

City of Indianola

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

June 30, 2019

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**City of Indianola
OFFICIALS**

| <u>Name</u> | <u>Title</u> | <u>Term expires</u> |
|-----------------|----------------|---------------------|
| Kelly Shaw | Mayor | December 2021 |
| John Parker Jr. | Council Member | December 2019 |
| Joe Gezel | Council Member | December 2019 |
| Shirley Clark | Council Member | December 2019 |
| Greg Marchant | Council Member | December 2021 |
| Greta Southall | Council Member | December 2021 |
| Bob Kling | Council Member | December 2021 |
| Ryan Waller | City Manager | Indefinite |
| Diana Bowlin | City Clerk | Indefinite |
| Amy Beattie | Attorney | Indefinite |



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
City of Indianola
Indianola, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Indianola, Iowa (the City), as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 Indianola, Iowa as of June 30, 2019, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

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

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above do not include the financial data of Indianola Municipal Utilities, a component unit of the City, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the results of the cash transactions of the funds of the City of Indianola as of and for the year ended June 30, 2019 on the basis of accounting described in Note 1.

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 Indianola'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 year ended June 30, 2018 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the eight years ended June 30, 2017 (which are not presented herein) were audited by other auditors whose report dated March 12, 2018 stated that they 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 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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, the schedule of City contributions on pages 6 through 11 and 37 through 45 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 April 15, 2020 on our consideration of the City'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's internal control over financial reporting and compliance.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
April 15, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Indianola (City) 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, 2019. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2019 FINANCIAL HIGHLIGHTS

- The City's governmental activities' receipts increased 13.7% or approximately \$2,070,000 from fiscal year 2018. Increase is due primarily to an increase in ambulance billing receipts included in charges for services and property taxes.
- City governmental activities' disbursements decreased 1.5% or approximately \$210,000 from fiscal year 2018. Decrease was due primarily to a decrease in debt service disbursements.
- The City's total cash basis net position at June 30, 2019 increased approximately 18.5% or approximately \$3,800,000 from June 30, 2018. Of this amount, the City's governmental funds cash basis net position increased approximately \$3,960,000 (23.7%), the net position of the enterprise funds decreased approximately \$170,000 (4.7%), and the net position of the internal service fund increased by approximately \$330,000 (26.2%).

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 Statement of Activities and Net Position - Cash Basis. 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, nonmajor proprietary funds, the City's indebtedness and receipts by source and disbursements by function.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "How do the City's finances compare at the end of this fiscal year to the last fiscal year?". The Statement of Activities and Net Position - Cash Basis reports information which helps answer this question.

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property and other taxes finance most of these activities.
- Business Type Activities include the sanitary sewer, storm water and solid waste 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. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2. Proprietary funds account for the City's Enterprise Funds and the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Sewer, Recycling, and Storm Water Funds. 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 propriety funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Activities

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 from approximately \$16.7 million to \$20.7 million. 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 (Expressed in Thousands) | | |
|---|--------------------|------------------|
| | Year ended June 30 | |
| | 2019 | 2018 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 2,083 | \$ 1,409 |
| Operating grants, contributions and restricted interest | 2,385 | 2,247 |
| Capital grants, contributions and restricted interest | 23 | 227 |
| General receipts: | | |
| Property taxes | 9,225 | 8,676 |
| Hotel motel taxes | 156 | 139 |
| Other taxes | 1,930 | 1,957 |
| Payments in lieu of taxes | 902 | - |
| Unrestricted interest on investments | 407 | 257 |
| Bond proceeds | - | 125 |
| Other general receipts | 37 | 45 |
| Total receipts | <u>17,148</u> | <u>15,082</u> |
| Disbursements: | | |
| Public safety | 4,949 | 5,137 |
| Public works | 1,586 | 1,637 |
| Culture and recreation | 2,134 | 2,069 |
| Community and economic development | 516 | 488 |
| General government | 847 | 1,090 |
| Debt service | 1,935 | 2,420 |
| Capital projects | 1,699 | 1,031 |
| Total disbursements | <u>13,666</u> | <u>13,872</u> |
| Change in cash basis net position before transfers | 3,482 | 1,210 |
| Transfers, net | <u>480</u> | <u>1,495</u> |
| Change in cash basis net position | 3,962 | 2,705 |
| Cash basis net position beginning of year | <u>16,697</u> | <u>13,992</u> |
| Cash basis net position end of year | <u>\$ 20,659</u> | <u>\$ 16,697</u> |

The City's total receipts for governmental activities increased by \$2,066,000 (13.7%) primarily due to the inclusion of payments in lieu of taxes in fiscal 2019, and increases in charges for service and property taxes. The total cost of all programs and services decreased by \$206,000 (1.5%) primarily due to decreases in debt service and general government, partially offset by increases in capital projects.

The cost of all governmental activities this year was approximately \$13.7 million compared to \$13.9 million in the prior year. However, as shown in the Statement of Activities and Net Position - Cash Basis on pages 13-14, the amount that our taxpayers ultimately financed for these activities through City taxes was \$9.2 million because some of the cost was paid by those who directly benefit from the programs (\$2.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions (approximately \$2.4 million). Overall, the City's governmental programs receipts, including intergovernmental aid and fees for services, increased in 2019 from \$3.9 million to \$4.5 million. The city paid for the remaining "public benefit" portion of governmental activities with approximately \$11.3 million of tax receipts (some of which could only be used for certain programs), with cash reserves and other receipts, such as bond proceeds, interest and general receipts.

Business Type Activities

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)

| | Year ended June 30 | |
|--|--------------------|-----------------|
| | 2019 | 2018 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Sewer | \$ 3,304 | \$ 3,332 |
| Other | 491 | 435 |
| General Receipts: | | |
| Unrestricted interest on investments | 65 | 45 |
| Bond proceeds | 1,112 | 1,934 |
| Total receipts | <u>4,972</u> | <u>5,746</u> |
| Disbursements: | | |
| Sewer | 4,238 | 4,385 |
| Other | 411 | 407 |
| Total disbursements | <u>4,649</u> | <u>4,792</u> |
| Change in cash basis net position before transfers | 323 | 954 |
| Transfers, net | <u>(480)</u> | <u>(630)</u> |
| Change in cash basis net position | (157) | 324 |
| Cash basis net position beginning of year | <u>3,832</u> | <u>3,508</u> |
| Cash basis net position end of year | <u>\$ 3,675</u> | <u>\$ 3,832</u> |

Total business type activities receipts for the fiscal year were approximately \$5.0 million compared to \$5.7 million last year. This decrease was due primarily to a decline in proceeds from the issuance of bonds. The cash basis net position decreased by approximately \$157,000 from the prior year. Total disbursements for the fiscal year decreased by approximately \$143,000 to a total of \$4.6 million due to a decrease in sewer related capital projects.

INDIVIDUAL MAJOR FUND ANALYSIS

As the City of Indianola completed the year, its governmental funds reported a combined fund balance of approximately \$19.6 million, an increase of approximately \$3.8 million from the prior year. The following are the major reasons for the changes in fund balances from the prior year for the City's major funds.

Governmental Funds

- The General Fund is the main operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was approximately \$8.1 million, an increase of \$1.2 million from the prior year. This increase was mainly due to increases in ambulance billing receipts.
- The Local Option Sales Tax Fund was established to account for the City's local option sales tax receipts and applicable disbursements. At the end of the fiscal year, the fund balance was approximately \$5.2 million, an increase of \$1.8 million from the prior year. This increase was due to the City's intent to build fund balance to fund future capital projects.
- The Urban Renewal Tax Increment Fund was established to account for the taxes authorized in the City's Urban Renewal Districts which are used to pay principal and interest on indebtedness incurred for urban renewal redevelopment projects. At the end of the fiscal year, the fund balance was approximately \$2.7 million, an increase of \$1.0 million from the prior year.

Individual Major Proprietary Fund Analysis

- The cash balance of the Sewer Fund decreased by \$190,000 to \$2.9 million due primarily to capital project disbursements exceeding bond proceeds.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget twice. The amendments were approved to provide for additional receipts and expenditures in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were approximately \$50,000 more than budgeted. This was primarily due to amounts budgeted for other City taxes use of money and property, intergovernmental and miscellaneous.

With the budget amendments, total disbursements were approximately \$3,500,000 less than the amended budget. This was primarily due to business type activities and capital projects being far less than the amended budget.

DEBT ADMINISTRATION

At June 30, 2019, the City had \$23.5 million in bonds and other long-term debt compared to \$24.7 million last year as shown below.

| | Outstanding Debt at Year-End (Expressed in Thousands) | |
|--|--|------------------|
| | June 30 | |
| | 2019 | 2018 |
| General obligation bonds | \$ 11,580 | \$ 13,380 |
| Iowa Economic Development Authority loan | 100 | 125 |
| Revenue bonds | <u>11,863</u> | <u>11,236</u> |
| | <u>\$ 23,543</u> | <u>\$ 24,741</u> |

Change in debt obligations is due to the issuance of approximately \$1.1 million in revenue bonds during the fiscal year, offset by principal payments of \$2.3 million.

The City carries a general obligation bond rating of Aa2 assigned by a national rating agency to the City's debt. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5 percent of the assessed valuation of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$11.58 million is below the City's \$47.99 million legal debt limit. The outstanding general obligation debt is 24.1% of the legal debt limit.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2020 fiscal year budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy. The City's tax base has grown at an annualized rate of approximately 4.1% over the past three years. The U.S. Consumer Price Index (CPI) is a measure of the changes in retail prices of a fixed market grouping of consumer goods and services. For the 12 month period that ended in June, 2019 the CPI-U increased 1.7%.

These indicators were taken into account when adopting the budget for 2020. Budgeted disbursements are expected to increase by approximately \$3.7 million and budgeted receipts are expected to decrease approximately \$3.7 million. Increases in disbursements relate primarily to budgeted increases in public safety and business type disbursements. Decreases in budget revenues are due primarily to decreases in budgeted other City taxes and charges for service. The City's property tax rate for fiscal year 2020 increased 4.5% to \$13.28 per \$1,000 in taxable valuation.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by \$4.9 million by the close of fiscal year 2020.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Andy Lent, Finance Director, 110 North 1st Street, Indianola, Iowa 50125.

