

CITY OF INDIANOLA

General and Statistical Information

**Financial Statements and Supplemental Information
(With Independent Auditor's Report Thereon)**

**Independent Auditor's Report on Compliance
and Internal Control over Financial Reporting**

Schedule of Findings

Year Ended June 30, 2016



**Shull, Schrum, McClafin
& Co., Inc.**
certified public accountants

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Independent Auditor's Report on Internal Control over

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CITY OF INDIANOLA
Chief Accounting Officer's Report

March 1, 2017

To the Honorable Mayor, Members of the Council, and Citizens of the City of Indianola,

This comprehensive annual financial report consists of management's representations concerning the finances of the City of Indianola. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Indianola has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Indianola's financial statements. Because the cost of internal controls should not outweigh their benefits, the City of Indianola's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. Management asserts to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Indianola's financial statements have been audited by Shull & Co., a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Indianola for the fiscal year ended June 30, 2016 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and, evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Indianola's financial statements for the fiscal year ended June 30, 2016 are fairly presented. The independent auditor's report is presented as the first component of the financial section of this report.

Rules promulgated by the Iowa State Auditor's Office require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Indianola's MD&A can be found immediately following the statistical section of this report.

Profile of the Government

The City of Indianola, incorporated in 1864, is the county seat of Warren County and is located in the central part of Iowa approximately 17 miles south of the state capital, Des Moines. Indianola is considered part of the Des Moines MSA, one of the top growth areas in the state. The City of Indianola encompasses an area of approximately nine square miles and a population of 14,782. The City of Indianola is empowered to levy a property tax on real properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

CITY OF INDIANOLA
Chief Accounting Officer's Report (Continued)

City Council: The City of Indianola operates under a mayor-council form of government. Policy-making and legislative authority are vested in a governing body consisting of the mayor and six council members. The city council is responsible, among other things, for passing ordinances; adopting the budget; appointing commission and committee members; and, hiring the government's manager. The government's manager, whose duties are set by local ordinance, is responsible for carrying out the policies of the city council; overseeing day-to-day operations; and, appointing the employees of the various departments for the governmental functions under the management control of the governing council. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three of the members elected every two years. Four council members are elected by districts or wards while the two remaining council members and the mayor are elected at large. The mayor is elected to serve a four-year term.

The City of Indianola provides a full range of services, including police and fire protection; ambulance service; the construction and maintenance of highways, streets, and other infrastructure; recycling and organic material removal; and recreational activities and cultural events. The City of Indianola also operates a water pollution control (sewer) department as a utility under the management and control of the city council. The city participates in several non-related jointly governed organizations that provide goods or services including the South Central Iowa Landfill Agency, the Central Iowa Regional Transportation Alliance, the Marion/Warren County Drug Task Force, and the Community Athletic Facility.

Board of Trustees: The City of Indianola provides electric, water and telecommunications services as a discretely reported component unit under the management and control of a board of trustees. The board operates these three utilities as Indianola Municipal Utilities (IMU). The authority for management and control of each utility was established by a majority vote of the electorate as provided in the Iowa Code. The trustees are vested with the authorities of the city in relation to these utilities with the exceptions that the board may not: certify taxes to be levied; pass ordinances or amendments; or, issue general obligation or special assessment bonds. Real property is held in the name of the city; however, the utility board has all the powers and authorities of the city with respect to the acquisition or disposition of such property and the management, control, and operation associated with said property is subject to provisions of any outstanding obligations which are payable from the revenues of the city utility. Separate funds are maintained for each utility and operating budgets are subject to final approval by the city council. Utility fund balances deemed by the board of trustees to be in excess of the needs of a utility may be transferred to the city's general fund or other city funds as approved by the city council.

Five trustees serve staggered six-year terms and are appointed by the mayor and approved by the city council. The board of trustees appoints a general manager to oversee the day-to-day management of the electric, water and telecommunications utilities. The general manager appoints the employees of each of these utilities; carries out the policies of the board of trustees; and, performs other duties as determined by resolution of the board.

CITY OF INDIANOLA
Chief Accounting Officer's Report (Continued)

Other officials: The director of finance and administrative services serves as the chief accounting officer for all city services and submits the budget and year-end financial reports required of the city. The director of finance and administrative services has other financial duties and the city clerk has custodial duties as prescribed in Iowa Code, local ordinances, board resolutions, and by management discretion. An appointed treasurer serves as custodian for all funds. An attorney is also appointed to represent the city, its boards, and its commissions and performs certain functions prescribed in local ordinances and in the Iowa Code.

Budgeting process: The annual budget serves as the foundation for the City of Indianola's financial planning and control. The budget process, in general, is as follows:

- The city council sets its budget objectives and reviews major known factors.
- The city manager and the general manager each submit 5-year capital improvement project budgets to the respective managing authority for review and adoption.
- Departments submit operating budget requests to the city manager or general manager as appropriate.
- The city manager and the general manager compile their respective annual budgets for review. Budgets are prepared by fund (e.g. general), function (e.g. public safety), and department (e.g. police).
- The board of trustees adopts budgets for the electric, water and telecommunications utilities. These are compiled with governmental services and sewer utility budgets and are provided to the public by publication.
- The city council sets and conducts a public hearing on the budget.
- The city council adopts the budget and the budget is filed with the county auditor and the State of Iowa no later than March 15 of each year.

The State of Iowa limits expenditures to the total amount budgeted by function. Expenditures for individual departments, services or line items may exceed those budgeted as long as total expenditures by function are not exceeded. Budget amendments are permitted under provisions similar to the adoption of the original budget. In this report, the current year's budget is compared to the actual expenses by function.

Cash management policies and practices: The city annually reviews and adopts an investment policy outlining the roles and responsibilities in making investments using available cash balances. The director of finance and administrative services and the treasurer are jointly responsible for the investment of funds with oversight by the council and board of trustees.

Cash, which is temporarily idle during the year, is invested in bank deposits; money market funds; repurchase agreements; and/or the Iowa Public Agency Investment Trust. These temporary cash deposits were maintained in stable value investments with an average rate of return of 0.35%.

CITY OF INDIANOLA
Chief Accounting Officer's Report (Continued)

The city invests reserve funds (those not intended to be expended within 365 days) in a portfolio with the assistance of an investment advisement firm. The investment portfolio includes mortgage-backed securities; preferred stock; obligations of the U.S. Treasury or its agencies; and, cash held in a public entity money market fund. At fiscal year end, the effective duration of the portfolio is 2.0 years with a current yield of 1.94%. Reported returns may include changes in fair value during the year but do not necessarily represent continuing returns; therefore, it is not always possible to realize changes in fair value, especially in the case of temporary changes for securities the city intends to hold until maturity.

Additional information on the City of Indianola's cash management can be found in notes to the financial statements.

Risk management: The City of Indianola participates in the Iowa Communities Assurance Pool (ICAP), a local government risk-sharing pool with over 500 members throughout Iowa. The city makes annual contributions to ICAP recorded as disbursements from its operating funds for vehicle, property, casualty and liability coverage. The city maintains reserve funds to meet deductibles. The city also participates as a member of the Iowa Municipal Workers' Compensation Association (IMWCA) and pays the associate premiums from its operating funds. The city purchases boiler and machinery insurance from a private carrier. In addition, the city has an ongoing safety program to maintain a safe environment for employees and the public. Additional information on the City of Indianola's risk management activity can be found in notes to the financial statements.

Pension and other post-employment benefits: The City of Indianola provides pension benefits for its employees. With the exception of Police officers, these benefits are provided through a statewide plan managed by the Iowa Public Employees Retirement System (IPERS). Benefits for police officers are provided through a statewide plan managed by the Municipal Fire & Police Retirement System of Iowa (MFPRSI). The city makes periodic payments based on earned compensation by active employees; however, the city has no obligation in connection with employee benefits offered through these plans.

The City of Indianola also provides post-retirement access to its medical insurance plan until age 65 as required under Iowa Code. Retirees contribute an amount equal to the premium amount charged to the city on a monthly basis.

The City of Indianola maintains a health reimbursement arrangement (HRA) for the benefit of employees. The city makes a fixed annual contribution that allows each employee to be reimbursed for any medical expense allowed under IRS Code. If the employee does not utilize the full amount provided in any fiscal year, the balance is carried forward for use in a future period, even 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 \$243,539 as of June 30, 2016.

Additional information on the City of Indianola's pension arrangements and other post-employment benefits can be found in notes to the financial statements.

CITY OF INDIANOLA
Chief Accounting Officer's Report (Continued)

Closing

State law requires that all general-purpose local governments publish within nine months of the close of each fiscal year a complete set of financial statements that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. As allowed under Iowa Code and administrative rules, the City of Indianola issues its financial statements on the basis of cash receipts and disbursements. Cash basis is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). Pursuant to these requirements, I hereby issue the comprehensive annual financial report of the City of Indianola for the fiscal year ended June 30, 2016.

Christopher DesPlanques, CPA
Director of Finance and Administrative Services

**CITY OF INDIANOLA
CITY OFFICIALS AND BOARD OF TRUSTEES
JUNE 30, 2016**

<u>Name of Official</u>	<u>Official Title</u>	<u>Term Expires December 31</u>	<u>Amount Of Bond</u>
Kelly Shaw	Mayor	2017	300,000
John Parker Jr.	Councilperson First Ward	2019	300,000
Joe Gezel	Councilperson Third Ward	2019	300,000
Shirley Clark	Councilperson At-Large	2019	300,000
Pam Pepper	Councilperson At-Large	2017	300,000
Greta Southall	Councilperson Fourth Ward	2017	300,000
Brad Ross	Councilperson Second Ward	2017	300,000
Ryan Waller	City Manager		300,000
Chris DesPlanques	Director of Finance & Community Services		300,000
Melissa McCoy	Director of Human Resources		300,000
Diana Bowlin	City Clerk		300,000
Doug Shull	City Treasurer		300,000
Ryan Ellis	City Solicitor		300,000

Indianola Municipal Utilities Board of Trustees
Authority: Indianola Code of Ordinances Section 25.02

<u>Name</u>	<u>Term Expires January 2</u>	<u>Amount Of Bond</u>
Adam Voigts	2018	300000
Mike Rozga	2019	300,000
Deb White	2020	300,000
Jim McClymond	2021	300,000
Lesley Forbush	2021	300,000
Rob Stangel	General Manager of Utilities	300,000

All other city employees are bonded under the Cincinnati Insurance Employee Loss Coverage, "Faithful Performance Blanket Position Bond," # B0359727 in the amount of \$300,000.

