash basis fund balances	<u>\$ 783,622</u>	<u>224,564</u>	<u>460,839</u>	<u>347,587</u>

See notes to financial statements.

Local Option Sales Tax	Debt Service	Capital Projects	Nonmajor	Total
-	484,448	-	-	3,186,513
-	-	-	-	98,892
604,349	1,645	-	-	813,352
-	-	-	-	69,914
-	-	-	-	194,230
-	7,699	176,483	11,330	1,278,114
-	-	-	-	667,417
-	59,189	-	-	59,189
-	-	183,733	42,512	379,372
604,349	552,981	360,216	53,842	6,746,993
-	-	-	30,978	1,654,724
-	-	-	-	1,530,453
-	-	-	-	1,000
-	-	-	-	1,280,887
-	-	-	-	134,901
-	-	-	-	478,584
-	1,057,519	-	-	1,057,519
-	-	4,958,095	-	4,958,095
-	1,057,519	4,958,095	30,978	11,096,163
604,349	(504,538)	(4,597,879)	22,864	(4,349,170)
-	54,515	4,810,000	-	4,864,515
-	592,654	390,853	18,657	1,002,164
(387,167)	-	-	-	(769,851)
(387,167)	647,169	5,200,853	18,657	5,096,828
217,182	142,631	602,974	41,521	747,658
382,260	116,223	230,084	272,182	3,074,011
599,442	258,854	833,058	313,703	3,821,669
-	-	-	95,000	95,000
-	-	-	-	224,564
-	-	-	-	460,839
-	-	-	-	347,587
-	258,854	-	-	258,854
-	-	833,058	-	833,058
599,442	-	-	218,703	901,090
-	-	-	-	39,414
-	-	-	-	661,263
599,442	258,854	833,058	313,703	3,821,669

**City of Independence**

City of Independence

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

As of and for the year ended June 30, 2017

	Enterprise			Internal Service
	Water	Sewer	Total	Health Insurance
Operating receipts:				
Charges for service	\$ 743,233	2,233,784	2,977,017	107,013
Miscellaneous	18,617	21,052	39,669	-
Total operating receipts	761,850	2,254,836	3,016,686	107,013
Operating disbursements:				
Public safety	-	-	-	41,575
Public works	-	-	-	2,088
Culture and recreation	-	-	-	37,401
General government	-	-	-	8,905
Business type activities	568,498	1,042,007	1,610,505	17,044
Total operating disbursements	568,498	1,042,007	1,610,505	107,013
Excess of operating receipts over operating disbursements	193,352	1,212,829	1,406,181	-
Non-operating receipts (disbursements):				
Interest on investments	48,567	8,137	56,704	-
Debt service	-	(276,088)	(276,088)	-
Equipment	-	(76,696)	(76,696)	-
Capital projects	(51,000)	-	(51,000)	-
Net non-operating disbursements	(2,433)	(344,647)	(296,080)	-
Excess of receipts over disbursements	190,919	868,182	1,059,101	-
Transfers out	-	(232,313)	(232,313)	-
Change in cash balances	190,919	635,869	826,788	-
Cash balances beginning of year	2,597,580	3,549,804	6,147,384	-
Cash balances end of year	\$ 2,788,499	4,185,673	6,974,172	-
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Debt service	\$ -	256,935	256,935	-
Future capital outlay	-	175,000	175,000	-
Unrestricted	2,788,499	3,753,738	6,542,237	-
Total cash basis fund balances	\$ 2,788,499	4,185,673	6,974,172	-

See notes to financial statements.

**City of Independence**

City of Independence

Notes to Financial Statements

June 30, 2017

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

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

A. Reporting Entity

For financial reporting purposes, the City of Independence has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

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

Blended Component Unit

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

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

### Discretely Presented Component Unit

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

### Jointly Governed Organizations

The City participates in several jointly governed organizations for which the City is not financially accountable or the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Buchanan County Assessor's Conference Board, Buchanan County Landfill Commission, Buchanan County Emergency Management Commission and Buchanan County Joint E911 Service Board.

### B. Basis of Presentation

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

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

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

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

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

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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.

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

The City also reports the following proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2017, disbursements did not exceed the amounts budgeted.