BASIC FINANCIAL STATEMENTS

City of Indianola
STATEMENT OF ACTIVITIES AND NET POSITION - CASH BASIS
As of and for the year ended June 30, 2019

| | | Program revenues | | |
|------------------------------------|-----------------------------|-----------------------------------|--|--|
| FUNCTIONS/PROGRAMS | <u>Disbursements</u> | <u>Charges for service</u> | <u>Operating grants, contributions, and restricted interest</u> | <u>Capital grants, contributions, and restricted interest</u> |
| Governmental activities | | | | |
| Public safety | \$ 4,948,589 | \$ 866,984 | \$ 327,377 | \$ - |
| Public works | 1,586,213 | 25,701 | 1,909,623 | - |
| Culture and recreation | 2,133,944 | 500,529 | 147,982 | - |
| Community and economic development | 516,009 | 46,548 | - | - |
| General government | 846,913 | 643,434 | - | - |
| Debt service | 1,935,236 | - | - | - |
| Capital projects | <u>1,699,177</u> | <u>-</u> | <u>-</u> | <u>23,247</u> |
| Total governmental activities | <u>13,666,081</u> | <u>2,083,196</u> | <u>2,384,982</u> | <u>23,247</u> |
| Business type activities | | | | |
| Sewer | 4,238,063 | 3,304,422 | - | - |
| Other | <u>411,328</u> | <u>490,810</u> | <u>-</u> | <u>-</u> |
| Total business type activities | <u>4,649,391</u> | <u>3,795,232</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$18,315,472</u> | <u>\$5,878,428</u> | <u>\$2,384,982</u> | <u>\$ 23,247</u> |

GENERAL RECEIPTS AND TRANSFERS

Property and other city tax levied for
 General purposes
 Debt service
Tax increment financing
Hotel motel tax
Other tax
Payments in lieu of taxes
Commercial/industrial tax replacement
Unrestricted investment earnings
Bond proceeds
Sale of capital assets
Transfers
 Total general receipts and transfers
Change in cash basis net position

CASH BASIS NET POSITION, beginning of year

CASH BASIS NET POSITION, end of year

CASH BASIS NET POSITION

Restricted
 Expendable
 Streets
 Urban renewal purposes
 Capital projects
 Debt service
 Other purposes
Unrestricted

Total cash basis net assets

See Notes to Financial Statements.

**Net (disbursements) receipts and
changes in cash basis net position**

| Primary government | | |
|--------------------------------|---------------------------------|---------------------|
| Governmental activities | Business type activities | Total |
| \$ (3,754,228) | \$ — | \$ (3,754,228) |
| 349,111 | — | 349,111 |
| (1,485,433) | — | (1,485,433) |
| (469,461) | — | (469,461) |
| (203,479) | — | (203,479) |
| (1,935,236) | — | (1,935,236) |
| <u>(1,675,930)</u> | <u>—</u> | <u>(1,675,930)</u> |
| <u>(9,174,656)</u> | <u>—</u> | <u>(9,174,656)</u> |
| — | (933,641) | (933,641) |
| — | 79,482 | 79,482 |
| <u>—</u> | <u>(854,159)</u> | <u>(854,159)</u> |
| <u>(9,174,656)</u> | <u>(854,159)</u> | <u>(10,028,815)</u> |
| 6,116,030 | — | 6,116,030 |
| 615,157 | — | 615,157 |
| 2,302,131 | — | 2,302,131 |
| 155,560 | — | 155,560 |
| 1,929,502 | — | 1,929,502 |
| 902,400 | — | 902,400 |
| 192,767 | — | 192,767 |
| 406,784 | 64,484 | 471,268 |
| — | 1,112,292 | 1,112,292 |
| 36,560 | — | 36,560 |
| 479,817 | (479,817) | — |
| <u>13,136,708</u> | <u>696,959</u> | <u>13,833,667</u> |
| 3,962,052 | (157,200) | 3,804,852 |
| <u>16,696,596</u> | <u>3,832,331</u> | <u>20,528,927</u> |
| <u>\$20,658,648</u> | <u>\$3,675,131</u> | <u>\$24,333,779</u> |
| \$ 1,846,321 | \$ — | \$ 1,846,321 |
| 2,743,627 | — | 2,743,627 |
| 458,278 | — | 458,278 |
| 1,026,196 | 74,471 | 1,100,667 |
| 5,648,379 | — | 5,648,379 |
| <u>8,935,847</u> | <u>3,600,660</u> | <u>12,536,507</u> |
| <u>\$20,658,648</u> | <u>\$3,675,131</u> | <u>\$24,333,779</u> |

City of Indianola
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the year ended June 30, 2019

| | <u>General</u> | <u>Special revenue</u> | | | <u>Urban Renewal Tax Increment</u> |
|---|--------------------|-------------------------|---------------------------------------|--|--|
| | | <u>Road Use Tax</u> | <u>Local Option Sales Tax</u> | <u>Employee Benefit Tax Levy</u> | |
| RECEIPTS | | | | | |
| Property tax | \$4,245,302 | \$ - | \$ - | \$1,870,728 | \$ - |
| Tax increment financing | - | - | - | - | 2,302,131 |
| Other city tax | 302,503 | - | 1,759,296 | - | - |
| Licenses and permits | 217,685 | - | - | - | - |
| Use of money and property | 684,000 | - | - | - | - |
| Intergovernmental | 1,599,681 | 1,909,623 | - | 44,605 | 34,189 |
| Charges for service | 959,881 | - | - | - | - |
| Special assessments | - | - | - | - | - |
| Miscellaneous | <u>425,067</u> | <u>925</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total receipts | <u>8,434,119</u> | <u>1,910,548</u> | <u>1,759,296</u> | <u>1,915,333</u> | <u>2,336,320</u> |
| DISBURSEMENTS | | | | | |
| Operating | | | | | |
| Public safety | 5,067,392 | - | - | - | - |
| Public works | 419,052 | 1,229,628 | - | - | - |
| Culture and recreation | 2,088,341 | - | - | - | - |
| Community and economic development | 511,211 | - | - | - | 4,558 |
| General government | 828,581 | - | - | - | - |
| Debt service | 29,147 | - | - | - | - |
| Capital projects | <u>838,877</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total disbursements | <u>9,782,601</u> | <u>1,229,628</u> | <u>-</u> | <u>-</u> | <u>4,558</u> |
| Excess (deficiency) of receipts over (under) disbursements | (1,348,482) | <u>680,920</u> | <u>1,759,296</u> | <u>1,915,333</u> | <u>2,331,762</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Sale of assets | 16,350 | - | - | - | - |
| Operating transfers in | 3,012,139 | - | - | - | - |
| Operating transfers out | <u>(519,501)</u> | <u>(392,000)</u> | <u>-</u> | <u>(1,904,826)</u> | <u>(1,330,117)</u> |
| Total other financing sources (uses) | <u>2,508,988</u> | <u>(392,000)</u> | <u>-</u> | <u>(1,904,826)</u> | <u>(1,330,117)</u> |
| Net change in cash balances | 1,160,506 | 288,920 | 1,759,296 | 10,507 | 1,001,645 |
| CASH BALANCES, beginning of year | <u>6,892,788</u> | <u>1,557,401</u> | <u>3,481,405</u> | <u>-</u> | <u>1,741,982</u> |
| CASH BALANCES, end of year | <u>\$8,053,294</u> | <u>\$1,846,321</u> | <u>\$5,240,701</u> | <u>\$ 10,507</u> | <u>\$2,743,627</u> |
| CASH BASIS FUND BALANCES | | | | | |
| Restricted for | | | | | |
| Streets | \$ - | \$1,846,321 | \$ - | \$ - | \$ - |
| Urban renewal purposes | - | - | - | - | 2,743,627 |
| Capital projects | - | - | - | - | - |
| Debt service | - | - | - | - | - |
| Other purpose | 129,452 | - | 5,240,701 | 10,507 | - |
| Unassigned | <u>7,923,842</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total cash basis fund balances | <u>\$8,053,294</u> | <u>\$1,846,321</u> | <u>\$5,240,701</u> | <u>\$ 10,507</u> | <u>\$2,743,627</u> |

See Notes to Financial Statements.

| <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|---------------------|-------------------------|------------------------------------|---------------------|
| \$ 615,157 | \$ - | \$ - | \$ 6,731,187 |
| - | - | - | 2,302,131 |
| - | - | - | 2,061,799 |
| - | - | - | 217,685 |
| - | - | 1,219 | 685,219 |
| 169,356 | 988 | - | 3,758,442 |
| - | - | - | 959,881 |
| 20,646 | 2,617 | - | 23,263 |
| <u>-</u> | <u>22,259</u> | <u>80,398</u> | <u>528,649</u> |
| <u>805,159</u> | <u>25,864</u> | <u>81,617</u> | <u>17,268,256</u> |
| - | - | - | 5,067,392 |
| - | - | - | 1,648,680 |
| - | - | 73,848 | 2,162,189 |
| - | 240 | - | 516,009 |
| - | - | - | 828,581 |
| 2,062,589 | - | - | 2,091,736 |
| <u>-</u> | <u>860,300</u> | <u>-</u> | <u>1,699,177</u> |
| <u>2,062,589</u> | <u>860,540</u> | <u>73,848</u> | <u>14,013,764</u> |
| (1,257,430) | (834,676) | 7,769 | 3,254,492 |
| - | 20,210 | - | 36,560 |
| 1,107,621 | 531,501 | - | 4,651,261 |
| <u>-</u> | <u>-</u> | <u>(25,000)</u> | <u>(4,171,444)</u> |
| <u>1,107,621</u> | <u>551,711</u> | <u>(25,000)</u> | <u>516,377</u> |
| (149,809) | (282,965) | (17,231) | 3,770,869 |
| <u>1,176,005</u> | <u>741,243</u> | <u>284,950</u> | <u>15,875,774</u> |
| <u>\$1,026,196</u> | <u>\$ 458,278</u> | <u>\$ 267,719</u> | <u>\$19,646,643</u> |
| \$ - | \$ - | \$ - | \$ 1,846,321 |
| - | - | - | 2,743,627 |
| - | 458,278 | - | 458,278 |
| 1,026,196 | - | - | 1,026,196 |
| - | - | 267,719 | 5,648,379 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>7,923,842</u> |
| <u>\$1,026,196</u> | <u>\$ 458,278</u> | <u>\$ 267,719</u> | <u>\$19,646,643</u> |