<u>Council Study Committee</u>	<u>Council Committee</u>
	Shirley Clark
	Joe Gezel
	John Parker Jr.
	Pam Pepper
	Brad Ross
	Greta Southall

**CITY OF INDIANOLA
CITY BOARD AND COMMISSIONS
JUNE 30, 2016**

LIBRARY BOARD

Authority: Indianola Ordinance Chapter 17.3

Term - 6 Years

Meeting: 2nd Tuesday of every month

<u>Name</u>	<u>Term Expires</u>
Dick Kerr	July 1, 2016
Kathy Farris	July 1, 2016
Mark Juffernbruch	July 1, 2016
Mary Jane Cassady	July 1, 2018
Rhonda Sayler	July 1, 2018
Jim Lee	July 1, 2020
Pat Hicks	July 1, 2020

PARK AND RECREATION COMMISSION

Authority: Indianola Ordinance No. 520

Term - 3 Years

Meeting: 1st Wednesday of every month

Jon Hagener	January 1, 2017
John Anderson	January 1, 2017
Cyd Dyer	January 1, 2018
Joel Hoger	January 1, 2020
Drew Brazie	January 1, 2020
Jessica Guthrie	January 1, 2020

PLANNING AND ZONING COMMISSION

Authority: Indianola Ordinance Chapter 16.2

Term - 5 Years

Meeting: 2nd Tuesday of every month

Tiffany Coleman	February 1, 2017
Josh Rabe	February 1, 2017
Bob Ormsby	February 1, 2018
Joe Butler	February 1, 2018
Al Farris	February 1, 2019
Misty Soldwisch	February 1, 2019
Doug Opie	February 1, 2020
Cindy Johnson	February 1, 2020
Becky Needles	February 1, 2021
Ron Fridley	February 1, 2021

**CITY OF INDIANOLA
CITY BOARDS AND COMMISSIONS
JUNE 30, 2016**

BOARD OF ADJUSTMENT

Authority: Indianola Ordinance No. 341 - Code of Iowa 414.7

Term - 5 Years

Meeting: 1st Wednesday of month on call

<u>Name</u>	<u>Term Expires</u>
Reed Thacker	December 31, 2017
Aaron Rasko	December 31, 2018
Marty Miller	December 31, 2019
James Sullivan	December 31, 2020
Wes Sharp	December 31, 2021

MEMORIAL BUILDING COMMISSION

Authority: Code of Iowa Chapter 37.9

Term - 3 Years - Meeting: On Call

Ray Walton	July 1, 2017
Everett Brown	July 1, 2018
Rick Branson	July 1, 2019
Don Babcock	July 1, 2019
Bob Greener	July 1, 2019

CIVIL SERVICE COMMISSION

Authority: Indianola Ordinance No. 378

Term - 4 Years

Meeting: On Call

John Monroe	First Monday in April, 2016
Celeste Gebhart	First Monday in April, 2018
Wayne Petersen	First Monday in April, 2019

FINE ARTS & COMMUNITY BEAUTIFICATION COMMISSION

Authority: Indianola Ordinance No. 423

Term - 3 Years

Meeting: 1st Tuesday of every month

CITY OF INDIANOLA Operational Review

City operations are divided into many departments and offices, all of which work toward the common goal of providing superior services to the citizens of Indianola. While the functions of each department may be varied, it is a cooperative effort on everyone's part that enables us to reach this goal. It's not uncommon to see two or more departments working together to solve some problem or complete a project. The Mayor, Council, boards and administrative staff encourage teamwork and it results in an enhanced quality of life for the citizens of Indianola.

The following summary provides a brief review of the various Departmental operations during the 2015-16 fiscal year.

Public Safety: The major Public Safety activities are police, fire, ambulance services and building and zoning regulation.

- **Police:** The staffing level of the Indianola Police Department fluctuated in 2016. One Sergeant retired, one officer resigned to pursue a career outside of law enforcement, and another officer resigned to join a larger department. Two new officers completed the academy in December, and two more new officers will join the department in 2017 which will fully staff the Department with 20 sworn officers. Due to being short staffed for much of the year, traffic citations and warnings decreased 8.5% from 2015. At the same time, however, calls for service increased 1.7%, from 11,547 in 2015 to 11,744, and the number of arrests increased 24.4%. In addition to the sworn staff, IPD employs seven civilian employees including three crossing guards.

The department operates five fully marked squad cars and three unmarked vehicles. A new SUV and new sedan replaced older squads in 2016. Two new in-car video cameras replaced the outdated cameras in two of the marked squad cars. The department also added one new light bar and a new I.T. tower to expedite software loading for the squads' computers. Those items were purchased through funds obtained by grants.

The Iowa Law Enforcement Academy establishes a minimum number of hours of training required of each law enforcement officer in the state. The department exceeded the minimum, and the department collectively received 831 hours of training. The department partnered with the FBI and hosted an Advanced Law Enforcement Rapid Response Training session attended by officers from surrounding agencies as well as Indianola school personnel.

Community outreach is very important to the department. The department's charity, IPDCOP, provided thanksgiving meals and Christmas meals to community families in need, took children Christmas shopping, provided breakfast to local veterans, and took a group of children to an Iowa Cubs baseball game in 2016.

CITY OF INDIANOLA
Operational Review (Continued)

- **Fire and Ambulance:** The Indianola Fire Department experienced a slight increase in calls for 2016. There was a dollar loss in the amount of \$1,016,570 for the year. Department members work on regular/daily activities which the full-time, part-time and paid-on-call staffs are tasked each day. Those duties consist of commercial inspections, public education presentations and community training in safety practices. In addition members must complete required training individually to meet their certification requirements, improve on operational skills and abilities to remain at a constant high standard of readiness.

Staff responded to 2,102 fire and EMS incidents. This is an increase over last year's total by 1.50 %. The 2,102 alarms consisted of: 93 fires; 63 investigations; 84 false alarms and 5 other. The balance of accounts for 1,857 EMS calls which is where most of the 1.50% increase was seen.

As of January 1, 2017, the department had one full-time chief, one full-time training officer, six full-time firefighters/paramedics, 1 full-time billing specialist, 17 part-time firefighter/medics, 21 paid on call for a total staff of 47 with no members on leave. Staff coverage continues with full-time staff working 24/48 shifts and part-time staff covering 7-days a week from 8:00 a.m. to 5:00 p.m.

Training is a big part of the department's time. Training is conducted every Monday night and several attend training on their own including nights and weekends. Some attend area fire training and EMS conferences to keep their certifications current. The total hours that POC staff give for training held within our department was 3477.26 hours and responses were 3820.06 hours for a total of 7297.32 hours. This equates to the average paid on call staff giving over 192.03 hours toward regular training and calls each year. These calculations exclude the time the full-time staff puts towards calls and training.

Public Works: The street department staff members are dedicated to providing excellent service to the citizens of Indianola. The street department has kept busy by performing annual street repair, concrete and asphalt replacement/repair, crack sealing, street sweeping, and snow plowing. These are the major functions which occupy a substantial amount of time for the department. In addition, several storm sewer intakes were replaced or repaired along with maintaining the hundreds of street and traffic signs throughout the city.

Culture and Recreation: Culture and Recreation: Parks and Recreation programs, events, parks and facilities continued to be very important to the majority of Indianola residents. Participation and use were at high levels and many opportunities and enhancements were provided to help keep the quality of life at a high level.

We had another great year offering many new program opportunities and completing several improvements to the city parks. All that we are able to accomplish is largely due to the support and assistance we get from the Indianola citizens, volunteers, businesses, organizations, Indianola Community Schools, City Council, IMU, city departments and the parks and recreation commission.

New and strengthened cooperative partnerships and volunteer involvement allowed us to add or expand new programs and facilities including a Butterfly Flourish Sculpture and Drinking Fountain at Buxton Park. Over 30 free community events were offered including 2 Story Walks and "The Zone" – a free after school

CITY OF INDIANOLA
Operational Review (Continued)

program for youth in 6th-8th grades. With the help of our partners, grants, sponsorships, advertising and grants totaled over \$60,000 to offset the costs of facilities and programs.

Thanks to community involvement, we had 500 volunteers donate 4,400 program registrations in just over 200 programs, over 2,400 games and practices played on the Pickard Softball Fields, 1,700 facility reservations and served over 2,000 different families.

- Veterans Memorial Aquatic Center:** The facility served over 6,000 visitors. An increase from the 2014 season. Over 400 youth were served by the swim lesson program. Overall operations were efficient and effective, especially ensuring facility safety. An Early Bird Season Pass Special was implemented, with 51% of season pass holders taking advantage of the special. A new event, Mayor's Night Out was also implemented, with over 250 guests attending, donating over 200 non-perishable food items to Helping Hands Food Pantry. Half Price Admission after 5:00pm was a new perk for non-pass holders to encourage evening swimming. Over 900 guests took advantage. 80 new lounge chairs were put into service. The pool was re-painted for the first time in many years. And a new pool heater has been installed for the 2016 season! Two new umbrella shades were donated by Iowa Realty and Indianola Park Friends. Another has been donated by Indianola Post 165 American Legion for this season. Fresh, new signage was installed at the front desk/admissions area and the entire bathhouse will be repainted this spring by Parks and Recreation staff. Many programs/activities were revamped and a text communication closing/weather update tool was created for guests. The facility hosted a mock Emergency Action Plan (EAP) with the Indianola Fire/EMS Department to review skills and better prepare for an emergency.