**(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 which are valued at an amortized cost of \$918,994 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There are no limitations or restrictions on withdrawals for the IPAIT investments. The City’s investment in the Iowa Public Agency Investment Trust is unrated.

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

**(3) Long-Term Debt**

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

Year Ending June 30,	General Obligation Bonds/Notes		Sewer Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2018	\$ 1,305,000	198,108	165,000	108,388	1,470,000	306,496	1,776,496
2019	1,240,000	170,985	175,000	100,397	1,415,000	271,382	1,686,382
2020	1,225,000	144,547	180,000	92,660	1,405,000	237,207	1,642,207
2021	750,000	117,298	190,000	84,110	940,000	201,408	1,141,408
2022	695,000	100,955	200,000	74,990	895,000	175,945	1,070,945
2023-2027	2,365,000	307,097	1,310,000	148,540	3,675,000	455,637	4,130,637
2028-2032	805,000	140,894	-	-	805,000	140,894	945,894
2033-2036	745,000	45,900	-	-	745,000	45,900	790,900
Total	\$ 9,130,000	1,225,784	2,220,000	609,085	11,350,000	1,834,869	13,184,869

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3,325,000 of sewer revenue bonds issued in May 2005. Proceeds from the bonds provided financing for improvements and extensions to the system. The bonds are payable solely from sewer customer net receipts and are payable through 2025. For the year ended June 30, 2017, principal and interest payments on the bonds required approximately 23% of net receipts. Total principal and interest remaining to be paid on the bonds is \$2,829,085. For the current year, principal and interest paid and total customer net receipts were \$275,588 and \$1,212,829, respectively.

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

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

#### Revenue Loan Agreement

On July 13, 2011, the City entered into a loan agreement for an LED street light project for \$78,213. The agreement requires 120 monthly payments of \$652 starting in August 2011. The City is not required to pay interest unless a payment is delinquent or in the event of default. The City has pledged its annual road use tax receipts from the State of Iowa to repay the loan. The loan is payable solely from road use tax receipts and is payable through 2021. For the current year, principal paid and total road use tax receipts were \$7,821 and \$740,641, respectively. The outstanding loan balance at June 30, 2017 was \$31,937.

#### General Obligation Corporate Purpose Bonds

On September 22, 2016, the City issued \$4,810,000 of general obligation corporate purpose bonds, Series 2016. The bonds were issued for construction of street, water system and sanitary sewer system improvements, construction, furnishing and equipping a municipal swimming pool and construction of sidewalk improvements. The bonds bear interest at 2.00% to 2.50% per annum and mature in varying annual amounts ranging from \$130,000 to \$570,000 with final maturity due on June 1, 2036. Bonds due after 2025 are callable at differing dates as included in the bond document.

#### **(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 were \$197,540.

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 \$1,155,232 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 0.018357%, which was an increase of 0.002828% over 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 \$200,078, 230,083 and \$260,146, 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 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 (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 2,274,590	1,155,232	211,002

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) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 38 active and 5 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefits are provided through a partially self-funded plan with Wellmark. The City pays the single premium for certain retirees under age 65. Although the City has discontinued this benefit, 2 retirees who were grandfathered in under the prior policy are receiving this benefit at June 30, 2017. Under another prior City policy, the City pays the Medicare supplement premium for 3 retirees age 65 or older. These retirees are required to contribute \$140 per month towards the premium.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for health and dental for the City and plan members are \$413 and \$27 for single coverage and \$929 and \$91 for family coverage, respectively. The same monthly premiums apply to retirees. For the year ended June 30, 2017, the City contributed \$386,767 and plan members eligible for benefits contributed \$90,927 to the plan.

**(6) Development Agreements**

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

The total to be paid by the City under the agreements is not to exceed \$871,954. The total amount rebated during the year ended June 30, 2017 was \$57,645. The City has rebated a total of \$158,642 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2017 was \$713,312.

These agreements are not a general obligation of the City. However, the agreements are subject to the constitutional debt limitation of the City. Since the development agreements are subject to annual appropriation by the City Council, only the \$61,808 which has been appropriated at June 30, 2017 is subject to the debt limitation calculation.