City of Indianola
**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET POSITION – CASH BASIS
 GOVERNMENTAL FUNDS
 As of and for the year ended June 30, 2019**

| | |
|--|----------------------------|
| Total governmental funds cash balances (pages 15-16) | \$19,646,643 |
| <i>Amounts reported for governmental activities in the Statement of Activities and Net Position - Cash Basis are different because:</i> | |
| The Internal Service Funds are used by management to charge the costs of various internal activities to individual funds. A portion of the cash basis balance of the Internal Service Funds is included in governmental activities in the Statement of Activities and Net Position - Cash Basis. | <u>1,012,005</u> |
| Cash basis net position of governmental activities (pages 13-14) | <u>\$20,658,648</u> |
| Net change in cash balances (pages 15-16) | \$ 3,770,869 |
| <i>Amounts reported for governmental activities in the Statement of Activities and Net Position - Cash Basis are different because:</i> | |
| The Internal Service Funds are used by management to charge the costs of various internal activities to individual funds. A portion of the change in cash balance of the Internal Service Funds is reported with governmental activities in the Statement of Activities and Net Position - Cash Basis. | <u>191,183</u> |
| Change in cash basis net position of governmental activities (pages 13-14) | <u>\$ 3,962,052</u> |

City of Indianola
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS**
 As of and for the year ended June 30, 2019

| | <u>Enterprise Funds</u> | | | <u>Internal Service Funds</u> |
|--|-------------------------|--|--------------------|---------------------------------------|
| | <u>Sewer</u> | <u>Nonmajor Enterprise Funds</u> | <u>Total</u> | |
| OPERATING RECEIPTS | | | | |
| Charges for service | \$3,136,809 | \$ 490,810 | \$3,627,619 | \$1,627,561 |
| Miscellaneous | 112,704 | - | 112,704 | 68,455 |
| Total operating receipts | <u>3,249,513</u> | <u>490,810</u> | <u>3,740,323</u> | <u>1,696,016</u> |
| OPERATING DISBURSEMENTS | | | | |
| Governmental Activities | | | | |
| Public safety | - | - | - | 443,119 |
| Public works | - | - | - | 92,260 |
| Culture and recreation | - | - | - | 169,608 |
| General government | - | - | - | 125,409 |
| Business type activities | 1,490,481 | 340,579 | 1,831,060 | 85,728 |
| Component unit | | | | |
| Indianola Municipal Utility | - | - | - | 449,194 |
| Total operating disbursements | <u>1,490,481</u> | <u>340,579</u> | <u>1,831,060</u> | <u>1,365,318</u> |
| Excess of operating receipts over operating disbursements | <u>1,759,032</u> | <u>150,231</u> | <u>1,909,263</u> | <u>330,698</u> |
| NONOPERATING RECEIPTS (DISBURSEMENTS) | | | | |
| Bond proceeds | 1,112,292 | - | 1,112,292 | - |
| Interest on investments | 64,484 | - | 64,484 | 306 |
| Rental income | 43,874 | - | 43,874 | - |
| Special assessments | 11,035 | - | 11,035 | - |
| Debt service | (815,481) | - | (815,481) | - |
| Capital projects | (1,949,731) | (70,749) | (2,020,480) | - |
| Net nonoperating receipts (disbursements) | <u>(1,533,527)</u> | <u>(70,749)</u> | <u>(1,604,276)</u> | <u>306</u> |
| Excess of receipts over disbursements | 225,505 | 79,482 | 304,987 | 331,004 |
| TRANSFERS OUT | <u>(415,917)</u> | <u>(63,900)</u> | <u>(479,817)</u> | <u>-</u> |
| Net change in cash balances | (190,412) | 15,582 | (174,830) | 331,004 |
| CASH BALANCES, beginning of year | <u>3,050,733</u> | <u>665,078</u> | <u>3,715,811</u> | <u>1,264,315</u> |
| CASH BALANCES, end of year | <u>\$2,860,321</u> | <u>\$ 680,660</u> | <u>\$3,540,981</u> | <u>\$1,595,319</u> |
| CASH BASIS FUND BALANCES | | | | |
| Restricted for debt service | \$ 74,471 | \$ - | \$ 74,471 | \$ - |
| Unrestricted | <u>2,785,850</u> | <u>680,660</u> | <u>3,466,510</u> | <u>1,595,319</u> |
| Total cash basis fund balances | <u>\$2,860,321</u> | <u>\$ 680,660</u> | <u>\$3,540,981</u> | <u>\$1,595,319</u> |

See Notes to Financial Statements.

City of Indianola
**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET POSITION – CASH BASIS
 PROPRIETARY FUNDS**
 As of and for the year ended June 30, 2019

Total enterprise funds cash balances (page 18) \$3,540,981

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

The Internal Service Funds are used by management to charge the costs of various internal activities to individual funds. A portion of the cash basis balance of the Internal Service Funds is included in business type activities in the Statement of Activities and Net Position - Cash Basis.

| | | |
|---|------------------|----------------|
| Cash balances held for business type activities | 583,314 | |
| Less cash balances held for Indianola Municipal Utilities | <u>(449,164)</u> | <u>134,150</u> |

Cash basis net position of governmental activities (pages 13-14) \$3,675,131

Net change in cash balances (page 18) \$ (174,830)

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

The Internal Service Funds are used by management to charge the costs of various internal activities to individual funds. A portion of the change in cash balance of the Internal Service Funds is reported with business type activities in the Statement of Activities and Net Position - Cash Basis.

| | | |
|---|------------------|---------------|
| Change in cash balances from business type activities | 139,821 | |
| Less change in cash balances from Indianola Municipal Utilities | <u>(122,191)</u> | <u>17,630</u> |

Change in cash basis net position of governmental activities (pages 13-14) \$ (157,200)

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Indianola (the City) is a political subdivision of the State of Iowa located in Warren County. It was 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 sewer, storm water and recycling utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, Indianola Municipal Utility (IMU). 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.

IMU has been audited separately and a report has been issued under separate cover. IMU's audited financial statements are available at the City Clerk's office.

These financial statements present the City of Indianola (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Component Unit

The Indianola Community Parks and Recreation Foundation has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the primary purpose to encourage gifts and raise funds to be used solely for the development, maintenance and enhancement of the Indianola community recreational programs, facilities, and public parks. In accordance with criteria set by the Governmental Accounting Standards Board, the Foundation 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.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: South Central Iowa Landfill Agency Board, Central Iowa Regional Transportation Planning Alliance Board, Metropolitan Planning Organization Committee, Warren County Economic Development Corporation, Greater Des Moines Convention and Visitor's Bureau, and BRAVO Greater Des Moines.

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

Government-wide Financial Statement

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

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

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

The Statement of Activities and Net Position—Cash Basis 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. All remaining enterprise funds are aggregated and reported as nonmajor enterprise funds.

The City reports the following major governmental funds:

General Fund

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

Special Revenue

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

The Local Option Sales Tax Fund is used to account for local option sales tax collections.

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

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Fund Financial Statements (continued)

Special Revenue (continued)

The Employee Benefit Tax Levy Fund is used to account for property tax levied to finance the payment of employee benefits.

Debt Service Fund

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.

Capital Projects Fund

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through enterprise funds.

The City reports the following major proprietary funds:

Sewer Fund

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

The City also reports the following additional proprietary fund:

An 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.

Measurement Focus and Basis of Accounting

The City of Indianola 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, property and equipment, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

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

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Cash Basis Fund Balances

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

Restricted

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

Unassigned

All amounts not included in the preceding classification.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2019, disbursements exceeded the amounts budgeted in the public works and community and economic development functions.

NOTE 2 CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2019 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.

At June 30, 2019, the City and IMU had the following investments:

| <u>Security Description</u> | <u>Fair Value</u> | <u>Carrying Amount</u> | <u>Investment Maturities (in Years)</u> | | | |
|-----------------------------|---------------------|------------------------|---|---------------------|---------------------|---------------------|
| | | | <u>Less Than 1</u> | <u>1 – 5</u> | <u>6 – 10</u> | <u>More Than 10</u> |
| Money markets | \$ 8,167,802 | \$ 8,167,832 | \$ 8,167,802 | \$ – | \$ – | \$ – |
| Federal Farm Credit | 2,204,103 | 2,223,065 | – | 2,204,103 | – | – |
| FHLA | 1,982,773 | 1,977,948 | 1,045,442 | 774,747 | 162,584 | – |
| FHLB | 3,340,573 | 3,340,434 | – | 2,409,234 | 931,339 | – |
| FNMA | 4,898,269 | 4,911,036 | 898,683 | 2,083,022 | 1,282,221 | 634,343 |
| GNMA | 191,786 | 182,562 | – | 191,786 | – | – |
| SBA asset backed securities | 338,381 | 327,201 | 6,445 | 110,648 | – | 221,288 |
| U.S. Treasury bills | <u>8,546,879</u> | <u>8,356,359</u> | <u>–</u> | <u>5,830,909</u> | <u>2,715,970</u> | <u>–</u> |
| | 29,670,566 | 29,486,437 | <u>\$10,118,372</u> | <u>\$13,604,449</u> | <u>\$ 5,092,114</u> | <u>\$ 855,631</u> |
| Less funds held by IMU | (12,318,987) | (12,242,539) | | | | |
| Total | <u>\$17,351,579</u> | <u>\$17,243,898</u> | | | | |

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND POOLED INVESTMENTS (continued)

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

The recurring fair value of the City's investments were determined using quoted market prices (Level 1 inputs).