Forty seasonal staff assisted in operation of the facility, as well as assistance from the Veteran's Memorial Building Commission, City Council, Parks Department, IMU, City Clerk's office, and IT Services.

The following table details the park system:

	<u>Acres</u>
Barker Park	1.20
Buxton Park	5.43
Dayton Park	1.08
DeNelsky Park	22.9
Downey Memorial Park	10.62
Easton Park	2.39
Indianola Activity Center	9.60
McCord Park	16.85
McVay Trail	13.30
Memorial Park	13.72
Moats Park	4.14
Pickard Park	160.00
South Park	4.47
Veterans Memorial Pool	3.50
Willow Creek Totlot	0.65
	<hr/> 269.85

CITY OF INDIANOLA
Operational Review (Continued)

- **Indianola Public Library:** Library patrons checked out 118,144 items which equals 8 items checked out by each resident. Attendance at 344 programs totaled 7,227. Library computers were used 8,017 times.

In addition to ebooks and eaudio, library patrons can now download songs with a valid library card. Patrons also have access to a variety of online resources from car repair manuals to reference topics.

Business-type or proprietary: Indianola has four services that are classified as business-type services. Although the utility operations are divided into departments, they all work toward the common goal of providing superior services to the citizens of Indianola. The electric, water, and telecommunication departments are a discretely reported component unit. However, given their degree of importance to the overall services received by citizens, this operational review contains information pertaining to these activities in the next section of this report. The following summary provides a brief review of the various departmental operations during the 2015-16 fiscal year.

- **Water Pollution Control Department:** Full staff includes the Superintendent and 5 operators. We are no longer under Consent Order from the Iowa Department of Natural Resources. This Consent Order was lifted in May of 2014.

Time of Sale Ordinance (part of the Consent Order being lifted) was drafted in 2016 and presented to the council, realtors, county recorder for feedback. City Council approved ordinance in January 2017. Ordinance is to take effect March 1, 2017.

The city set a budget to work on identifying and repairing the city's sewer mains and manholes by televising and smoke testing the mains. In 2016 we cleaned and televised over 51,000 feet of sewer. During the inspections, we identified 3 sewer mains and one storm sewer that will be lined. There will be 14 manholes that will be lined and the city repaired 16 manholes using the Cretex Pro-Rings to eliminate ground water from entering the system.

Due to lack of capacity, the city and HR Green have been working on upgrading the Morlock Lift station. Plans are to install a fourth pump, new control panel, new 16" force main and flow meter, and either upsizing or adding a relief sewer next to the sewer main from MH NE1 to NE 9.

The city is looking into upgrading the controls at the Plainview and McCord lift stations. This will include variable frequency drives for each pump and new PLCs.

The generator at the McCord lift station is 30 to 40 years old and doesn't meet the fuel capacity which requires the generator to have 24 hours of fuel.

HR Green completed the Facility Plan for the new plant and submitted it to IDNR for review.

Residential I&I inspections and testing are being completed only by request.

CITY OF INDIANOLA
Operational Review (Continued)

The treatment plant issues this year are going to be the lack of CBOD into the plant. We have found that we are about 50% lower in the influent CBOD. This creates issue with the treatment process. We will be working on identifying the reduction in CBOD. We will also need to have a plan to provide a good nitrogen source for the plant if this cannot be identified.

- **Electric Utility.** The electric utility provides reliable service by purchasing wholesale energy for the community as a whole, receiving it over the transmission system, generating electricity within Indianola as needed, and distributing it safely to customers. Significant progress toward implementing operational strategies include:
 - Completion of the 2013 Hwy 92 Transmission Relocation Project
 - Completion of the 2015 W. Hwy 92 and Y Street Intersection Relocation Project
 - Turbine #7 Battery Bank
 - Electric Utility 125th Anniversary
 - 2016 Cost of Electric Service Study
 - Completion of the 2013 Hwy 92 Distribution Relocation Project
 - Purchase of Electric Transformer Moisture Removal Unit
 - Other Major Line Maintenance and Street Light Replacement

- **Water Utility.** The water utility provides reliable water service by pumping it from wells, treating it, keeping enough in storage to meet daily needs, and distributing it to customers. Significant progress towards implementing operational strategies include:
 - Completion of the 2015 Iowa Avenue Water Main Project
 - Major Plant and Tower Maintenance
 - Major Well Maintenance
 - Gatevalve and Hydrant Replacement

- **Communications Utility.** The communications utility provides the infrastructure that transmits affordable, competitive, and technologically advanced telecommunications service for both retail and other public uses. Telephone and Internet services are offered to commercial customers through a contractual private/public partnership. Significant progress towards implementing operational strategies include:
 - Engaged Magellan Advisors in a Fiber To The Premise Feasibility Study
 - New Fiber Line Construction, Service Drops and ONT's

- **Administration.** All three utilities are administered by a combination of the IMU Board of Trustees and their staff, services provided by the City of Indianola through cost-sharing arrangements, and third-party contractors.

CITY OF INDIANOLA
Operational Review (Continued)

General Government: The City of Indianola supports a proactive stance toward economic development, enhancing the local economy, and promoting efficiency. Major programs and events are:

- Continuation of a citywide residential urban revitalization (tax abatement) program that has encouraged development and continues to strengthen the tax base.
- An aggressive schedule of improvements to infrastructure and facilities including lift station improvements, roadway improvement and reconstruction, and beautification along northern corridor.
- Continuation of an aggressive inspection/maintenance program for sewers meant to keep storm water from entering the sanitary sewer system (I&I program). The entire community will benefit through decreased operation and maintenance expenses, decreased capital expenses, and increased sewer plant capacity.

City staff takes a proactive role in communicating community events with staff and citizens. The Government Access Channel, provides agendas, schedules, public safety and promotional information for government sponsored programs. Meetings are broadcast live to cable subscribers and re-broadcast throughout the week. The City of Indianola also regularly invests resources to enhance communications through its web sites which includes programming information, links to other community resources, and minutes of meetings. Utility payments, recreation program fees, parking tickets and certain other fees can be paid online.

Departments have learned to utilize electronic information systems to improve services. Each building is connected by a high-speed data network over fiber optic lines. Internet access and e-mail systems are also shared. In addition, the City Clerk's Office has improved its document imaging system to improve the retrieval of information and eventually additional features.

The following table summarizes the activities of the Clerk's Office (calendar year):

Permits/Licenses	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Water	11	38	35	21	33	40	38	58
Plumbing	75	42	62	59	31	54	42	79
Electric	93	103	99	88	36	80	103	118
Mechanical	42	56	97	53	14	58	56	114
Sewer	19	66	39	20	27	44	66	58
Warrants Written	8,921	9,257	9,237	9,304	9,852	8,813	9,257	7,901
Ordinance Adopted	24	23	26	16	22	13	23	12
Cigarette	20	17	17	16	15	16	17	17
Bicycle	2	2	2	2	7	9	2	5
Beer	15	15	16	16	16	15	15	15
Beer-Liquor	15	17	18	18	18	18	17	18
Sunday Beer & Liquor	29	29	28	29	29	30	29	28
Beer-Wine	3	3	3	3	3	3	3	3

Internal Service: The City of Indianola maintains a fund for employees' health insurance with premiums paid from each departmental fund. Premiums are targets at expected exposure levels. Reserves are targeted at 25% of annual claims plus 2 times the difference between expected claims and maximum costs.

CITY OF INDIANOLA
Statistical Section

To compliment the financial review of the City of Indianola, the following statistical tables are attached. Below you will find a list of tables with some explanatory information:

Government-Wide Expenditures. These are the cash-based expenditures for the past 10 fiscal years. Capital projects are expensed in the function in which they occur, not solely in capital projects funds.

Governmental Revenues by Source. These are the sources of revenue for the non-proprietary activities of the City of Indianola.

Tax Revenues by Source. These are the sources of tax revenue for the City of Indianola.

Tax Collection Trend. This table shows how effective Warren County collects the property taxes levied for the City of Indianola.

Separate & Consolidated Rates. This table lists the property tax rates of the taxing authorities that govern the citizens within the City of Indianola. Agricultural land within cities is taxed at a different rate than other types of property.

100% Valuations. These are the approximate market values of the different types of property within the City of Indianola. The Operating Levy Total and Debt Levy Total do not contain Agricultural property values, since these values are taxed at a different rate. The Debt Capacity Total does contain the Agricultural property value.

Taxable Valuations. These are the property values that are subject to the property tax levies.

Debt Margin. Iowa Code limits cities' General Obligation debt to 5% of the total valuation of property. This table shows the amount of debt outstanding subject to this limitation and the capacity of the City of Indianola to assume more debt.

Building permits. This table shows the trend of new construction in the City of Indianola, the number of new housing units, and the amount of commercial or industrial construction.

Demographics. This is an attempt to show the growth of the community, its level of prosperity, and economic conditions over various historical periods.