**(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory time and other leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and other leave payable to employees at June 30, 2017, primarily relating to the General Fund and the Enterprise, Water and Sewer Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 113,000
Compensatory time	23,000
Holiday	27,000
Casual	<u>13,000</u>
Total	<u>\$176,000</u>

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

**(8) Employee Health Insurance Plan**

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

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

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

The City contracts with Group Services to administer the portion of health claims self-funded by the City. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Group Services from the Internal Service, Health Insurance Fund. During the year ended June 30, 2017, the City paid \$107,013 to Group Services for claims and administrative fees.

**(9) Interfund Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 136,816
	Local Option Sales Tax	223,525
	Enterprise:	
	Sewer	<u>232,313</u>
		<u>592,654</u>
Capital Projects	General Fund	227,211
	Special Revenue:	
	Local Option Sales Tax	<u>163,642</u>
		<u>390,853</u>
Special Revenue:		
Police Forfeiture	General Fund	<u>18,657</u>
Total		<u>\$ 1,002,164</u>

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

## **(10) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 753 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2017 were \$88,212.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

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

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

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

**(11) Independence Public Library Foundation, Inc.**

The Independence Public Library Foundation, Inc. (Foundation) is incorporated under the Iowa Nonprofit Corporation Act and directly benefits the Independence Public Library. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. The following is the condensed financial information for the Foundation for the year ended December 31, 2016.

Receipts:	
Capital donations	\$ 3,805
Material donations	12,900
Summer reading program	3,025
Programming	5,724
Interest and increase in fair value	16,745
Miscellaneous	<u>7,896</u>
Total receipts	<u>50,095</u>
Disbursements:	
Equipment and additional furnishings	816
Landscaping	160
Materials	14,085
Summer reading program	2,483
Programming	6,066
Miscellaneous	<u>5,947</u>
Total disbursements	<u>29,557</u>
Excess of disbursements over receipts	20,538
Balance beginning of year	<u>315,667</u>
Balance end of year	<u>\$ 336,205</u>

**(12) 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 \$24,132 of property tax under the urban renewal and economic development projects.

**(13) 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 tax abatements which impact the City.

**(14) 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.

## **Other Information**

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

Other Information

Year ended June 30, 2017

	Governmental Funds Actual	Enterprise Funds Actual	Less Funds not Required to be Budgeted	Total
<b>Receipts:</b>				
Property tax	\$ 3,186,513	-	-	3,186,513
Tax increment financing	98,892	-	-	98,892
Other city tax	813,352	-	-	813,352
Licenses and permits	69,914	-	-	69,914
Use of money and property	194,230	56,704	-	250,934
Intergovernmental	1,278,114	-	-	1,278,114
Charges for service	667,417	3,084,030	107,013	3,644,434
Special assessments	59,189	-	-	59,189
Miscellaneous	379,372	39,669	42,512	376,529
Total receipts	<u>6,746,993</u>	<u>3,180,403</u>	<u>149,525</u>	<u>9,777,871</u>
<b>Disbursements:</b>				
Public safety	1,654,724	41,575	59,095	1,637,204
Public works	1,530,453	2,088	2,088	1,530,453
Health and social services	1,000	-	-	1,000
Culture and recreation	1,280,887	37,401	37,401	1,280,887
Community and economic development	134,901	-	-	134,901
General government	478,584	8,905	8,905	478,584
Debt service	1,057,519	-	-	1,057,519
Capital projects	4,958,095	-	-	4,958,095
Business type activities	-	2,031,333	17,044	2,014,289
Total disbursements	<u>11,096,163</u>	<u>2,121,302</u>	<u>124,533</u>	<u>13,092,932</u>
Excess (deficiency) of receipts over (under) disbursements	(4,349,170)	1,059,101	24,992	(3,315,061)
Other financing sources (uses), net	<u>5,096,828</u>	<u>(232,313)</u>	-	<u>4,864,515</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	747,658	826,788	24,992	1,549,454
Balances beginning of year	<u>3,074,011</u>	<u>6,147,384</u>	<u>44,778</u>	<u>9,176,617</u>
Balances end of year	<u>\$ 3,821,669</u>	<u>6,974,172</u>	<u>69,770</u>	<u>10,726,071</u>

See accompanying independent auditor's report.