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$114,703. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk

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

Credit risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2019, the City's investments were rated as follows:

| <u>Rating</u> | <u>Carrying Amount</u> |
|---------------|------------------------|
| AAA | \$10,248,471 |
| Aaa | 8,295,511 |
| Not Rated | <u>10,942,455</u> |
| | <u>\$29,486,437</u> |

NOTE 3 BONDS AND NOTES PAYABLE

A summary of changes in bonds and notes payable for the year ended June 30, 2019 is as follows:

| | <u>Balance June 30, 2018</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2019</u> |
|--|----------------------------------|--------------------|--------------------|----------------------------------|
| Governmental activities | | | | |
| General obligation bonds | \$13,380,000 | \$ - | \$1,800,000 | \$11,580,000 |
| Iowa Economic Development Authority Loan | 125,000 | - | 24,503 | 100,497 |
| Business type activities | | | | |
| Revenue bonds | <u>11,236,410</u> | <u>1,112,292</u> | <u>486,000</u> | <u>11,862,702</u> |
| | <u>\$24,741,410</u> | <u>\$1,112,292</u> | <u>\$2,310,503</u> | <u>\$23,543,199</u> |

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 3 BONDS AND NOTES PAYABLE (continued)

A summary of the bond/note principal and interest maturities by type of bond/note is as follows:

| Year ending June 30 | General Obligation | | | Iowa Economic Development Authority Loan | | | Revenue | | |
|------------------------|---------------------|--------------------|---------------------|---|-----------------|-------------------|---------------------|--------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2020 | \$ 1,835,000 | \$ 235,145 | \$ 2,070,145 | \$ 24,750 | \$ 943 | \$ 25,693 | \$ 498,000 | \$ 263,770 | \$ 761,770 |
| 2021 | 1,560,000 | 206,340 | 1,766,340 | 24,998 | 695 | 25,693 | 510,000 | 254,430 | 764,430 |
| 2022 | 1,465,000 | 179,733 | 1,644,733 | 25,249 | 445 | 25,694 | 524,000 | 244,823 | 768,823 |
| 2023 | 1,495,000 | 153,400 | 1,648,400 | 25,500 | 191 | 25,691 | 536,000 | 234,915 | 770,915 |
| 2024 | 1,250,000 | 124,553 | 1,374,553 | — | — | — | 550,000 | 224,755 | 774,755 |
| 2025-2029 | 3,665,000 | 295,270 | 3,960,270 | — | — | — | 2,972,000 | 960,560 | 3,932,560 |
| 2030-2034 | 310,000 | 15,125 | 325,125 | — | — | — | 3,194,000 | 658,050 | 3,852,050 |
| 2035-2039 | — | — | — | — | — | — | 2,237,702 | 316,000 | 2,553,702 |
| 2040-2041 | — | — | — | — | — | — | 841,000 | 38,040 | 879,040 |
| Totals | <u>\$11,580,000</u> | <u>\$1,209,566</u> | <u>\$12,789,566</u> | <u>\$ 100,497</u> | <u>\$ 2,274</u> | <u>\$ 102,771</u> | <u>\$11,862,702</u> | <u>\$3,195,343</u> | <u>\$15,058,045</u> |

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

- (1) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to a sewer bond and interest sinking fund for the purpose of making the bond principal and interest payments when due.
- (3) A separate sewer operations and maintenance fund shall maintain specific minimum balances.

The City has pledged future sewer customer revenues, net of specified operating expenses, to repay \$16,393,000 in revenue notes issued from 2009 to 2017. Proceeds from the notes provided financing for the costs of acquisition, construction, improving, extending, and equipping of the municipal sewer system utility. The notes are payable solely from customer net receipts and are payable through 2041. Annual principal and interest payments on the notes are expected to require less than net revenues. The total principal and interest remaining to be paid on the notes is \$11,862,702. For the current year, principal and interest paid and total customer net revenues were \$791,818 and \$1,878,425, respectively.

In March, 2018 the City entered into a nuisance property and abandoned building remediation loan with the Iowa Economic Development Authority (IEDA) for \$125,000 bearing interest at 1%. The proceeds from the loan are to be used to repair buildings owned by private developers. The City has entered into corresponding developer agreements and promissory notes with the developers which provide for the City to be repaid for the cost of the building repairs with terms consistent with those the City received from IEDA.

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 4 PENSION PLANS

Iowa Public Employees' Retirement System (IPERS)

Plan Description

IPERS is a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System. Membership is mandatory for employees of the City, except for those covered by another retirement system. IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

Pension Benefits

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

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

Protection occupation members may retire at normal retirement age, which is generally at age 55 and may retire any time after reaching age 50 with 22 or more years of covered employment. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 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 starting 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.

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 4 PENSION PLANS (continued)

Iowa Public Employees' Retirement System (IPERS) (continued)

Contributions

The 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 2019, pursuant to the required rate, regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll for a total rate of 15.73%. Protection occupation members contributed 6.81% of covered payroll and the City contributed 10.21% of covered payroll, for a total rate of 17.02%.

The City's total contributions to IPERS for the year ended June 30, 2019 were \$356,186.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the City reported a liability of \$1,984,919 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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. The following table summarizes the change in the City's proportionate share:

| | June 30 | | |
|----------------------------|----------------|-------------|---------------|
| | 2018 | 2017 | Change |
| City's proportionate share | 0.031366% | 0.031734% | (0.000368%) |

For the year ended June 30, 2019, the City pension expense, deferred outflows of resources and deferred inflows of resources totaled \$354,390, \$843,905 and \$190,783, respectively.

There were no nonemployer contributing entities to IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Rate of inflation (effective June 30, 2017) | 2.60% per annum |
| Rates of salary increase (effective June 30, 2017) | 3.25 to 16.25% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 2017) | 7.00% compounded annually, net of investment expense, including inflation |
| Wage growth (effective June 30, 2017) | 3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation |

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 4 PENSION PLANS (continued)

Iowa Public Employees' Retirement System (IPERS) (continued)

Actuarial Assumptions (continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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:

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------|-------------------------|---|
| Core Plus Fixed Income | 27.0% | 1.97% |
| Domestic Equity | 22.0 | 6.01 |
| International Equity | 15.0 | 6.48 |
| Private Equity | 11.0 | 10.81 |
| Private Real Assets | 7.5 | 4.14 |
| Public Real Assets | 7.0 | 2.91 |
| Public Credit | 3.5 | 3.93 |
| Private Credit | 3.0 | 3.11 |
| Global Smart Beta Equity | 3.0 | 6.23 |
| Cash | <u>1.0</u> | (0.25) |
| Total | <u>100.0%</u> | |

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. 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 of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate.

| | <u>1% Decrease (6.0%)</u> | <u>Discount Rate (7.0%)</u> | <u>1% Increase (8.0%)</u> |
|---|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability | <u>\$3,943,057</u> | <u>\$1,984,919</u> | <u>\$ 343,192</u> |

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 4 PENSION PLANS (continued)

Iowa Public Employees' Retirement System (IPERS) (continued)

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.

Municipal Fire and Police Retirement System of Iowa (MFPRSI)

Plan Description

MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at www.mfprsi.org.

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66% of the member's average final compensation. Members who perform more than 22 years of service receive an additional 2% of the member's average final compensation for each additional year of service, up to a maximum of 8 years. Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen, plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50% surviving spouse benefit.

Active members at least 55 years of age with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4, or 5 year DROP period. When electing to participate in DROP, the member signs a contract stating the member will retire at the end of the selected DROP period. During the DROP period, the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 month. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 4 PENSION PLANS (continued)

Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued)

Disability and Death Benefits

Disability benefits may be either accidental or ordinary. Accidental disability is defined as a permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50% of the member's average final compensation for those with 5 or more years of service or the member's service retirement benefit calculation amount and 25% of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50% of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40% of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50% of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased annually in accordance with Chapter 411.6 of the Code of Iowa, which provides a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

Contributions

Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2019.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa the City's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 26.02% for the year ended June 30, 2019.

The City's contributions to MFPRSI for the year ended June 30, 2019 was \$364,468.

If approved by the State Legislature, state appropriations may further reduce the City's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State of Iowa, therefore, is considered to be a nonemployer contributing entity in accordance with the provisions of the Governmental Accounting Standards Board Statement No. 67 – *Financial Reporting for Pension Plans*.

There were no state appropriations to MFPRSI during the fiscal year ended June 30, 2019.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the City reported a liability of \$2,506,053 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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 MFPRSI relative to the contributions of all MFPRSI participating employers.

**City of Indianola
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 PENSION PLANS (continued)

Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued)

The following table summarizes the change in the City's proportionate share:

| | June 30 | | |
|----------------------------|----------------|-------------|---------------|
| | 2018 | 2017 | Change |
| City's proportionate share | 0.420900% | 0.455810% | (0.034910%) |

For the year ended June 30, 2019, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$377,968, \$1,015,967, and \$301,623, respectively.

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Rate of inflation | 3.00% per annum |
| Rates of salary increase | 4.50 to 15.00%, including inflation. |
| Investment rate of return | 7.50%, net of investment expense, including inflation |

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2007 to June 30, 2017.

Postretirement mortality rates were based on the RP-2014 Blue Collar Combined Healthy Annuitant Table with males set-forward zero years, females set-forward two years and disabled individuals set-forward three years (male only rates), with generational projection of future mortality improvement with 50% of Scale BB beginning in 2017.

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

| Asset Class | Long-Term Expected Real Rate of Return |
|------------------------------|---|
| Large Cap | 5.5% |
| Small Cap | 5.8 |
| International Large Cap | 7.3 |
| Emerging Markets | 9.0 |
| Emerging Market Debt | 6.3 |
| Private Non-Core Real Estate | 8.0 |
| Master Limited Partnerships | 9.0 |
| Private Equity | 9.0 |
| Core Plus Fixed Income | 3.3 |
| Private Core Real Estate | 6.0 |
| Tactical Asset Allocation | 6.4 |

**City of Indianola
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 PENSION PLANS (continued)

Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed contributions will be made at 9.4% of covered payroll and the City contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, the MFPRSI's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on MFPRSI's investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate.

| | 1% Decrease (6.5%) | Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|-----------------------------------|-------------------------------------|-----------------------------------|
| City's proportionate share of the net pension liability | \$4,181,264 | \$2,506,053 | \$1,119,035 |

MFPRSI's Fiduciary Net Position

Detailed information about the MFPRSI's fiduciary net position is available in the separately issued MFPRSI financial report which is available on MFPRSI's website at www.mfprsi.org.

NOTE 5 COMPENSATED ABSENCES

City employees accumulate vacation and compensatory time for subsequent use of payment upon termination, retirement, or death. Sick leave hours are payable only when used and not upon separation of service. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits as of June 30, 2019, primarily relating to the General Fund, was as follows:

| Type of benefit | Amount |
|------------------------|--------------------|
| Vacation | \$ 297,380 |
| Compensatory time | 47,431 |
| Sick leave | 815,750 |
| Total | \$1,160,561 |

This liability has been computed based on rates of pay in effect at June 30, 2019.

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 6 HEALTH INSURANCE AND HEALTH REIMBURSEMENT ARRANGEMENT

The City self-funds its health insurance plan as permitted by Iowa Code Section 509A using an internal service fund. Transfers to the fund are made at pre-established rates for single or family coverage by each city department on a monthly basis. Disbursements from the fund are made to pay administrative fees, stop loss insurance premiums and payment of claims. As of June 30, 2019, the actuarially determined reserve necessary for claims incurred but not yet paid was \$110,919 and the internal service fund balance was \$1,331,448.

The City also maintains a health reimbursement arrangement (HRA) for the benefit of employees. The City makes a fixed annual commitment that employees may use to offset premium contributions or cash payments for any medical expense allowed under current income tax provisions. If the employee does not utilize the full amount provided in the fiscal year, the balance is carried forward to the following year and is available in any future period, including after retirement. Disbursements are paid out of operating funds and not held in trust. They are, however, accounted for in a sub-fund that is separate from other operating funds for budgetary control. Unpaid HRA balances totaled \$58,873 as of June 30, 2019.