CITY OF INDIANOLA
Statistical Section (Continued)

History of Government-Wide Expenditures

Fiscal Year	Public Safety	Public Works	Health & Social Services	Culture & Recreation	Community Economic Development	General Government (Adm.)	Debt Service	Capital Projects	(Business- type) Enterprises	Total
2006	3,098,730	1,338,627	-	1,937,224	65,386	972,894	1,623,792	958,781	16,858,260	26,853,694
2007	3,085,938	1,256,816	-	1,943,116	617,772	965,144	1,974,772	3,035,031	13,936,478	26,815,067
2008	3,173,199	1,348,228	-	1,904,951	83,781	995,408	1,956,788	966,952	13,123,248	23,552,555
2009	3,269,051	1,282,170	-	2,316,774	104,155	1,037,373	2,219,139	1,678,814	13,608,628	25,516,104
2010	3,356,420	1,151,365	-	1,970,347	146,617	1,144,193	2,276,338	2,713,018	15,766,541	28,524,839
2011	3,534,467	1,177,500	-	1,978,160	123,554	1,187,419	5,553,409	1,904,709	22,949,882	38,409,100
2012	3,893,610	1,320,362	-	2,097,728	1,295,997	1,292,181	3,368,178	2,778,035	24,171,255	40,217,346
2013	3,902,002	1,416,552	-	2,130,514	704,168	1,411,552	2,622,940	16,012,963	18,646,956	46,847,647
2014	4,267,845	1,341,786	-	2,092,304	430,585	1,509,360	3,000,167	2,860,272	20,645,747	36,148,066
2015	4,045,737	1,301,206	-	2,022,946	557,205	1,404,657	3,003,458	5,220,131	20,232,091	37,787,431
2016	4,095,846	1,600,292	-	2,037,571	165,075	1,401,940	2,838,250	249,880	19,141,972	31,530,826

Notes:

Transfers not included as expenditures.

CITY OF INDIANOLA
Statistical Section (Continued)

Governmental Revenues by Source

Fiscal Year	Taxes	Licenses & Permits	Inter-governmental	Charges for Services	Fines	Use of Money & Property	Special Assessment	Misc.*	Total
2006	4,549,048	163,875	1,366,839	897,130	115,328	163,875	148,054	1,226,974	8,631,123
2007	4,832,068	198,689	2,255,915	867,211	110,906	362,480	284,420	1,465,204	10,376,893
2008	5,152,853	187,498	1,813,521	1,033,928	92,912	320,015	331,949	1,495,550	10,428,226
2009	5,488,299	66,923	1,648,354	1,117,293	81,114	339,169	161,882	270,351	9,173,385
2010	5,657,732	96,392	2,337,365	888,562	67,589	366,428	197,299	351,202	9,962,569
2011	5,839,564	197,339	1,825,570	980,350	77,951	318,802	92,034	545,225	9,876,835
2012	6,229,085	144,940	1,651,642	987,982	81,150	298,088	139,226	334,909	9,867,022
2013	6,738,674	117,693	2,060,498	993,286	57,955	326,083	144,055	295,066	10,733,310
2014	7,150,122	164,364	1,692,398	1,024,228	54,590	335,498	109,522	1,926,196	12,456,918
2015	7,819,189	132,554	4,575,268	1,024,782	64,041	400,099	118,173	413,108	14,547,214
2016	7,930,012	192,408	2,384,472	949,420	31,679	469,188	112,573	510,127	12,579,879

*Excludes self-insurance pool (classified as business-type internal service fund beginning in 2003), proceeds from fixed asset sales, and issuance of debt. Includes only transfers in for utility payment in lieu of taxes and administrative office cost allocations from utilities.

Tax Revenues By Source

Year	Property	TIF	Fees	Hotel/Motel	Total
2006	4,193,386	242,399	54,120	59,143	4,549,048
2007	4,302,701	414,117	54,605	60,645	4,832,068
2008	4,380,621	652,572	57,417	62,243	5,152,853
2009	4,739,284	632,566	58,208	58,241	5,488,299
2010	4,826,350	712,476	61,406	57,500	5,657,732
2011	4,836,322	865,761	81,666	55,815	5,839,564
2012	4,929,376	1,146,801	85,196	67,712	6,229,085
2013	5,163,954	1,368,810	144,189	61,721	6,738,674
2014	5,472,196	1,383,060	225,916	68,950	7,150,122
2015	6,155,219	1,365,455	223,510	75,005	7,819,189
2016	6,122,001	1,542,524	186,339	79,148	7,930,012

CITY OF INDIANOLA
Statistical Section (Continued)

Tax Collection Trend

(Collection) Fiscal Year	Total Levied	Amount Collected*	% Collected
2006	4,186,938	4,193,386	100.2%
2007	4,322,757	4,302,701	99.5%
2008	4,348,256	4,380,621	100.7%
2009	4,717,671	4,739,284	100.5%
2010	4,786,023	4,826,350	100.8%
2011	4,788,677	4,836,322	101.0%
2012	4,916,871	4,929,376	100.3%
2013	5,147,991	5,163,954	100.3%
2014	5,339,600	5,472,196	102.5%
2015	6,042,358	6,155,219	101.9%
2016	6,128,541	6,122,001	99.9%

* includes delinquent taxes, if any.

CITY OF INDIANOLA
Statistical Section (Continued)

Property Tax Rates
Separate and Consolidated
Levy Rate per \$1,000 Taxable Valuation

Fiscal Year	City of Indianola				County			School District				
	Operating	Benefits & Ins.	Debt Service	Total	Operating	Other	Total	Operating	Debt Service	Total	Other	Total
2006	8.10	1.70	2.10	11.90	5.69	0.34	6.03	15.53	2.87	18.40	1.11	37.44
2007	8.10	1.75	2.10	11.95	6.08	0.35	6.43	16.19	2.70	18.89	1.14	38.41
2008	8.10	1.75	2.00	11.85	6.45	0.34	6.79	16.56	3.63	20.19	1.05	39.88
2009	8.10	1.55	2.00	11.65	6.11	0.30	6.41	16.81	3.24	20.05	1.05	39.16
2010	8.10	1.35	1.90	11.35	3.50	2.64	6.14	15.25	4.74	19.99	0.95	38.43
2011	8.10	1.30	1.90	11.30	3.50	2.48	5.98	16.22	4.67	20.89	0.95	39.12
2012	8.10	1.25	1.85	11.20	3.50	2.28	5.78	16.04	4.85	20.89	0.99	38.86
2013	8.10	1.15	1.95	11.20	3.50	2.22	5.72	15.57	2.09	17.66	1.07	35.65
2014	8.10	2.60	2.00	12.70	3.50	2.22	5.72	15.09	4.05	19.14	1.03	38.59
2015	8.10	2.85	1.75	12.70	3.50	2.19	5.69	15.24	4.05	19.29	1.14	38.82
2016	8.10	2.85	1.75	12.70	3.50	2.18	5.68	15.26	4.05	19.31	1.27	38.96

Ag Land

2006	3.00
2007	3.00
2008	3.00
2009	3.00
2010	3.00
2011	3.00
2012	3.00
2013	3.00
2014	3.00
2015	3.00
2016	3.00

CITY OF INDIANOLA
Statistical Section (Continued)

100% Valuations

Fiscal Year	Residential	Ag/Bldgs	Commercial	Industrial	Multi Residential	Personal Property	Rail & Utilities*	Gross Valuation	Exemptions	Total Valuation
2006	461,811,540	1,044,700	123,584,680	9,514,780	-	-	5,266,201	601,221,901	1,415,928	599,805,973
2007	491,599,280	1,117,600	130,585,000	13,051,885	-	-	5,609,331	641,963,096	1,439,904	640,523,192
2008	518,949,280	1,195,800	132,933,300	13,084,925	-	-	5,197,890	671,361,195	1,433,422	669,927,773
2009	600,967,220	1,344,000	141,538,420	14,231,700	-	-	5,354,152	763,435,492	1,499,194	761,936,298
2010	617,326,560	1,342,200	142,844,860	15,142,160	-	-	5,369,669	782,025,449	1,476,970	780,548,479
2011	610,354,360	1,874,500	143,432,485	15,163,880	-	-	5,582,297	776,407,522	1,493,638	774,913,884
2012	625,085,080	1,839,975	145,851,590	15,799,955	-	-	5,777,351	794,353,951	1,486,230	792,867,721
2013	646,903,900	4,447,700	156,223,760	15,475,490	-	-	2,389,713	825,440,563	1,451,042	823,989,521
2014	655,164,820	3,081,278	162,035,585	15,666,500	-	-	4,104,432	840,052,615	1,426,040	838,626,575
2015	667,165,608	3,442,125	122,927,016	16,849,580	48,995,144	-	3,667,352	863,046,825	1,367,612	861,679,213
2016	679,711,368	3,456,837	126,448,130	17,178,400	49,400,760	-	5,598,329	881,793,824	1,199,078	880,594,746

*includes gas & electric valuations at rates levied by the State of Iowa

CITY OF INDIANOLA
Statistical Section (Continued)

Taxable Valuations

Fiscal Year	Residential	Ag/Bldgs	Commercial	Industrial	Multi Residential	Personal Property	Rail & Utilities*	Gross Valuation	Exemptions	Total Taxable Valuation
2006	221,243,341	1,044,700	120,608,343	4,641,582	-	-	5,065,357	352,603,323	1,415,928	351,187,395
2007	224,958,069	1,117,600	122,612,610	7,773,332	-	-	5,211,239	361,672,850	1,439,904	360,232,946
2008	255,353,906	1,195,800	120,608,343	4,641,582	-	-	5,354,152	387,153,783	1,499,194	385,654,589
2009	262,021,987	1,207,178	127,874,259	10,422,723	-	-	4,780,591	406,306,738	1,499,194	404,807,544
2010	278,482,876	1,258,303	127,591,097	10,578,951	-	-	4,818,592	422,729,819	1,476,970	421,252,849
2011	282,264,068	1,196,187	128,329,005	7,442,455	-	-	4,559,534	423,791,249	1,493,638	422,297,611
2012	297,423,424	1,222,266	127,240,836	4,649,639	-	-	4,812,221	435,348,386	1,486,230	433,862,156
2013	317,835,762	1,148,540	127,934,078	2,613,568	-	-	4,861,537	454,393,485	1,469,562	452,923,923
2014	365,146,253	1,200,820	145,832,027	14,103,850	-	-	4,104,432	530,387,382	1,426,040	528,961,342
2015	371,116,849	1,407,597	110,634,315	15,164,622	42,258,339	-	3,667,352	544,249,074	1,367,612	542,881,462
2016	387,021,562	1,493,506	113,803,317	15,460,560	40,755,671	-	3,416,183	561,950,799	1,199,078	560,751,721