---

Budgeted Amounts		Final to
Original	Final	Total
		Variance
3,127,909	3,154,727	31,786
1,386,517	1,386,517	(1,287,625)
729,605	778,852	34,500
236,905	56,905	13,009
1,238,586	1,225,836	(974,902)
1,101,996	1,101,996	176,118
1,799,525	1,969,942	1,674,492
22,500	22,500	36,689
89,975	116,281	260,248
<u>9,733,518</u>	<u>9,813,556</u>	<u>(35,685)</u>
1,829,119	1,756,311	119,107
1,573,614	1,681,248	150,795
1,000	1,000	-
1,280,321	1,281,010	123
160,028	167,228	32,327
555,570	551,831	73,247
1,206,584	1,206,584	149,065
6,975,691	7,265,191	2,307,096
<u>2,967,283</u>	<u>3,493,499</u>	<u>1,479,210</u>
<u>16,549,210</u>	<u>17,403,902</u>	<u>4,310,970</u>
(6,815,692)	(7,590,346)	4,275,285
<u>5,750,000</u>	<u>5,750,000</u>	<u>(885,485)</u>
(1,065,692)	(1,840,346)	3,389,800
<u>10,159,761</u>	<u>9,176,618</u>	<u>(1)</u>
<u>9,094,069</u>	<u>7,336,272</u>	<u>3,389,799</u>

---

City of Independence

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 Internal Service Fund and the component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$854,692.

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

---

City of Independence

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

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

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.018357%	0.015529%	0.015327%
City's proportionate share of the net pension liability	\$ 1,155	767	608
City's covered-employee payroll	\$ 2,068	1,974	2,021
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	55.85%	38.86%	30.08%
IPERS' net position as a percentage of the total liability pension	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.

---

City of Independence

Schedule of City Contributions

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

Other Information

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 198	192	186	189
Contributions in relation to the statutorily required contribution	<u>(198)</u>	<u>(192)</u>	<u>(186)</u>	<u>(189)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 2,129	2,068	1,974	2,021
Contributions as a percentage of covered-employee payroll	9.30%	9.28%	9.42%	9.35%

See accompanying independent auditor's report.

---

2013	2012	2011	2010	2009	2008
177	168	149	126	140	67
(177)	(168)	(149)	(126)	(140)	(67)
-	-	-	-	-	-
1,914	1,911	1,850	1,651	1,830	1,053
9.25%	8.79%	8.05%	7.63%	7.65%	6.36%

City of Independence

Notes to Other Information – Pension Liability

Year ended June 30, 2017

*Changes of benefit terms:*

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

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

*Changes of assumptions:*

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (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 Independence

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

As of and for the year ended June 30, 2017

	Special		
	LMI Urban Renewal	Economic Development	Independence Fire Department
Receipts:			
Intergovernmental	\$ -	-	-
Miscellaneous	-	-	42,512
Total receipts	-	-	42,512
Disbursements:			
Operating:			
Public safety	-	-	17,520
Excess (deficiency) of receipts over (under) disbursements	-	-	24,992
Transfers in	-	-	-
Change in cash balance	-	-	24,992
Cash balances beginning of year	121,065	11,339	44,778
Cash balances end of year	<u>\$ 121,065</u>	<u>11,339</u>	<u>69,770</u>
<b>Cash Basis Fund Balances</b>			
Nonspendable – Cemetery perpetual care	\$ -	-	-
Restricted for other purposes	121,065	11,339	69,770
Total cash basis fund balances	<u>\$ 121,065</u>	<u>11,339</u>	<u>69,770</u>

See accompanying independent auditor's report.

Revenue	Permanent	
Police Forfeiture	Cemetery Perpetual Care	Total
11,330	-	11,330
-	-	42,512
11,330		53,842
13,458	-	30,978
(2,128)	-	22,864
18,657	-	18,657
16,529	-	41,521
-	95,000	272,182
16,529	95,000	313,703
-	95,000	95,000
16,529	-	218,703
16,529	95,000	313,703

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Urban renewal street improvement, series 2009	Apr 1, 2009	2.25-4.10%	\$ 995,000
Sewer improvement, series 2011	Feb 24, 2011	1.00-3.15	650,000
Refunding, series 2013A	Jun 25, 2013	0.40-2.50	2,270,000
City hall, recreation center and fire truck, series 2013B	Oct 9, 2013	2.00-3.00	1,150,000
Street improvements, sidewalk project and library refunding, series 2015A	May 26, 2015	2.00-2.25	2,200,000
Corporate purpose, series 2016	Sep 22, 2016	2.00-2.50	4,810,000
Total			
Revenue bonds:			
Sewer revenue improvement, series 2005A	May 1, 2005	4.40-5.00%	\$ 3,325,000
Revenue loan agreement:			
LED street light project	Jul 13, 2011	0.00	\$ 78,213