NOTE 7 OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City administers a single-employer benefit plan which provides medical, prescription drug and dental benefits to retired employees and their dependents under certain conditions. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No 75.

OPEB Benefits

Individuals who are employed by the City and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical, prescription drug and dental benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 8 INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

| Transfer to | Transfer from | Amount |
|-----------------------|--|---|
| General fund | Special Revenue Urban renewal tax increment fund Road use tax fund Employee benefits fund Nonmajor special revenue Enterprise Sewer fund | \$ 315,596 380,000 1,904,826 25,000 <u>386,717</u> 3,012,139 |
| Capital projects fund | General fund Special revenue Road use tax fund | 519,501 <u>12,000</u> 531,501 |
| Debt Service | Urban renewal tax increment fund Enterprise Sewer Nonmajor enterprise | 1,014,521 29,200 <u>63,900</u> 1,107,621 |
| Total | | <u>\$4,651,261</u> |

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

NOTE 9 RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 778 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.

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 9 RISK MANAGEMENT (continued)

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, 2019 were \$116,959.

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 is a member of the Iowa Municipalities Workers' Compensation Association (the Association). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Worker's Compensation Coverage Agreement with the Association which extends through June 30, 2019 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2019, the City paid workers' compensation insurance premiums of \$82,084 to the Association.

NOTE 10 TAX ABATEMENTS

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

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers 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, 2019, the City abated \$115,719 of property tax under the urban renewal and economic development projects.

City of Indianola
NOTES TO FINANCIAL STATEMENTS

NOTE 11 REBATE AGREEMENTS

The City has entered into a rebate agreement for an urban renewal project. The agreement requires the City to rebate portions of the incremental property tax paid by the developer in exchange for development of commercial projects by the developer. During the year ended June 30, 2019, the City rebated \$315,595 of incremental property tax to the developer. At June 30, 2019, the City has no additional outstanding rebate agreements.

NOTE 12 DOWNTOWN BUSINESS INCENTIVE PROGRAM

The City offers an incentive program for renovation and repair of existing commercial building structures and facades in certain blocks of the Original Town Plat. Property owners in the program are eligible for grants for a portion of the costs incurred and obtain a loan from a local lender for the balance of the costs. In order to provide the loans to property owners at 3% interest, the City places a noninterest bearing deposit with the lender. As property owners pay down the loans, the noninterest bearing funds are released. As of June 30, 2019 the outstanding balance of the loans and noninterest bearing deposit accounts was \$116,480 and \$129,451, respectively.

NOTE 13 COMMITMENTS

The City has entered into contracts for street and highway improvements, trail improvements, sanitary sewer infrastructure improvements, and other projects totaling approximately \$4,630,000. The remaining commitment on these contracts at June 30, 2019 is approximately \$540,000. These contractual commitments will be funded through cash reserves and grant funds.

NOTE 14 LEASING ACTIVITIES

The City leases farm land under an operating lease agreement dated December 2017 and expiring December 2019. The lease calls for cumulative annual payments of \$40,300.

In 2011 the City entered into a 28E Agreement with the Young Men’s Christian Association of Greater Des Moines, Iowa (YMCA) for the construction and subsequent lease of Indianola’s YMCA branch facility. Under the terms of the agreement, the City constructed and owns the land and facility and the YMCA leases the facility from the City for a 25 year period, terminating in 2037.

The total minimum future lease payments under the leases at June 30, 2019 are as follows:

| <u>Year ending June 30</u> | <u>Farm land</u> | <u>YMCA</u> | <u>Total</u> |
|----------------------------|------------------|--------------------|--------------------|
| 2020 | \$ 25,800 | \$ 266,067 | \$ 291,867 |
| 2021 | – | 245,600 | 245,600 |
| 2022 | – | 245,600 | 245,600 |
| 2023 | – | 245,600 | 245,600 |
| 2024 | – | 245,600 | 245,600 |
| Thereafter | – | <u>3,192,800</u> | <u>3,192,800</u> |
| Total | <u>\$ 25,800</u> | <u>\$4,441,267</u> | <u>\$4,467,067</u> |

Receipts on these leases totaled \$265,433 during the year ended June 30, 2019.

NOTE 15 SUBSEQUENT EVENTS

In October 2019 the City issued a \$4,450,000 General Obligation Refunding Capital Loan Note for the purpose of refunding the City’s 2011E and 2012A bond issues.

OTHER INFORMATION

City of Indianola
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
Other Information
Year ended June 30, 2019

| | <u>Governmental funds actual</u> | <u>Proprietary funds actual</u> | <u>Adjustments to budget basis</u> | <u>Total</u> |
|---|--|---|--|---------------------|
| RECEIPTS | | | | |
| Property tax | \$ 6,731,187 | \$ - | \$ - | \$ 6,731,187 |
| Tax increment financing | 2,302,131 | - | - | 2,302,131 |
| Other city tax | 2,061,799 | - | - | 2,061,799 |
| Licenses and permits | 217,685 | - | - | 217,685 |
| Use of money and property | 685,219 | 108,358 | - | 793,577 |
| Intergovernmental | 3,758,442 | - | - | 3,758,442 |
| Charges for service | 959,881 | 3,627,619 | - | 4,587,500 |
| Special assessments | 23,263 | 11,035 | - | 34,298 |
| Miscellaneous | <u>528,649</u> | <u>112,704</u> | <u>(80,398)</u> | <u>560,955</u> |
| Total receipts | <u>17,268,256</u> | <u>3,859,716</u> | <u>(80,398)</u> | <u>21,047,574</u> |
| DISBURSEMENTS | | | | |
| Public safety | 5,067,392 | - | - | 5,067,392 |
| Public works | 1,648,680 | - | - | 1,648,680 |
| Culture and recreation | 2,162,189 | - | (73,848) | 2,088,341 |
| Community and economic development | 516,009 | - | 25,693 | 541,702 |
| General government | 828,581 | - | - | 828,581 |
| Debt service | 2,091,736 | - | (25,693) | 2,066,043 |
| Capital projects | 1,699,177 | - | - | 1,699,177 |
| Business type activities | - | <u>4,667,021</u> | - | <u>4,667,021</u> |
| Total disbursements | <u>14,013,764</u> | <u>4,667,021</u> | <u>(73,848)</u> | <u>18,606,937</u> |
| Excess (deficiency) of receipts over (under) disbursements | 3,254,492 | (807,305) | (6,550) | 2,440,637 |
| OTHER FINANCING SOURCES, net | <u>516,377</u> | <u>632,475</u> | <u>-</u> | <u>1,148,852</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 3,770,869 | (174,830) | (6,550) | 3,589,489 |
| BALANCES, beginning of year | <u>15,875,774</u> | <u>3,715,811</u> | <u>(197,955)</u> | <u>19,393,630</u> |
| BALANCES, end of year | <u>\$19,646,643</u> | <u>\$3,540,981</u> | <u>\$ (204,505)</u> | <u>\$22,983,119</u> |

See accompanying independent auditor's report.

| Budgeted amounts | | Final to actual variance- positive (negative) |
|-------------------------|---------------------|--|
| Original | Final | |
| \$ 6,703,851 | \$ 6,703,851 | \$ 27,336 |
| 2,285,759 | 2,285,759 | 16,372 |
| 1,309,050 | 1,309,050 | 752,749 |
| 222,905 | 222,905 | (5,220) |
| 464,285 | 486,285 | 307,292 |
| 2,691,602 | 3,533,971 | 224,471 |
| 4,349,324 | 4,569,324 | 18,176 |
| 19,750 | 19,750 | 14,548 |
| <u>1,858,024</u> | <u>1,866,024</u> | <u>(1,305,069)</u> |
| <u>19,904,550</u> | <u>20,996,919</u> | <u>50,655</u> |
| 5,174,635 | 5,245,289 | 177,897 |
| 1,540,576 | 1,540,576 | (108,104) |
| 2,098,946 | 2,098,946 | 10,605 |
| 477,537 | 477,537 | (64,165) |
| 1,446,845 | 1,446,845 | 618,264 |
| 2,076,545 | 2,076,545 | 10,502 |
| 2,938,373 | 2,543,145 | 843,968 |
| <u>4,881,214</u> | <u>6,674,341</u> | <u>2,007,320</u> |
| <u>20,634,671</u> | <u>22,103,224</u> | <u>3,496,287</u> |
| (730,121) | (1,106,305) | 3,546,942 |
| <u>3,272,292</u> | <u>3,392,292</u> | <u>(2,243,440)</u> |
| 2,542,171 | 2,285,987 | 1,303,502 |
| <u>10,746,323</u> | <u>10,746,323</u> | <u>8,647,307</u> |
| <u>\$13,288,494</u> | <u>\$13,032,310</u> | <u>\$9,950,809</u> |

City of Indianola
NOTE TO OTHER INFORMATION - BUDGETARY REPORTING
June 30, 2019

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 blended component unit. 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, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$1,468,553. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2019, disbursements in the public works and community and economic development functions exceeded the amount budgeted.

City of Indianola, Iowa
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Iowa Public Employees' Retirement System
For the Last Five Years*
(In Thousands)
Other Information

| <u>Iowa Public Employees' Retirement System</u> | June 30 | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| City's proportion of the net pension liability | 0.031366% | 0.031734% | 0.029023% | 0.037810% | 0.038029% |
| City's proportionate share of the net pension liability | \$1,985 | \$2,114 | \$1,827 | \$1,868 | \$1,508 |
| City's covered payroll | \$3,689 | \$3,312 | \$3,357 | \$3,142 | \$3,211 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 53.81% | 63.82% | 54.42% | 59.45% | 46.96% |
| IPERS' net position as a percentage of the total pension liability | 83.62% | 82.21% | 81.82% | 85.19% | 87.61% |
| | | | | | |
| <u>Municipal Fire and Police Retirement System of Iowa</u> | June 30 | | | | |
| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| City's proportion of the net pension liability | 0.420900% | 0.455810% | 0.446484% | 0.450375% | 0.467820% |
| City's proportionate share of the net pension liability | \$2,506 | \$2,673 | \$2,792 | \$2,116 | \$1,696 |
| City's covered payroll | \$1,399 | \$1,223 | \$1,291 | \$1,210 | \$1,181 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 179.13% | 218.56% | 216.25% | 174.88% | 143.58% |
| MFPRSI's net position as a percentage of the total pension liability | 81.07% | 80.60% | 78.20% | 83.04% | 86.27% |

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

See accompanying independent auditor's report.