*includes gas & electric valuations at rates levied by the State of Iowa

**military

	Operating Levy Total	TIF District Valuation	Debt Levy Total	100% Valuation Total	Ratio of Taxable to 100%
2006	350,142,695	8,110,407	358,253,102	599,805,973	59.7%
2007	359,115,346	13,303,403	372,418,749	640,523,192	58.1%
2008	384,458,789	20,144,573	404,603,362	669,927,773	60.4%
2009	403,600,366	19,978,653	423,579,019	761,936,298	55.6%
2010	419,994,546	22,769,004	442,763,550	780,548,479	56.7%
2011	421,101,424	26,874,547	447,975,971	774,913,884	57.8%
2012	432,639,890	35,690,858	468,330,748	792,867,721	59.1%
2013	451,775,383	42,652,063	494,427,446	823,989,521	60.0%
2014	527,760,522	52,745,764	580,506,286	838,626,575	69.2%
2015	541,473,865	59,727,678	601,201,543	861,679,213	69.8%
2016	559,258,215	66,681,130	625,939,345	880,594,746	71.1%

CITY OF INDIANOLA
Statistical Section (Continued)

Computation of Legal Debt Margin

Fiscal Year	5% of Debt Capacity Valuation	Less: Outstanding G.O. Debt	Legal Debt Margin	Debt Capacity Used
2006	32,098,155	13,018,000	19,080,155	40.6%
2007	33,568,060	11,248,000	22,320,060	33.5%
2008	38,171,775	11,318,165	26,853,610	29.7%
2009	39,101,272	9,440,000	29,661,272	24.1%
2010	38,820,376	11,268,384	27,551,992	29.0%
2011	39,717,698	13,362,456	26,355,242	33.6%
2012	41,272,028	21,823,249	19,448,779	52.9%
2013	42,002,631	25,255,000	16,747,631	60.1%
2014	43,152,341	24,190,000	18,962,341	56.1%
2015	42,002,631	19,795,000	22,207,631	47.1%
2016	44,089,691	17,825,000	26,264,691	40.4%

CITY OF INDIANOLA
Statistical Section (Continued)

Building Permit Trends

Calendar Year	Construction Value of new Single Family Dwellings		Construction Value of Multi-Family Dwellings		No. of Units	Total Residential Construction	Total No. of Units	Construction Value of Alterations & Additions		Total Residential Construction Value
	No. of Dwelling	No. of Permits	No. of Dwelling	No. of Permits				No. of Units	No. of Permits	
2006	12,603,520	71	5,847,400	12	27	18,450,920	98	539,100	66	18,990,020
2007	10,568,484	63	2,687,887	9	19	13,256,371	82	743,942	63	14,000,313
2008	3,617,146	22	8,355,796	34	68	11,972,942	90	670,221	59	12,643,163
2009	3,676,598	23	4,417,800	1	62	8,094,398	85	278,426	35	8,372,824
2010	5,022,118	35	8,144,766	44	84	13,166,884	119	1,459,209	45	14,626,093
2011	3,362,600	21	223,000	1	2	3,585,600	23	540,643	46	4,126,243
2012	2,035,200	14	6,251,000	4	45	8,286,200	59	262,201	42	8,548,401
2013	8,052,802	47	6,245,150	13	62	14,297,952	109	262,850	40	14,560,802
2014	5,330,909	29	2,631,850	8	24	7,962,759	53	475,127	38	8,437,886
2015	7,040,310	40	1,827,700	6	16	8,868,010	56	386,665	43	9,254,675
2016	7,250,532	40	13,741,553	10	138	20,992,085	178	456,089	56	21,448,174

Calendar Year	Construction Value of Commercial/Industrial		Construction Value of Non-taxable Construction		Total Construction	Total No. of Permits
	No. of Permits	No. of Permits	No. of Permits	No. of Permits		
2006	4,788,835	37	2,293,717	2	26,072,572	188
2007	11,405,065	9	14,262,433	2	34,729,175	193
2008	3,764,616	22	71,000	2	16,718,743	157
2009	4,399,823	21	1,616,980	6	12,975,239	101
2010	5,439,383	9	4,025,121	9	20,273,820	179
2011	40,613,859	39	30,565,682	9	44,897,710	136
2012	19,690,301	29	18,436,157	14	28,522,468	115
2013	10,846,316	18	4,857,530	1	25,488,473	140
2014	12,535,812	23	10,149,235	3	21,130,498	120
2015	11,510,521	61	10,532,327	7	20,935,297	136
2016	8,701,276	24	127,000	1	30,457,132	162

CITY OF INDIANOLA
Statistical Section (Continued)

Demographic Information

Trends:	<u>Calendar Year</u>	<u>Iowa Unemployment</u>		
	2006		3.9%	
	2007		3.6%	
	2008		3.8%	
	2009		5.6%	
	2010		6.2%	
	2011		6.0%	
	2012		5.1%	
	2013		4.6%	
	2014		4.4%	
	2015		3.5%	
	2016		3.5%	

History:	<u>Calendar Year</u>	<u>Population</u>	<u>10 year % increase</u>	<u>Median Family Income</u>
	1930	3,488		
	1940	4,100	17.5%	
	1950	5,145	25.5%	
	1960	7,062	37.3%	
	1970	8,976	27.1%	
Special	1975	9,611		
	1980	10,843	20.8%	
	1990	11,340	4.6%	\$ 34,684
Special	1995	12,339		
	2000	12,998	14.6%	\$ 52,235
Annexation	2004	13,044		
Special	2005	14,156	14.7%	
	2010	14,782	13.7%	\$ 52,238



Shull, Schrum, McClafin
& Co., Inc.
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards of 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 of 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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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 as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

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

Supplementary and Other Information

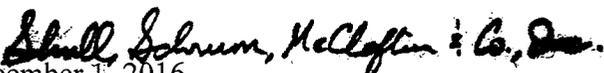
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Indianola's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 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 generally accepted auditing standards of the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 28 through 33 and 68 through 75 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards we have also issued our report dated December 1, 2016 on our consideration of the City of Indianola's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Indianola's internal control over financial reporting and compliance.


December 1, 2016

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A)

The City of Indianola offers readers of the City of Indianola's financial statements this narrative overview and analysis of the financial activities of the City of Indianola for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in this report.

2016 Financial Highlights

- The City of Indianola has an ending cash balance of \$19,965,608 to meet the government's ongoing obligations to citizens and creditors. Of this, \$9,728,370 is under the direct management and control of the primary government with \$6,690,397 for governmental activities and \$3,546,841 for business-type activities. The remaining \$7,460,217 from the component unit, Indianola Municipal Utilities.
- Total cash balances increased \$2,166,526 for the primary government and decreased \$117,014 for the component unit. The primary reason for the increase is accumulate funds for capital expenditures in the future without borrowing.

Using this Annual Report

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. 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 balance). Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

Reporting the City's Financial Activities

Basis of accounting: The City of Indianola maintains its financial records on the basis of cash receipts and disbursements and the financial statements presented in this report are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items.

Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Government-wide Financial Statement: The Combined Statement of Cash Transactions presents information on all of the City of Indianola's cash balances. Over time, increases or decreases in balances may serve as a useful indicator of whether the financial position of the City of Indianola is improving or deteriorating. This statement details how cash balances changed during the most recent fiscal year.

This statement distinguishes functions of the City of Indianola that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities).

Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property taxes, charges for service, state and federal allocations and grants, and special assessments finance most of these activities.

Business type activities of the City include both internal service funds and sanitary sewer system funds.

The component unit of the City of Indianola is the combined transactions of the electric, water, and telecommunications utilities. Separate financial statements are issued for these activities under the report of Indianola Municipal Utilities.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about individual, significant funds—not the City as a whole. Some funds are required to be established in Iowa Code and by bond covenants. The City of Indianola has established other funds to help it control and manage financial resources for particular purposes. The city has two types of funds:

1. Governmental funds account for most of the City of Indianola'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) Special Revenue Funds, 3) the Debt Service Fund, and 4) Capital Projects Funds. The Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Governmental Funds 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 less, financial resources available.

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

2. Business type funds account for the City of Indianola’s Enterprise Funds and Internal Services Funds. As shown on the “Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds” Enterprise Funds are maintained for the sanitary sewer funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among various functions. The City of Indianola uses Internal Service Funds to account for employee group health & short-term disability insurance and property & liability deductibles.

Financial Analysis

The following condensed financial information serves as summarized financial data and indicators for management, monitoring, and planning.

Net assets: The table below shows restricted and unrestricted net assets on a cash basis. These net assets exclude those of the component unit, which are under the management and control of a board of trustees.

Net Assets (Cash Basis)

	Year ended June 30,		Change
	2016	2015	
Governmental Activities			
Restricted	3,525,382	3,018,309	507,073
Unrestricted	<u>6,202,988</u>	<u>4,543,535</u>	<u>1,659,453</u>
Total	<u>9,728,370</u>	<u>7,561,844</u>	<u>2,166,526</u>
Business Type Activities			
Restricted	54,997	54,979	18
Unrestricted	<u>2,434,860</u>	<u>1,901,587</u>	<u>533,273</u>
Total	<u>2,489,857</u>	<u>1,956,566</u>	<u>533,291</u>
Total Primary Government			
Restricted	3,580,379	3,073,288	507,091
Unrestricted	<u>8,637,848</u>	<u>6,445,122</u>	<u>2,192,726</u>
Total	<u>12,218,227</u>	<u>9,518,410</u>	<u>2,699,817</u>
Component Unit			
Restricted	439,500	436,956	2,544
Unrestricted	<u>7,307,878</u>	<u>7,263,195</u>	<u>44,683</u>
Total	<u>7,747,378</u>	<u>7,700,151</u>	<u>47,227</u>

Sources and uses of funds: The following table summarizes how the operations of the city were financed and the programs in which they were expended.