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
410,000	-	95,000	315,000	16,278
350,000	-	65,000	285,000	9,950
1,515,000	-	205,000	1,310,000	26,812
940,000	-	110,000	830,000	22,472
1,975,000	-	265,000	1,710,000	40,103
-	4,810,000	130,000	4,680,000	68,904
5,190,000	4,810,000	870,000	9,130,000	184,519
2,380,000	-	160,000	2,220,000	115,588
39,758	-	7,821	31,937	-

City of Independence  
Bond and Note Maturities  
June 30, 2017

Year Ending June 30,	General Obligation						
	Urban Renewal Street Improvement Bonds, Series 2009		Sewer Improvement Bonds, Series 2011		Refunding Bonds, Series 2013A		
	Issued Apr 1, 2009		Issued Feb 24, 2011		Issued Jun 25, 2013		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2018	4.00%	\$ 100,000	2.80%	\$ 70,000	1.25%	\$ 205,000	
2019	4.05	105,000	2.80	70,000	1.50	215,000	
2020	4.10	110,000	3.15	70,000	1.75	215,000	
2021		-	3.15	75,000	2.00	220,000	
2022		-		-	2.25	225,000	
2023		-		-	2.50	230,000	
2024		-		-		-	
2025		-		-		-	
2026		-		-		-	
2027		-		-		-	
2028		-		-		-	
2029		-		-		-	
2030		-		-		-	
2031		-		-		-	
2032		-		-		-	
2033		-		-		-	
2034		-		-		-	
2035		-		-		-	
2036		-		-		-	
Total		<u>\$ 315,000</u>		<u>\$ 285,000</u>		<u>\$ 1,310,000</u>	

Year Ending June 30,	Revenue Bonds	
	Sewer Revenue Improvement, Series 2005A	
	Issued May 1, 2005	
Interest Rates	Amount	
2018	4.60%	\$ 165,000
2019	4.65	175,000
2020	4.75	180,000
2021	4.80	190,000
2022	4.85	200,000
2023	4.90	210,000
2024	5.00	535,000
2025	5.00	565,000
Total		<u>\$ 2,220,000</u>

See accompanying independent auditor's report.

Bonds/Notes								
City Hall, Recreation Center and Fire Truck Series 2013B Issued Oct 9, 2013			Street Improvements, Sidewalk Project and Library Refunding Series 2015A Issued May 26, 2015			Corporate Purpose Series 2016 Issued September 22, 2016		
Interest Rates		Amount	Interest Rates		Amount	Interest Rates	Amount	Total
2.00%	\$	110,000	2.00%	\$	270,000	2.00%	\$ 550,000	1,305,000
2.00		110,000	2.00		185,000	2.00	555,000	1,240,000
2.15		115,000	2.00		145,000	2.00	570,000	1,225,000
2.40		120,000	2.00		145,000	2.00	190,000	750,000
2.60		120,000	2.00		150,000	2.00	200,000	695,000
2.80		125,000	2.00		155,000	2.00	200,000	710,000
3.00		130,000	2.00		155,000	2.00	205,000	490,000
		-	2.00		165,000	2.00	215,000	380,000
		-	2.10		165,000	2.00	220,000	385,000
		-	2.25		175,000	2.00	225,000	400,000
		-			-	2.00	150,000	150,000
		-			-	2.00	155,000	155,000
		-			-	2.00	160,000	160,000
		-			-	2.125	165,000	165,000
		-			-	2.125	175,000	175,000
		-			-	2.30	180,000	180,000
		-			-	2.30	185,000	185,000
		-			-	2.50	190,000	190,000
		-			-	2.50	190,000	190,000
		<u>\$ 830,000</u>			<u>\$ 1,710,000</u>		<u>\$ 4,680,000</u>	<u>9,130,000</u>