City of Indianola, Iowa
SCHEDULE OF CITY CONTRIBUTIONS
Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)
Other Information

| <u>Iowa Public Employees' Retirement System</u> | June 30 | | | |
|--|--------------------|--------------------|--------------------|--------------------|
| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
| Statutorily required contribution | \$ 356 | \$ 304 | \$ 306 | \$ 288 |
| Contributions in relation to the statutorily required contribution | <u>356</u> | <u>304</u> | <u>306</u> | <u>288</u> |
| Contribution deficiency (excess) | \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> |
| City's covered payroll | <u>\$ 3,689</u> | <u>\$ 3,312</u> | <u>\$ 3,357</u> | <u>\$ 3,142</u> |
| Contributions as a percentage of covered payroll | 9.65% | 9.18% | 9.12% | 9.17% |

| <u>Municipal Fire and Police Retirement System of Iowa</u> | June 30 | | | |
|--|--------------------|--------------------|--------------------|--------------------|
| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
| Statutorily required contribution | \$ 364 | \$ 314 | \$ 334 | \$ 336 |
| Contributions in relation to the statutorily required contribution | <u>364</u> | <u>314</u> | <u>334</u> | <u>336</u> |
| Contribution deficiency (excess) | \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> |
| City's covered payroll | <u>\$ 1,399</u> | <u>\$ 1,223</u> | <u>\$ 1,291</u> | <u>\$ 1,210</u> |
| Contributions as a percentage of covered payroll | 26.02% | 25.67% | 25.92% | 27.77% |

See accompanying independent auditor's report.

| Year ended June 30 | | | | | |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| \$ 295 | \$ 306 | \$ 288 | \$ 254 | \$ 216 | \$ 198 |
| <u>295</u> | <u>306</u> | <u>288</u> | <u>254</u> | <u>216</u> | <u>198</u> |
| \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> |
| <u>\$ 3,211</u> | <u>\$ 3,324</u> | <u>\$ 3,185</u> | <u>\$ 2,987</u> | <u>\$ 2,838</u> | <u>\$ 2,751</u> |
| 9.19% | 9.21% | 9.04% | 8.50% | 7.61% | 7.20% |

| Year ended June 30 | | | | | |
|---------------------------|-----------------|-----------------|-----------------|-----------------|---------------|
| 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| \$ 359 | \$ 359 | \$ 292 | \$ 275 | \$ 205 | \$ 165 |
| <u>359</u> | <u>359</u> | <u>292</u> | <u>275</u> | <u>205</u> | <u>165</u> |
| \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> | \$ <u>—</u> |
| <u>\$ 1,181</u> | <u>\$ 1,194</u> | <u>\$ 1,119</u> | <u>\$ 1,111</u> | <u>\$ 1,032</u> | <u>\$ 973</u> |
| 30.41% | 30.12% | 26.11% | 24.76% | 19.90% | 17.00% |

See accompanying independent auditor's report.

City of Indianola, Iowa
NOTES TO OTHER INFORMATION – PENSION LIABILITY
Year ended June 30, 2019

Iowa Public Employees' Retirement System

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.

Changes of assumptions

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2016. 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.

City of Indianola, Iowa
NOTES TO OTHER INFORMATION – PENSION LIABILITY (continued)
Year ended June 30, 2019

Municipal Fire and Police Retirement System of Iowa

Changes of benefit terms

There were no significant changes of benefit terms.

Changes of assumptions

The 2018 valuation changed postretirement mortality rates to the RP-2014 Blue Collar Healthy Annuitant Table with males set-forward zero years, females set-forward two years and disabled individuals set-forward three years (male only rates), with generational projection of future mortality improvement with 50% of Scale BB beginning in 2017.

The 2017 valuation added five years projection of future mortality improvement with Scale BB.

The 2016 valuation changed postretirement mortality rates to the RP-2000 Blue Collar Combined Healthy Mortality Table with males set-back two years, females set-forward one year and disabled individuals set-forward one year (male only rates), with no projection of future mortality improvement.

The 2015 valuation phased in the 1994 Group Annuity Mortality Table for postretirement mortality. This resulted in a weighting of 1/12 of the 1971 Group Annuity Mortality Table and 11/12 of the 1994 Group Annuity Mortality Table.

The 2014 valuation phased in the 1994 Group Annuity Mortality Table for postretirement mortality. This resulted in a weighting of 2/12 of the 1971 Group Annuity Mortality Table and 10/12 of the 1994 Group Annuity Mortality Table.

SUPPLEMENTARY INFORMATION

City of Indianola
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
Nonmajor Governmental Funds
As of and for the year ended June 30, 2019

| | <u>Special revenue</u> | | | <u>Total</u> |
|--|--------------------------|------------------------|---|-------------------|
| | <u>Police Retirement</u> | <u>Police Seizures</u> | <u>Indianola Community Parks Foundation</u> | |
| RECEIPTS | | | | |
| Use of money and property | \$ 1,219 | \$ - | \$ - | \$ 1,219 |
| Miscellaneous | <u>-</u> | <u>-</u> | 80,398 | 80,398 |
| Total receipts | <u>1,219</u> | <u>-</u> | <u>80,398</u> | <u>81,617</u> |
| DISBURSEMENTS | | | | |
| Operating | | | | |
| Culture and recreation | <u>-</u> | <u>-</u> | 73,848 | 73,848 |
| Total disbursements | <u>-</u> | <u>-</u> | <u>73,848</u> | <u>73,848</u> |
| Excess of receipts over disbursements | <u>1,219</u> | <u>-</u> | <u>6,550</u> | <u>7,769</u> |
| OTHER FINANCING (USES) | | | | |
| Operating transfers (out) | <u>(25,000)</u> | <u>-</u> | <u>-</u> | <u>(25,000)</u> |
| Total other financing (uses) | <u>(25,000)</u> | <u>-</u> | <u>-</u> | <u>(25,000)</u> |
| Net change in cash balances | (23,781) | - | 6,550 | (17,231) |
| CASH BALANCES , beginning of year | <u>67,165</u> | <u>19,830</u> | <u>197,955</u> | <u>284,950</u> |
| CASH BALANCES , end of year | <u>\$ 43,384</u> | <u>\$ 19,830</u> | <u>\$ 204,505</u> | <u>\$ 267,719</u> |
| CASH BASIS FUND BALANCES | | | | |
| Restricted for other purposes | <u>\$ 43,384</u> | <u>\$ 19,830</u> | <u>\$ 204,505</u> | <u>\$ 267,719</u> |

City of Indianola
**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES**
Nonmajor Proprietary Funds
 As of and for the year ended June 30, 2019

| | Enterprise | | Total |
|--|-------------------|------------------------|-------------------|
| | Recycling | Storm Water | |
| OPERATING RECEIPTS | | | |
| Charges for services | \$ 279,759 | \$ 211,051 | \$ 490,810 |
| OPERATING DISBURSEMENTS | | | |
| Business type activities | 265,216 | 75,363 | 340,579 |
| Total operating disbursements | <u>265,216</u> | <u>75,363</u> | <u>340,579</u> |
| Excess of operating receipts over operating disbursements | <u>14,543</u> | <u>135,688</u> | <u>150,231</u> |
| NONOPERATING (DISBURSEMENTS) | | | |
| Capital projects | - | (70,749) | (70,749) |
| Net nonoperating (disbursements) | <u>-</u> | <u>(70,749)</u> | <u>(70,749)</u> |
| Excess of receipts over disbursements | 14,543 | 64,939 | 79,482 |
| TRANSFERS (OUT) | <u>-</u> | <u>(63,900)</u> | <u>(63,900)</u> |
| Net change in cash balances | 14,543 | 1,039 | 15,582 |
| CASH BALANCES , beginning of year | <u>117,488</u> | <u>547,590</u> | <u>665,078</u> |
| CASH BALANCES , end of year | <u>\$ 132,031</u> | <u>\$ 548,629</u> | <u>\$ 680,660</u> |
| CASH BASIS FUND BALANCES | | | |
| Unrestricted | <u>\$ 132,031</u> | <u>\$ 548,629</u> | <u>\$ 680,660</u> |

City of Indianola
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
Internal Service Funds
As of and for the year ended June 30, 2019

| | Internal Service | | | | Total |
|---|---|---|------------------------|---|--------------------|
| | Health Insurance Reserve | Property Insurance Council | Health Pool | Health Reimbursement Arrangement | |
| OPERATING RECEIPTS | | | | | |
| Charges for services | \$ 282 | \$ - | \$1,627,279 | \$ - | \$1,627,561 |
| Miscellaneous | 6,335 | 14,532 | 47,588 | - | 68,455 |
| Total operating receipts | <u>6,617</u> | <u>14,532</u> | <u>1,674,867</u> | <u>-</u> | <u>1,696,016</u> |
| OPERATING DISBURSEMENTS | | | | | |
| Governmental activities | | | | | |
| Public safety | 5,857 | - | 397,325 | 39,937 | 443,119 |
| Public works | 1,099 | - | 75,020 | 16,141 | 92,260 |
| Culture and recreation | 2,014 | - | 142,032 | 25,562 | 169,608 |
| General government | 1,099 | 10,019 | 108,375 | 5,916 | 125,409 |
| Business type activities | 1,099 | - | 74,184 | 10,445 | 85,728 |
| Component unit | | | | | |
| Indianola Municipal Utility | 6,042 | - | 410,114 | 33,038 | 449,194 |
| Total operating disbursements | <u>17,210</u> | <u>10,019</u> | <u>1,207,050</u> | <u>131,039</u> | <u>1,365,318</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | <u>(10,593)</u> | <u>4,513</u> | <u>467,817</u> | <u>(131,039)</u> | <u>339,698</u> |
| NONOPERATING RECEIPTS | | | | | |
| Interest on investments | - | 306 | - | - | 306 |
| Net nonoperating receipts | <u>-</u> | <u>306</u> | <u>-</u> | <u>-</u> | <u>306</u> |
| Net change in cash balances | (10,593) | 4,819 | 467,817 | (131,039) | 331,004 |
| CASH BALANCES , beginning of year | <u>197,415</u> | <u>13,357</u> | <u>863,631</u> | <u>189,912</u> | <u>1,264,315</u> |
| CASH BALANCES , end of year | <u>\$ 186,822</u> | <u>\$ 18,176</u> | <u>\$1,331,448</u> | <u>\$ 58,873</u> | <u>\$1,595,319</u> |
| CASH BASIS FUND BALANCES | | | | | |
| Unrestricted | <u>\$ 186,822</u> | <u>\$ 18,176</u> | <u>\$1,331,448</u> | <u>\$ 58,873</u> | <u>\$1,595,319</u> |