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

Changes in Net Assets Governmental Funds

	<u>Year ended June 30,</u>				<u>Change</u>	
	<u>2016</u>		<u>2015</u>			
Receipts						
Property tax	\$ 6,122,001	49%	6,155,219	42%	(33,218)	-1%
Tax increment financing collections	1,542,524	12%	1,365,455	9%	177,069	13%
Other city tax	265,487	2%	298,515	2%	(33,028)	-11%
Licenses and permits	192,408	2%	132,554	1%	59,854	45%
Use of money and property	469,188	4%	400,099	3%	69,089	17%
Intergovernmental	2,384,472	19%	4,575,268	31%	(2,190,796)	-48%
Charges for service	949,420	8%	1,024,782	7%	(75,362)	-7%
Special assessments	112,573	1%	118,173	1%	(5,600)	-5%
Miscellaneous	541,806	4%	477,149	3%	64,657	14%
Total Receipts	<u>12,579,879</u>	<u>100%</u>	<u>14,547,214</u>	<u>100%</u>	<u>(1,967,335)</u>	<u>-14%</u>
Disbursements						
Public safety	4,095,846	33%	4,018,718	23%	77,128	2%
Public works	1,600,292	13%	1,293,247	7%	307,045	24%
Culture and recreation	2,037,571	16%	2,009,849	11%	27,722	1%
Community and economic development	165,075	1%	557,205	3%	(392,130)	-70%
General government	1,401,940	11%	1,394,110	8%	7,830	1%
Debt service	2,838,250	23%	3,003,458	17%	(165,208)	-6%
Capital projects	249,880	2%	5,220,131	30%	(4,970,251)	-95%
Total disbursements	<u>12,388,854</u>	<u>100%</u>	<u>17,496,718</u>	<u>100%</u>	<u>(5,107,864)</u>	<u>-29%</u>
Other financing sources (uses)						
Bond proceeds	-		-			
Sale of capital assets	111,845		54,239			
Operating transfers in (out)	<u>2,042,424</u>		<u>2,092,328</u>			
Total other financing sources (uses)	<u>2,154,269</u>		<u>2,146,567</u>			
Net change in cash balances	2,345,294		(802,937)			
Cash balances, beginning of year	<u>6,613,255</u>		<u>7,416,192</u>			
Cash balances, end of year	<u>\$ 8,958,549</u>		<u>6,613,255</u>			

Property tax revenues increased due to taxable valuation growth in FY16. The majority of the remaining revenues held relatively stable in comparison to total receipts.

Public Works had the largest increase in spending, attributed to equipment purchases. Public safety and General Government Operations, public works, culture & recreation increased slightly. Capital Projects spending decrease largely due to the completion of Highway 65/69 improvements in FY15, no other such large scale projects were undertaken in FY16.

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

Governmental funds: Governmental funds ended the fiscal year with a balance of \$9,728,370 an increase of \$2,166,526 over the prior year.

Business type funds: Business type funds ended the fiscal year with \$1,956,566 in cash basis fund balances, an increase of \$533,291 over the prior year.

Budgetary Highlights

In accordance with Iowa Code, 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. None of the amendments made, if any, negatively affect the following year's budget.

Capital Asset and Debt Administration

In FY 2016, the City issued no General Obligation Bonds.

Factors Affecting Financial Condition

Local economy: The City of Indianola currently has a stable economic environment and local indicators point to slight growth. Although a primarily residential community, the varied nature of the educational, light manufacturing, agriculture services, and retail sectors of the local economy provides employment stability. Close proximity to the Des Moines metro area, the state capital with a combined population of approximately 460,000, provides employment for approximately 60% of Indianola's available workforce. Over the past 5 years single-family dwellings have been constructed at an average rate of 21 units.

The region (which includes the City of Indianola and the surrounding unincorporated area within Warren County) has a relatively stable employment outlook over the next several years. New commercial construction is occurring along the four-lane highway between the City of Indianola and the Des Moines metropolitan area. New utility services to recently annexed areas along its highway corridors have been installed to open new ground for development in these areas where commercial or industrial growth has started. A four-lane bypass to the south of the Des Moines metro, completed in 2002, provides increased commercial development opportunities for the community as it improved traffic flow from Indianola to the western Des Moines suburbs and the interstate highway system. The city makes annual financial commitments to the Warren County Economic Development Corporation and Greater Des Moines Partnership to support economic development in the region. The component unit also offers its own revolving loan program to spur economic development.

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

Long-term financial planning: The city has adopted a Comprehensive Plan, last updated in 2011 to help determine future infrastructure needs. City authorities annually adopt capital improvement budgets that prioritize foreseen projects. Those with potential long-term significant impacts to the financial operations of the city are:

- The city continues inspect and maintain the waste water system. The main objective of the program is to reduce storm water from entering the sanitary sewer system.

Regulatory changes: It is expected that the State of Iowa will enact new regulations on waste water treatment quality that could take effect within 5 years. Plant upgrades and gravity line improvements, which will reduce infiltration and inflow of storm water, will help the City of Indianola meet these regulations. Although a new waste water treatment plant is in the planning stages, the city is currently performing necessary rehabilitation to the sewer plant to extend its service life until work on a new system can be completed.

Other regulatory impacts under consideration by the State of Iowa also include increased monitoring and controlling storm water pollution levels.

The City Council makes a concerted effort to maintain effective services while keeping tax rates affordable, especially in light of current economic conditions. Indianola continues to have growth in population, retail sales, and commercial construction, which is above the norm for the state as a whole. The city property tax rate for FY 2016 stayed flat at \$12.70 per \$1,000 in taxable valuation.

Requests for Information

This financial report is designed to provide a general overview of the City of Indianola's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 110 N. First St., PO Box 299, Indianola, IA 50125. City Hall's telephone number is 515-961-9410.

BASIC FINANCIAL STATEMENTS

CITY OF INDIANOLA
Cash Basis Statement of Activities and Net Position
As of and for the Year Ended June 30, 2016

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Operating Grants, Contributions, and Restricted Interest</u>
Functions / Programs			
Primary Government:			
Governmental activities:			
Public safety	\$ 4,181,922	894,524	146,998
Public works	1,624,093	150,438	1,844,423
Culture and recreation	2,071,238	367,790	273,377
Community and economic development	165,075	3,750	111,641
General government	1,437,559	53,866	25,526
Debt service	2,838,250	-	-
Capital projects	<u>249,880</u>	<u>4,929</u>	<u>-</u>
Total governmental activities	<u>12,568,017</u>	<u>1,475,297</u>	<u>2,401,965</u>
Business type activities:			
Sewer	2,049,496	2,964,632	51,675
Other nonmajor	<u>256,530</u>	<u>423,677</u>	<u>-</u>
Total business type activities	<u>2,306,026</u>	<u>3,388,309</u>	<u>51,675</u>
Total Primary Government	<u>\$ 14,874,043</u>	<u>4,863,606</u>	<u>2,453,640</u>
 Component Unit:			
Municipal Utilities	<u>\$ 16,835,946</u>	<u>16,661,569</u>	<u>1,214,920</u>
 General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Employee benefits			
Tax increment financing			
Utility tax replacement excise tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Bond, note and loan proceeds			
Payments to refunding bond agent			
Rent			
Sale of capital assets			
Miscellaneous			
Transfers			
 Total general receipts and transfers			

Receipts	Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
	Primary Government			Component Unit
Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	Municipal Utilities
-	(3,140,400)	-	(3,140,400)	-
-	370,768	-	370,768	-
-	(1,430,071)	-	(1,430,071)	-
-	(49,684)	-	(49,684)	-
-	(1,358,167)	-	(1,358,167)	-
-	(2,838,250)	-	(2,838,250)	-
<u>157,618</u>	<u>(87,333)</u>	-	<u>(87,333)</u>	-
<u>157,618</u>	<u>(8,533,137)</u>	-	<u>(8,533,137)</u>	-
-	-	966,811	966,811	-
-	-	167,147	167,147	-
-	-	1,133,958	1,133,958	-
<u>157,618</u>	<u>(8,533,137)</u>	<u>1,133,958</u>	<u>(7,399,179)</u>	-
<u>4,108</u>	-	-	-	<u>1,044,651</u>
	3,941,640	-	3,941,640	-
	993,494	-	993,494	-
	1,400,968	-	1,400,968	-
	1,542,524	-	1,542,524	-
	186,340	-	186,340	40,622
	79,148	-	79,148	-
	157,975	21,305	179,280	111,828
	-	153,762	153,762	-
	-	-	-	-
	243,305	56,466	299,771	40,350
	111,845	-	111,845	20,000
	-	-	-	-
	<u>2,042,424</u>	<u>(832,200)</u>	<u>1,210,224</u>	<u>(1,210,224)</u>
	<u>10,699,663</u>	<u>(600,667)</u>	<u>10,098,996</u>	<u>(997,424)</u>

CITY OF INDIANOLA
Cash Basis Statement of Activities and Net Position
As of and for the Year Ended June 30, 2016

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

Debt service

Other purposes

Unrestricted

Total cash basis net position

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Municipal Utilities</u>
2,166,526	533,291	2,699,817	47,227
<u>7,561,844</u>	<u>1,956,566</u>	<u>9,518,410</u>	<u>7,700,151</u>
<u>\$ 9,728,370</u>	<u>2,489,857</u>	<u>12,218,227</u>	<u>7,747,378</u>
1,225,219	-	1,225,219	-
949,928	-	949,928	-
1,240,534	54,997	1,295,531	439,500
109,701	-	109,701	-
<u>6,202,988</u>	<u>2,434,860</u>	<u>8,637,848</u>	<u>7,307,878</u>
<u>\$ 9,728,370</u>	<u>2,489,857</u>	<u>12,218,227</u>	<u>7,747,378</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, 2016