City of Independence

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

For the Last Ten Years

	2017	2016	2015	2014
Receipts:				
Property tax	\$ 3,186,513	3,128,089	2,655,159	2,570,302
Tax increment financing	98,892	166,630	261,462	161,435
Other city tax	813,352	640,987	671,505	660,571
Licenses and permits	69,914	89,195	65,351	69,066
Use of money and property	194,230	141,415	121,041	59,219
Intergovernmental	1,278,114	1,401,708	1,205,469	1,382,637
Charges for service	667,417	603,005	677,288	706,356
Special assessments	59,189	55,045	16,532	9,308
Miscellaneous	379,372	328,563	197,429	147,337
Total	<u>\$ 6,746,993</u>	<u>6,554,637</u>	<u>5,871,236</u>	<u>5,766,231</u>
Disbursements:				
Operating:				
Public safety	\$ 1,654,724	1,680,073	1,660,598	1,637,455
Public works	1,530,453	1,327,137	1,259,990	1,359,286
Health and social services	1,000	1,000	1,000	1,000
Culture and recreation	1,280,887	1,246,512	1,251,561	1,239,958
Community and economic development	134,901	121,721	139,502	209,003
General government	478,584	499,413	597,251	507,223
Debt service	1,057,519	821,452	710,490	602,639
Capital projects	4,958,095	2,448,405	932,651	2,101,026
Total	<u>\$ 11,096,163</u>	<u>8,145,713</u>	<u>6,553,043</u>	<u>7,657,590</u>

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
2,519,123	2,178,481	2,029,915	2,038,194	1,928,088	1,949,099
106,940	950,088	1,137,199	975,591	1,045,424	850,023
636,612	612,557	603,525	613,167	95,033	101,238
60,148	102,148	59,786	29,581	67,059	33,591
72,964	68,800	93,636	85,804	72,977	89,531
1,185,984	1,338,587	2,366,866	1,657,781	4,918,407	5,624,583
701,425	695,363	650,042	644,702	544,987	540,132
23,108	2,181	6,734	8,211	10,687	14,039
91,872	105,241	133,377	178,906	359,361	1,152,369
5,398,176	6,053,446	7,081,080	6,231,937	9,042,023	10,354,605
1,670,893	1,541,741	1,533,732	1,208,401	1,188,864	1,604,746
1,499,710	1,362,701	1,321,296	1,046,893	1,065,016	944,049
1,000	1,000	1,000	350	-	-
1,132,898	1,075,096	1,033,014	908,038	823,228	780,356
171,297	798,111	199,882	793,123	770,263	411,246
467,402	501,051	441,649	529,177	461,238	460,743
900,081	395,928	329,762	357,810	386,846	535,053
625,272	507,019	1,763,135	920,784	4,719,815	6,346,405
6,468,553	6,182,647	6,623,470	5,764,576	9,415,270	11,082,598

**City of Independence**



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 17, 2018. Our report expressed unmodified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of Independence Light and Power, Telecommunications.

Internal Control Over Financial Reporting

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

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

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

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

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Independence's Responses to the Findings

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

### Purpose of this Report

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

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

  
MARY MOSIMAN, CPA  
Auditor of State

January 17, 2018

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties

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

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

- (1) Accounting system – performing all accounting functions, including making journal entries and having custody of assets.
- (2) Cash - initiating cash receipt and disbursement functions, handling and recording cash and reconciling.
- (3) Receipts – collecting, depositing, journalizing and posting.

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

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

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

City of Independence

Schedule of Findings

Year ended June 30, 2017

Response – All disbursement entries are reviewed after entry by the Associate Clerk, payroll disbursements are reviewed by an impartial staff member, most often the Deputy Clerk, after entry and the bank reconciliation is checked by the Associate Clerk upon completion to verify for accuracy. The person entering receipts into the software is not the person taking the deposits to the bank. In addition, the Mayor signs off on the entries once the deposit slip from the bank is returned. The Government Performance & Finance Committee made up of three Council Members currently reviews random selections of disbursements, payroll and journal entries as well bank reconciliation balances and endorses those items with their initials and date.

Conclusion – Response accepted.

(B) Independence Fire Department

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

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

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

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

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

Response – The Fire Department Treasurer has discussed options and procedures to provide better segregation of duties with a member of the auditing team. The Fire Department is working to implement logs of receipts brought in through the mail as well as procedures for disbursements.