City of Indianola
SCHEDULE OF INDEBTEDNESS
For the year ended June 30, 2019

| <u>Obligation</u> | <u>Date of issue</u> | <u>Interest rate</u> | <u>Amount of original issue</u> |
|--|----------------------|----------------------|---------------------------------|
| General Obligation Bonds | | | |
| General Obligation, Series 2011C | October 19, 2011 | 2.10 to 2.25% | \$ 850,000 |
| General Obligation Urban Renewal, Series 2011E | December 28, 2011 | 1.90 to 3.25% | 2,410,000 |
| General Obligation Urban Renewal, Series 2012A | May 1, 2012 | 2.00 to 2.95% | 4,580,000 |
| General Obligation, Series 2012B | May 1, 2012 | 1.70 to 2.40% | 3,875,000 |
| General Obligation, Series 2013A | January 9, 2013 | 1.10 to 1.55% | 1,865,000 |
| General Obligation, Series 2013B | January 9, 2013 | 1.10 to 2.00% | 5,510,000 |
| General Obligation Refunding, Series 2013C | July 17, 2013 | 1.50% | 2,070,000 |
| | | | |
| Capital Loan Note | | | |
| IEDA Nuisance Property Loan | March 1, 2018 | 1.00% | 125,000 |
| | | | |
| Revenue Bonds | | | |
| Sewer Revenue Bond, Series 2009 | May 20, 2009 | 3.00% | 9,090,000 |
| Sewer Revenue Bond, Series 2013 | April 19, 2013 | 1.75% | 4,036,000 |
| Sewer Revenue Bond, Series 2017A | December 1, 2017 | 1.75% | 3,267,000 |
| | | | |
| Total | | | |

See accompanying independent auditor's report.

Schedule 4

| <u>Balance beginning of year</u> | <u>Issued during year</u> | <u>Redeemed during year</u> | <u>Balance end of year</u> | <u>Interest paid</u> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|
| \$ 360,000 | \$ — | \$ 115,000 | \$ 245,000 | \$ 7,518 |
| 1,910,000 | — | 100,000 | 1,810,000 | 49,300 |
| 3,235,000 | — | 390,000 | 2,845,000 | 75,070 |
| 2,265,000 | — | 320,000 | 1,945,000 | 45,490 |
| 1,335,000 | — | 260,000 | 1,075,000 | 16,740 |
| 3,720,000 | — | 340,000 | 3,380,000 | 60,153 |
| <u>555,000</u> | <u>—</u> | <u>275,000</u> | <u>280,000</u> | <u>7,775</u> |
| <u>13,380,000</u> | <u>—</u> | <u>1,800,000</u> | <u>11,580,000</u> | <u>262,046</u> |
| | | | | |
| <u>125,000</u> | <u>—</u> | <u>24,503</u> | <u>100,497</u> | <u>1,190</u> |
| <u>125,000</u> | <u>—</u> | <u>24,503</u> | <u>100,497</u> | <u>1,190</u> |
| | | | | |
| 7,071,000 | — | 212,000 | 6,859,000 | 212,130 |
| 2,365,000 | — | 137,000 | 2,228,000 | 41,388 |
| <u>1,800,410</u> | <u>1,112,292</u> | <u>137,000</u> | <u>2,775,702</u> | <u>52,300</u> |
| <u>11,236,410</u> | <u>1,112,292</u> | <u>486,000</u> | <u>11,862,702</u> | <u>305,818</u> |
| | | | | |
| <u>\$24,741,410</u> | <u>\$1,112,292</u> | <u>\$2,310,503</u> | <u>\$23,543,199</u> | <u>\$ 569,054</u> |

City of Indianola
BOND MATURITIES
June 30, 2019

General Obligation Bonds

| Year ending June 30 | Series 2011C Issued October 19, 2011 | | Urban Renewal Series 2011E Issued December 28, 2011 | | Urban Renewal Series 2012A Issued May 1, 2012 | | Series 2012B Issued May 1, 2012 | |
|------------------------|---|-------------------|---|--------------------|---|--------------------|------------------------------------|--------------------|
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount |
| 2020 | 2.10% | \$ 120,000 | 1.90% | \$ 150,000 | 2.00% | \$ 350,000 | 1.70% | \$ 325,000 |
| 2021 | 2.25% | 125,000 | 2.05% | 150,000 | 2.00% | 335,000 | 1.90% | 330,000 |
| 2022 | | — | 2.20% | 150,000 | 2.05% | 345,000 | 2.10% | 340,000 |
| 2023 | | — | 2.30% | 150,000 | 2.20% | 355,000 | 2.20% | 345,000 |
| 2024 | | — | 2.40% | 150,000 | 2.35% | 370,000 | 2.30% | 355,000 |
| 2025 | | — | 2.60% | 150,000 | 2.50% | 195,000 | 2.40% | 250,000 |
| 2026 | | — | 2.75% | 150,000 | 2.65% | 205,000 | | — |
| 2027 | | — | 2.90% | 150,000 | 2.75% | 220,000 | | — |
| 2028 | | — | 3.00% | 150,000 | 2.85% | 230,000 | | — |
| 2029 | | — | 3.05% | 150,000 | 2.95% | 240,000 | | — |
| 2030 | | — | 3.15% | 150,000 | | — | | — |
| 2031 | | — | 3.25% | 160,000 | | — | | — |
| Totals | | <u>\$ 245,000</u> | | <u>\$1,810,000</u> | | <u>\$2,845,000</u> | | <u>\$1,945,000</u> |

General Obligation Bonds

| Year ending June 30 | Series 2013A Issued January 9, 2013 | | Series 2013B Issued January 9, 2013 | | Refunding Series 2013C Issued July 17, 2013 | | Total |
|------------------------|--|--------------------|--|--------------------|---|-------------------|---------------------|
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | |
| 2020 | 1.10% | \$ 265,000 | 1.10% | \$ 345,000 | 1.50% | \$ 280,000 | \$ 1,835,000 |
| 2021 | 1.25% | 265,000 | 1.25% | 355,000 | | — | 1,560,000 |
| 2022 | 1.40% | 270,000 | 1.40% | 360,000 | | — | 1,465,000 |
| 2023 | 1.55% | 275,000 | 1.55% | 370,000 | | — | 1,495,000 |
| 2024 | | — | 1.70% | 375,000 | | — | 1,250,000 |
| 2025 | | — | 1.80% | 380,000 | | — | 975,000 |
| 2026 | | — | 1.90% | 390,000 | | — | 745,000 |
| 2027 | | — | 2.00% | 400,000 | | — | 770,000 |
| 2028 | | — | 2.00% | 405,000 | | — | 785,000 |
| 2029 | | — | | — | | — | 390,000 |
| 2030 | | — | | — | | — | 150,000 |
| 2031 | | — | | — | | — | 160,000 |
| Totals | | <u>\$1,075,000</u> | | <u>\$3,380,000</u> | | <u>\$ 280,000</u> | <u>\$11,580,000</u> |

See accompanying independent auditor's report.

City of Indianola
BOND MATURITIES (continued)
June 30, 2019

| Revenue Bonds | | | | | | | |
|--------------------------------|---|--------------------|---|--------------------|--|--------------------|---------------------|
| Year ending June 30 | Sewer Revenue Bond Series 2009 Issued May 20, 2009 | | Sewer Revenue Bond Series 2013 Issued April 19, 2013 | | Sewer Revenue Bond Series 2017A Issued December 1, 2017 | | Total |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | |
| | 2020 | 3.00% | \$ 218,000 | 1.75% | \$ 140,000 | 1.75% | |
| 2021 | 3.00% | 225,000 | 1.75% | 142,000 | 1.75% | 143,000 | 510,000 |
| 2022 | 3.00% | 233,000 | 1.75% | 145,000 | 1.75% | 146,000 | 524,000 |
| 2023 | 3.00% | 240,000 | 1.75% | 148,000 | 1.75% | 148,000 | 536,000 |
| 2024 | 3.00% | 248,000 | 1.75% | 151,000 | 1.75% | 151,000 | 550,000 |
| 2025 | 3.00% | 256,000 | 1.75% | 154,000 | 1.75% | 154,000 | 564,000 |
| 2026 | 3.00% | 265,000 | 1.75% | 157,000 | 1.75% | 158,000 | 580,000 |
| 2027 | 3.00% | 273,000 | 1.75% | 160,000 | 1.75% | 161,000 | 594,000 |
| 2028 | 3.00% | 282,000 | 1.75% | 163,000 | 1.75% | 164,000 | 609,000 |
| 2029 | 3.00% | 291,000 | 1.75% | 167,000 | 1.75% | 167,000 | 625,000 |
| 2030 | 3.00% | 301,000 | 1.75% | 170,000 | 1.75% | 171,000 | 642,000 |
| 2031 | 3.00% | 310,000 | 1.75% | 173,000 | 1.75% | 174,000 | 657,000 |
| 2032 | 3.00% | 321,000 | 1.75% | 177,000 | 1.75% | 177,000 | 675,000 |
| 2033 | 3.00% | 331,000 | 1.75% | 181,000 | 1.75% | 181,000 | 693,000 |
| 2034 | 3.00% | 342,000 | | - | 1.75% | 185,000 | 527,000 |
| 2035 | 3.00% | 353,000 | | - | 1.75% | 188,000 | 541,000 |
| 2036 | 3.00% | 364,000 | | - | 1.75% | 167,702 | 531,702 |
| 2037 | 3.00% | 376,000 | | - | | - | 376,000 |
| 2038 | 3.00% | 388,000 | | - | | - | 388,000 |
| 2039 | 3.00% | 401,000 | | - | | - | 401,000 |
| 2040 | 3.00% | 414,000 | | - | | - | 414,000 |
| 2041 | 3.00% | 427,000 | | - | | - | 427,000 |
| Totals | | <u>\$6,859,000</u> | | <u>\$2,228,000</u> | | <u>\$2,775,702</u> | <u>\$11,862,702</u> |

| Capital Loan Note | | |
|--|---------------------------|-------------------|
| Iowa Economic Development Authority Nuisance Property Loan Issued March 1, 2018 | | |
| Year ending June 30 | Interest Rates | Amount |
| 2020 | 1.00% | \$ 24,750 |
| 2021 | 1.00% | 24,998 |
| 2022 | 1.00% | 25,249 |
| 2023 | 1.00% | <u>25,500</u> |
| Totals | | <u>\$ 100,497</u> |