	<u>General</u>	<u>Special Revenue</u> <u>Road Use</u> <u>Tax</u>
Receipts		
Property tax	\$ 3,312,968	-
Tax increment financing	-	-
Other city tax	265,487	-
Licenses and permits	192,408	-
Use of money and property	467,611	-
Intergovernmental	439,618	1,826,749
Charges for service	949,420	-
Special assessments	-	-
Miscellaneous	457,195	45,097
Total receipts	<u>6,084,707</u>	<u>1,871,846</u>
Disbursements		
Operating		
Public safety	4,095,846	-
Public works	203,264	1,397,028
Culture and recreation	2,037,571	-
Community and economic development	131,974	-
General government	1,401,940	-
Debt service	76,835	-
Capital projects	-	-
Total disbursements	<u>7,947,430</u>	<u>1,397,028</u>
Excess of receipts over disbursements	<u>(1,862,723)</u>	<u>474,818</u>
Other financing sources (uses)		
Sale of capital assets	111,845	-
Operating transfers in (out)	3,025,792	(349,100)
Total other financing sources (uses)	<u>3,137,637</u>	<u>(349,100)</u>

<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
917,495	1,891,538	6,122,001
-	1,542,524	1,542,524
-	-	265,487
-	-	192,408
-	1,577	469,188
-	118,105	2,384,472
-	-	949,420
107,644	4,929	112,573
-	39,514	541,806
<u>1,025,139</u>	<u>3,598,187</u>	<u>12,579,879</u>
-	-	4,095,846
-	-	1,600,292
-	-	2,037,571
-	33,101	165,075
-	-	1,401,940
2,761,415	-	2,838,250
-	249,880	249,880
<u>2,761,415</u>	<u>282,981</u>	<u>12,388,854</u>
<u>(1,736,276)</u>	<u>3,315,206</u>	<u>191,025</u>
-	-	111,845
<u>1,670,923</u>	<u>(2,305,191)</u>	<u>2,042,424</u>
<u>1,670,923</u>	<u>(2,305,191)</u>	<u>2,154,269</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, 2016

	<u>General</u>	<u>Special Revenue</u> Use Tax
Change in cash balances	1,274,914	125,718
Cash balances beginning of year	<u>3,675,491</u>	<u>1,099,501</u>
Cash balances end of year	<u>\$ 4,950,405</u>	<u>1,225,219</u>
Cash Basis Fund Balances		
Restricted for:		
Streets	\$ -	1,225,219
Urban renewal purposes	-	-
Debt service	-	-
Other purposes	-	-
Committed	-	-
Unassigned	<u>4,950,405</u>	-
Total cash basis fund balances	<u>\$ 4,950,405</u>	<u>1,225,219</u>

See notes to financial statements.

Exhibit B
(Continued)

<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
(65,353)	1,010,015	2,345,294
<u>1,305,887</u>	<u>532,376</u>	<u>6,613,255</u>
<u>1,240,534</u>	<u>1,542,391</u>	<u>8,958,549</u>
-	-	1,225,219
-	949,928	949,928
1,240,534	-	1,240,534
-	109,701	109,701
-	482,762	482,762
-	-	<u>4,950,405</u>
<u>1,240,534</u>	<u>1,542,391</u>	<u>8,958,549</u>

CITY OF INDIANOLA

Exhibit C

Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash
 Balances to the Cash Basis Statement of Activities and Net Position -
 Governmental Funds
 As of and for the Year Ended June 30, 2016

Total government funds cash balances \$ 8,958,549

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position 769,821

Cash basis net position of governmental activities \$ 9,728,370

Change in cash balances \$ 2,345,294

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position. (178,768)

Change in cash basis net position of governmental activities \$ 2,166,526

See notes to financial statements.

CITY OF INDIANOLA

Statement of Cash Receipts, Disbursements and Changes in Cash Balances -
 Proprietary Funds
 As of and for the Year Ended June 30, 2016

	Enterprise Funds	
	Sewer	Nonmajor
Operating receipts		
Charges for service	\$ 2,912,800	423,677
Miscellaneous	32,095	-
Total operating receipts	<u>2,944,895</u>	<u>423,677</u>
Operating disbursements		
Governmental activities		
Public safety	-	-
Public works	-	-
Culture and recreation	-	-
General government	-	-
Business type activities	995,305	256,530
Component Unit:		
Municipal Utilities	-	-
Total operating disbursements	<u>995,305</u>	<u>256,530</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>1,949,590</u>	<u>167,147</u>
Non-operating receipts (disbursements)		
Interest on investments	21,206	-
Special assessments	19,838	-
Miscellaneous	108,041	-
Capital loan note proceeds	153,761	-
Debt Service	(668,882)	-
Capital projects	(370,508)	-
Net non-operating receipts (disbursements)	<u>(736,544)</u>	<u>-</u>
Excess of receipts over disbursements	1,213,046	167,147
Operating transfers in (out)	<u>(752,700)</u>	<u>(79,500)</u>
Change in cash balances	460,346	87,647
Cash balances beginning of year	1,327,583	504,819
Cash balances end of year	<u>\$ 1,787,929</u>	<u>592,466</u>
Cash Basis Fund Balances		
Restricted for debt service	\$ 54,997	-
Unrestricted	1,732,932	592,466
Total cash basis fund balances	<u>\$ 1,787,929</u>	<u>592,466</u>

See notes to financial statements.

<u>Total</u>	<u>Internal Service Funds</u>
3,336,477	1,335,834
<u>32,095</u>	<u>162,427</u>
<u>3,368,572</u>	<u>1,498,261</u>
-	563,576
-	146,447
-	231,156
-	238,642
1,251,835	98,024
-	<u>484,167</u>
<u>1,251,835</u>	<u>1,762,012</u>
<u>2,116,737</u>	<u>(263,751)</u>
21,206	494
19,838	-
108,041	-
153,761	-
(668,882)	-
<u>(370,508)</u>	<u>-</u>
<u>(736,544)</u>	<u>494</u>
1,380,193	(263,257)
<u>(832,200)</u>	<u>-</u>
547,993	(263,257)
<u>1,832,402</u>	<u>1,429,702</u>
<u>2,380,395</u>	<u>1,166,445</u>
54,997	-
<u>2,325,398</u>	<u>1,166,445</u>
<u>2,380,395</u>	<u>1,166,445</u>

CITY OF INDIANOLA

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash
Balances to the Cash Basis Statement of Activities and Net Position -
Proprietary Funds
As of and for the Year Ended June 30, 2016

Total enterprise funds cash balances \$ 2,380,395

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

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

109,462

Cash basis net position of business type activities \$ 2,489,857

Change in cash balances \$ 547,993

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

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

(14,702)

Change in cash basis net position of business type activities \$ 533,291

See notes to financial statements.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Indianola 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, culture and recreation, community and economic development and general government services. The City also provides a sewer utility for its citizens.

A. **REPORTING ENTITY**

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

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. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit - The financial information for the Indianola Municipal Utilities is presented as a Component Unit to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utilities are governed by a five-member board appointed by the City Council and the Utilities' operating budget is subject to the approval of the City Council.

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, Marion/Warren County Drug Task Force, Community Athletic Facilities Board.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. **BASIS OF PRESENTATION**

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

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

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

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 that are not paid from other funds.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued) –

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

The City reports the following major proprietary funds:

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.

C. 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, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with generally accepted accounting principles of 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 is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

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

D. GOVERNMENTAL CASH BASIS FUND BALANCES

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

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

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

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. BUDGETS AND BUDGETARY ACCOUNTING

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

2. **CASH AND POOLED INVESTMENTS**

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

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

2. **CASH AND POOLED INVESTMENTS (CONTINUED)**

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

The City's investments at June 30, 2016 were as follows:

	CARRYING AMOUNT	FAIR VALUE
Money market accounts	\$ 1,583,543	1,583,543
U.S. treasury bills	149,742	149,980
U.S. government obligations	2,309,535	2,314,536
U.S. agency mortgage pass-through	713,340	757,844
U.S. agency bonds and notes	10,136,710	10,220,088
U.S. agency collateralized mortgage obligations	1,349,541	1,392,088
U.S. agency asset backed securities	694,950	725,506
Corporate Bonds	251,787	251,105
	<u>\$17,189,148</u>	<u>17,394,690</u>

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 \$111,138 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There are no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

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

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

2. **CASH AND POOLED INVESTMENTS (CONTINUED)**

Credit risk – The City’s investments are held by a bank’s trust department in the City’s name. Investments with a carrying amount of \$10,098,276 are rated Aaa. The balance of the investments are not rated.