Conclusion – Response accepted.

City of Independence

Schedule of Findings

Year ended June 30, 2017

(C) Independence Public Library Foundation

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

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

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

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

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

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

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Independence

Schedule of Findings

Year ended June 30, 2017

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Daniel Eschen, Water Department employee, Father owns NAPA Auto Parts	Miscellaneous parts	\$ 11,572
Vonnie Hoskins, Childrens Librarian, Husband Jerry Hoskins is a sole proprietor	Tree Trim/Tree Service	9,800

Of the \$11,572 paid to NAPA Auto Parts by the City, \$299 was related to the Water Department and the remainder was purchased by various departments of the City. Therefore, \$11,273 does not appear to represent a conflict of interest in accordance with Chapter 362.5(3)(e) of the Code of Iowa since the Water Department employee’s employment is not directly affected as a result of the contract and the duties of employment do not directly involve procurement or preparation of any part of the contract. The City received a letter from the City Attorney dated December 7, 2016, which concludes the Water Department employee does not have a direct or indirect interest in NAPA Auto Parts. It also states the Water Department employee would not participate in any purchases for the City. The Water Department employee did not participate in the Water Department purchases.

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

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

City of Independence

Schedule of Findings

Year ended June 30, 2017

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

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

During the fiscal year ended June 30, 2013, the balance in the Special Revenue, TIF Fund decreased to \$30,019 at June 30, 2013. The City transferred \$500,000 to the Debt Service Fund. In addition, the City used a portion of the Special Revenue, TIF Fund balance to reimburse other funds for urban renewal project costs. During fiscal year 2013, the City transferred \$83,500 and \$343,092 from the Special Revenue, Tax Increment Financing Fund to the Special Revenue, Road Use Tax and the Capital Projects Funds, respectively, for urban renewal projects. During fiscal year 2014, the City transferred \$80,000, \$53,600 and \$19,240 from the Special Revenue, Tax Increment Financing Fund to the Special Revenue, Road Use Tax Fund, the Capital Projects Fund and the Sewer Fund, respectively, for urban renewal projects. During fiscal year 2015, the City transferred \$17,300, \$28,500 and \$17,500 from the Special Revenue, Tax Increment Financing Fund to the Special Revenue, Economic Development, the Capital Projects Fund and the Water Fund, respectively, for urban renewal projects. During the fiscal year 2016, the City paid \$7,500 to the Sheenan-Tidball American Legion Post and \$11,832 of legal fees directly from the Special Revenue, Tax Increment Financing Fund. During fiscal year 2017 the City paid \$19,249 in legal fees directly from the Special Revenue, Tax Increment Financing Fund. The City did not reflect this activity on the TIF certifications to the County.

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

City of Independence

Schedule of Findings

Year ended June 30, 2017

Response – City Staff have taken action in 2017 to work through and correct years of errors with TIF funding and certifications. On June 5, 2017 the City Clerk, City Manager and Mayor met with the City’s Bonding Attorney (Dorsey & Whitney) and the City’s Financial Advisor (Speer Financial, Inc.) to review and discuss the actions needed to address the FY2016 TIF audit comment. Needing further guidance the City Manager, City Clerk, City Bonding Attorney and Financial Advisor met with the Auditor of State’s Office in the Lucas building on August 23, 2017 to gain clarification and direction on how to clear up the comment. The agreement was made the City would need to correct its reconciliation sheet the best as possible so it would have a “clean slate” to move forward. The City met with the Buchanan County Auditor and its Financial Advisor (Speer Financial, Inc.) on September 21, 2017 to enact corrections to the TIF reconciliation form on the next certification submittal. These corrections have been made on the December 2017 report.

It has been the practice of the City to include legal fees in the project and development costs and they are not individually broken out as separate certification items within the report.

Conclusion – Response acknowledged. Legal fees should not be paid directly from the Special Revenue, Tax Increment Financing Fund since they have not been previously certified as debt.

- (10) Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1.

City of Independence

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager  
Kelly L. Hilton, Senior Auditor  
Cole J. Hanley, CPA, Staff Auditor  
Nicholas H. Shields, Auditor Intern



Andrew E. Nielsen, CPA  
Deputy Auditor of State