City of Indianola
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the last ten years

| | Year ended June 30 | | | |
|------------------------------------|---------------------------|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 | 2016 |
| RECEIPTS | | | | |
| Property tax | \$ 6,731,187 | \$ 6,365,347 | \$ 6,392,934 | \$ 6,122,001 |
| Tax increment financing | 2,302,131 | 2,112,030 | 1,955,534 | 1,542,524 |
| Other city tax | 2,061,799 | 2,068,943 | 1,965,822 | 265,487 |
| Licenses and permits | 217,685 | 232,440 | 154,991 | 192,408 |
| Use of money and property | 685,219 | 576,571 | 504,619 | 469,188 |
| Intergovernmental | 3,758,442 | 2,533,521 | 2,109,788 | 2,384,472 |
| Charges for service | 959,881 | 537,629 | 1,066,626 | 949,420 |
| Special assessments | 23,263 | 26,708 | 163,044 | 112,573 |
| Miscellaneous | <u>528,649</u> | <u>458,805</u> | <u>603,705</u> | <u>541,806</u> |
| Total receipts | <u>\$17,268,256</u> | <u>\$14,911,994</u> | <u>\$14,917,063</u> | <u>\$12,579,879</u> |
| DISBURSEMENTS | | | | |
| Operating | | | | |
| Public safety | \$ 5,067,392 | \$ 5,198,541 | \$ 5,014,894 | \$ 4,095,846 |
| Public works | 1,648,680 | 1,656,141 | 1,483,031 | 1,600,292 |
| Culture and recreation | 2,162,189 | 2,087,835 | 2,137,909 | 2,037,571 |
| Community and economic development | 516,009 | 487,893 | 935,587 | 165,075 |
| General government | 828,581 | 1,087,246 | 1,461,226 | 1,401,940 |
| Debt service | 2,091,736 | 2,419,852 | 2,655,684 | 2,838,250 |
| Capital projects | <u>1,699,177</u> | <u>1,030,964</u> | <u>400,336</u> | <u>249,880</u> |
| Total disbursements | <u>\$14,013,764</u> | <u>\$13,968,472</u> | <u>\$14,088,667</u> | <u>\$12,388,854</u> |

See accompanying independent auditor's report.

Schedule 6

| Year ended June 30 | | | | | |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| \$ 6,155,219 | \$ 5,472,196 | \$ 5,163,959 | \$ 4,929,375 | \$ 4,836,322 | \$ 4,826,350 |
| 1,365,455 | 1,383,060 | 1,368,810 | 1,146,801 | 865,761 | 712,476 |
| 298,515 | 294,866 | 205,910 | 152,908 | 137,481 | 118,906 |
| 132,554 | 164,365 | 117,693 | 144,940 | 197,339 | 96,392 |
| 400,099 | 335,498 | 326,083 | 298,072 | 318,803 | 366,427 |
| 4,575,268 | 1,692,398 | 2,060,498 | 1,651,642 | 1,825,569 | 2,337,365 |
| 1,024,782 | 1,024,228 | 993,286 | 983,827 | 982,632 | 888,563 |
| 118,173 | 109,522 | 144,055 | 139,226 | 92,034 | 197,299 |
| <u>477,149</u> | <u>1,980,786</u> | <u>353,921</u> | <u>416,059</u> | <u>623,383</u> | <u>418,791</u> |
| <u>\$14,547,214</u> | <u>\$12,456,918</u> | <u>\$10,733,310</u> | <u>\$ 9,862,850</u> | <u>\$ 9,879,324</u> | <u>\$ 9,962,569</u> |
| | | | | | |
| \$ 4,018,718 | \$ 4,257,526 | \$ 3,902,002 | \$ 3,953,821 | \$ 3,574,355 | \$ 3,356,421 |
| 1,293,247 | 1,336,452 | 1,416,552 | 1,329,010 | 1,185,798 | 1,151,366 |
| 2,009,849 | 2,085,707 | 2,130,514 | 2,113,184 | 1,992,708 | 2,029,345 |
| 557,205 | 430,585 | 704,168 | 1,293,997 | 123,554 | 96,617 |
| 1,394,110 | 1,505,152 | 1,411,552 | 1,303,284 | 1,196,933 | 1,144,194 |
| 3,003,458 | 3,000,167 | 2,622,940 | 3,368,178 | 5,718,378 | 2,276,339 |
| <u>5,220,131</u> | <u>2,860,272</u> | <u>16,012,963</u> | <u>2,778,034</u> | <u>1,904,710</u> | <u>2,713,916</u> |
| <u>\$17,496,718</u> | <u>\$15,475,861</u> | <u>\$28,200,691</u> | <u>\$16,141,508</u> | <u>\$15,696,436</u> | <u>\$12,758,298</u> |

See accompanying independent auditor's report.



**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**

Honorable Mayor and
Members of the City Council
City of Indianola
Indianola, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Indianola, Iowa (the City) as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 15, 2020. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Part I of the accompanying schedule of findings as items 2019-001 through 2019-003 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City's responses were not subject 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.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
April 15, 2020

City of Indianola
SCHEDULE OF FINDINGS
Year ended June 30, 2019

SECTION I – FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROL DEFICIENCIES

2019-001

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: The City does not have sufficient segregation of duties to prevent one individual from having control over for following functions:

- 1) Disbursements – check preparation, posting to and maintaining the general ledger, reconciliation of the bank statements
- 2) Payroll – Preparation, posting to and maintaining the general ledger, authorizing payment, and reconciliation.

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: The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response: The City has reviewed its control procedures and plans to make the necessary changes to mitigate these control risks. Beginning in fiscal year 2020, the City has separated the accounts payable from the general ledger maintenance and the bank reconciliation duties to increase the segregation of duties.

Conclusion: Response accepted.

City of Indianola
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2019

SECTION I – FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROL DEFICIENCIES

2019-002

CREDIT CARDS

Criteria: Internal controls over safeguarding assets constitute a process, effected by an entity's governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

Condition: The City has credit cards for use by various employees while on City business. During our audit procedures, we performed analytical procedures over credit card usage and selected 25 credit card transactions for substantive testing. Our procedures identified the following:

- In five instances, no supporting documentation was retained for the transaction.
- In three instances, the transaction was not approved.
- In four instances, approval of the transaction could not be observed due to system limitations.
- In one instance, a staff member used the City credit card to purchase a meal while on City business. The meal, at a cost of \$45, exceeded City policy.
- During our testing, we identified 15 instances in which staff members exceeded the City's monthly card holder usage threshold of \$3,500.
- The City's finance department does not review supporting documentation and approvals to determine whether all support has been retained, transactions have been approved by appropriate supervisor, and that account coding is correct.

Cause: City policies and procedures do not provide for adequate oversight of credit card usage.

Effect: Lack of adequate control procedures over credit card usage may result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation: The City should review its policies and procedures governing credit card usage. The City should evaluate which staff members have a business purpose for carrying a credit card and implement procedures to ensure the adequate review, approval, and documentation of credit card transactions.

Response: The City has reviewed and made adjustments to the City's credit card policy, adjusting monthly limits where needed and reducing the number of cards to front line employees. In addition, more review of statement approval has been instituted.

Conclusion: Response accepted.

City of Indianola
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2019

SECTION I – FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROL DEFICIENCIES

2019-003 PAYROLL DEPARTMENT CODES

Criteria: Employees must be assigned a department code for gross wages, payroll taxes, and benefits within the City's payroll system. When an employee transfers between City departments, staff must re-assign the employee to the new department to ensure the cost of the employee is reported in the correct department. City and Indianola Municipal Utilities (IMU) staff are maintained within the same payroll system.

Condition: During our audit procedures, we identified one instance in which an IMU employee's IPERS and payroll tax codes were not correctly reported in the payroll system, resulting in the City funding these expenses.

Cause: Staff did not update all pay codes when the employee transferred from a City department to IMU. The City has not implemented procedures to verify the accuracy of the pay codes within the payroll system.

Effect: The City funded IPERS and employer payroll taxes for an IMU employee.

Recommendation: The City should implement procedures to review pay codes for accuracy. A secondary review should be performed when employees transfer between departments to ensure applicable payroll codes have been changed accordingly. Staff should determine whether funds are due to the City from IMU.

Response: The City has reviewed and made adjustments for the employee benefits that should have been debited to IMU. We will implement additional procedures to ensure the accuracy of the payroll coding.

Conclusion: Response accepted.

INSTANCES OF NONCOMPLIANCE

No matters were noted

City of Indianola
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2019

SECTION II – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

II-A-19 CERTIFIED BUDGET

Disbursements in the public works and community and economic development functions exceeded amounts budgeted at year end. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation

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

Response

The budget will be amended in the future, if applicable.

Conclusion

Response accepted.

II-B-19 QUESTIONABLE EXPENDITURES

In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General's opinion dated April 25, 1979, public funds may only be spent for public benefit. To facilitate this determination, the City has enacted several policies which define allowable expenditures, including a meal reimbursement policy for staff. We noted one instance in which staff exceeded this policy by approximately \$20.

Recommendation

City staff should review transactions to ensure disbursements comply with City policy. Additional staff education may be necessary to ensure staff are aware of City policies regarding allowable meal expenses.

Response

We have made changes to the City's travel policy to clarify spending limits on such expenditures. The City has also adopted a public purpose statement to clarify certain expenditures that are deemed to have a public purpose.

Conclusion

Response accepted.

II-C-19 TRAVEL EXPENSE

No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

II-D-19 BUSINESS TRANSACTIONS

We noted no business transactions between the City and City officials or employees in excess of \$1,500.

City of Indianola
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2019

II-E-19 BOND COVERAGE

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-F-19 COUNCIL MINUTES

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-19 DEPOSITS AND INVESTMENTS

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-19 REVENUE BONDS AND NOTES

No instances of noncompliance with the revenue bond and note resolutions were noted.

II-I-19 ANNUAL URBAN RENEWAL REPORT

The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

II-J-19 URBAN RENEWAL TAX INCREMENT FUND INTEREST ALLOCATION

The City is not allocating interest to the Urban Renewal Tax Increment Fund as required by Chapter 403.19 of the Code of Iowa. Correspondingly, the City is not reducing the certified tax increment by the fund's earnings as required by the Code of Iowa.

Recommendation

Interest should be allocated to the Urban Renewal Tax Increment Fund and certified tax increment should be reduced annually by the fund's interest earned as required by the Code of Iowa.

Response

We will begin allocating interest to the Urban Renewal Tax Increment Fund and reducing the certified tax increment accordingly.

Conclusion

Response accepted.