3. **BONDS AND NOTES PAYABLE**

Annual debt service requirements to maturity for the City's general obligation bonds and notes, capital loan notes, revenue capital loan notes, and other long-term debt as of June 30, 2016 are as follows:

YEAR ENDING June 30,	GENERAL OBLIGATION		CAPITAL		REVENUE CAPITAL		TOTAL	
	BONDS & NOTES		LOAN NOTES		LOAN NOTES			
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2017	\$ 2,105,000	319,673	220,000	6,760	374,000	276,819	2,699,000	603,252
2018	2,045,000	290,507	75,000	2,437	385,000	267,359	2,505,000	560,303
2019	1,800,000	262,045	-	-	395,000	257,610	2,195,000	519,655
2020	1,835,000	235,145	-	-	405,000	247,589	2,240,000	482,734
2021	1,560,000	206,340	-	-	416,000	237,309	1,976,000	443,649
2022-2026	5,930,000	631,505	-	-	2,255,000	1,021,877	8,185,000	1,653,382
2027-2031	2,255,000	136,575	-	-	2,156,964	721,327	4,411,964	857,902
2032-2036	-	-	-	-	1,711,000	458,130	1,711,000	458,130
2037-2041	-	-	-	-	2,006,000	184,380	2,006,000	184,380
	<u>\$ 17,530,000</u>	<u>2,081,790</u>	<u>295,000</u>	<u>9,197</u>	<u>10,103,964</u>	<u>3,672,400</u>	<u>27,928,964</u>	<u>5,763,387</u>

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$9,090,000 of Sewer Revenue Capital Loan Notes, Series 2009, issued in May 2009. Proceeds from the notes provided financing for the costs of acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping of the municipal sewer system utility. The notes are payable solely from sewer customer net receipts and are payable through 2041. Annual principal and interest payments on the notes are expected to require less than 46% of net receipts. The total principal and interest remaining to be paid on the notes is \$10,757,890. For the current year, principal and interest paid and total customer net receipts were \$421,980 and \$909,699, respectively.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

3. **BONDS AND NOTES PAYABLE (CONTINUED)**

Revenue Notes - continued

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$4,036,000 of Sewer Revenue Capital Loan Notes, Series 2013, issued in April 2013. Proceeds from the notes provided financing for the costs of acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping of the municipal sewer system utility. The notes are payable solely from sewer customer net receipts and are payable through 2033. Annual principal and interest payments on the notes are expected to require less than 25% of net receipts. The total principal and interest remaining to be paid on the notes is \$3,018,474. For the current year, principal and interest paid and total customer net receipts were \$227,737 and \$909,699, respectively.

The resolution providing for the issuance of the revenue capital loan notes include the following provisions:

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate water revenue sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- c. All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations, to pay for extraordinary repairs or replacements to the water system, or to pay or redeem the notes or parity obligations, and then can be used for any lawful purpose.

4. **PENSION PLANS**

Iowa Public Employees' Retirement System (IPERS)

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

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2016

4. **PENSION PLANS (CONTINUED)**

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

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

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

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

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

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

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

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2016

4. **PENSION PLANS (CONTINUED)**

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

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

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$423,224.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$2,800,726 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was .0566893%, which was a decrease of .000735% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the City pension expense, deferred outflows and deferred inflows totaled \$243,155, \$392,895 and \$316,585 respectively.

There were no non-employer contributing entities to IPERS.

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

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

4. PENSION PLANS (CONTINUED)

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

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

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

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Plus Fixed Income	28%	2.04%
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
 Year Ended June 30, 2016

4. **PENSION PLANS (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 that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) 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	\$ 5,337,008	\$ 2,800,726	\$ 660,472

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 Sample GAAP 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.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

4. **PENSION PLANS (CONTINUED)**

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

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

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

Disability and Death Benefits - Disability benefits may be either accidental or ordinary. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50% 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.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

4. **PENSION PLANS (CONTINUED)**

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

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

Contributions - Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2016.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa the City's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 27.77% for the year ended June 30, 2016.

The City's contributions to MFPRSI for the year ended June 30, 2016 was \$336,000.

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, 2016.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$2,115,926 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all MFPRSI participating employers. At June 30, 2015, the City's proportion was .450375% which was an decrease of .017445% from its proportions measured as of June 30, 2014.

For the year ended June 30, 2016, the City's collective pension expense totaled \$196,429.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

4. **PENSION PLANS (CONTINUED)**

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

Rate of inflation	3.00%
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, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Mortality rates were based weighting equal to 1/12 of the 1971 GAM table and 11/12 of the 1994 GAM table with no projection of future mortality improvement.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Core Plus Fixed Income	7.0%	3.8%
Emerging Markets Debt	3.0%	6.5%
Domestic Equities	12.5%	6.0%
Master Limited Partnerships (MLP)	5.0%	8.5%
International Equities	12.5%	7.0%
Core Investments	40.0%	
Tactical Asset Allocation	35.0%	6.0%
Private Equity	15.0%	9.8%
Private Non-Core Real Estate	5.0%	9.3%
Private Core Real Estate	5.0%	6.8%
Real Estate	10.0%	
Total	100.0%	

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2016

4. **PENSION PLANS (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 9.40% of covered payroll and the City contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, the MFPRSI's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on MFPRSI investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.5%) 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	\$ 3,683,888	\$ 2,115,926	\$ 813,131

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.

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

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 91 active and 1 retired members in the plan. Participants must be 55 or older at retirement. Some Fire/Rescue participants qualify at age 50 with 22 years of service.

The medical/prescription drug benefits are provided through a self-funded plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$538 for single coverage and \$1,311 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2016, the City contributed \$0 and plan members eligible for benefits contributed approximately \$12,150 to the plan.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

6. **COMPENSATED ABSENCES**

City employees accumulate vacation hours and sick leave for subsequent use. Unused vacation hours are payable 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, 2016, primarily relating to the General Fund, was as follows:

Vacation	\$ 401,794
Sick leave	<u>890,088</u>
	\$ <u>1,291,882</u>

This liability has been computed based on rates of pay as of June 30, 2016.

7. **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, 2016 the actuarially determined reserve necessary for claims incurred but not yet paid was \$196,625 (2015 - \$177,621) and the internal service fund balance was \$690,402 (2015 - \$944,766).

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 \$243,539 as of June 30, 2016.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2016

8. **INTERFUND TRANSFERS**

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 183,100
	Employee Benefits Levy	1,400,968
	Police Retirement	12,500
	Enterprise:	
	Sewer	424,300
	Recycling	18,100
	Component Unit	<u>1,052,324</u>
		<u>3,091,292</u>
Special Revenue:		
Downtown Tax Increment	Special Revenue:	
	Industrial Park Urban Renewal Tax Increment	<u>1,271,206</u>
Debt Service	General	65,500
	Special Revenue:	
	Industrial Park Urban Renewal Tax Increment	114,956
	Downtown Tax Increment	936,767
	Enterprise:	
	Sewer	322,400
	Stormwater Utility	61,400
	Component Unit	<u>169,900</u>
		<u>1,670,923</u>
Capital Projects:		
Street Construction	Special Revenue:	
	Road Use Tax	<u>160,000</u>
Component Unit	Special Revenue:	
	Road Use Tax	6,000
	Enterprise:	
	Sewer	<u>6,000</u>
		<u>12,000</u>
		<u>\$ 4,934,215</u>

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

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2016

9. **RISK MANAGEMENT**

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

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2016 were \$113,030 (2015 - \$108,881).

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

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

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2016

9. **RISK MANAGEMENT (CONTINUED)**

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, 2016 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2016, the City paid workers' compensation insurance premiums of \$120,561 (2015 - \$127,872) to the Association.

10. **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 0% interest, the City places a non interest bearing deposit with the lender. As property owners pay down the loans, the non interest bearing funds are returned to the City. During the year ended June 30, 2016, grants of \$74,160 and loan deposits of \$86,770 had been made under the program. As of June 30, 2016 remaining non interest bearing deposits totaled \$333,410.

11. **COMMITMENTS**

The City has entered into contracts for street and highway improvements, a waste water treatment plant project, and other projects totaling approximately \$4,947,834. The remaining commitment on these contracts at June 30, 2016 is \$193,936.

12. **DEFICIT BALANCE**

The Community Redevelopment capital project fund had a deficit balance of \$52,195, at June 30, 2016. The deficit balance was a result project costs incurred prior to availability of funds.

13. **NEW ACCOUNTING PRONOUNCEMENT**

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

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, 2016

	Governmental Funds Actual	Proprietary Funds Actual
	<u>Actual</u>	<u>Actual</u>
Receipts		
Property tax	\$ 6,122,001	-
Tax increment financing collections	1,542,524	-
Other city tax	265,487	-
Licenses and permits	192,408	-
Use of money and property	469,188	21,700
Intergovernmental	2,384,472	-
Charges for service	949,420	4,672,311
Special assessments	112,573	19,838
Miscellaneous	<u>541,806</u>	<u>302,563</u>
Total receipts	<u>12,579,879</u>	<u>5,016,412</u>
Disbursements		
Public safety	4,095,846	563,576
Public works	1,600,292	146,447
Culture and recreation	2,037,571	231,156
Community and economic development	165,075	-
General government	1,401,940	238,642
Debt service	2,838,250	-
Capital projects	249,880	-
Business type activities	-	2,873,416
Total disbursements	<u>12,388,854</u>	<u>4,053,237</u>
Excess of receipts over disbursements	191,025	963,175
Other financing sources, net	<u>2,154,269</u>	<u>(678,439)</u>
Excess of receipts and other financing sources over disbursements and other financing uses	2,345,294	284,736
Balances beginning of year	<u>6,613,255</u>	<u>3,262,104</u>
Balances end of year	<u>\$ 8,958,549</u>	<u>3,546,840</u>

See accompanying independent auditor's report.

Less Funds not Required to to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
		Original	Final	
-	6,122,001	6,100,654	6,100,654	21,347
-	1,542,524	1,572,400	1,572,400	(29,876)
-	265,487	316,894	316,894	(51,407)
-	192,408	127,200	127,200	65,208
494	490,394	278,850	278,850	211,544
-	2,384,472	1,886,809	1,886,809	497,663
1,335,834	4,285,897	4,316,150	4,316,150	(30,253)
-	132,411	191,000	191,000	(58,589)
<u>162,427</u>	<u>681,942</u>	<u>1,037,830</u>	<u>1,037,830</u>	<u>(355,888)</u>
<u>1,498,755</u>	<u>16,097,536</u>	<u>15,827,787</u>	<u>15,827,787</u>	<u>269,749</u>
563,576	4,095,846	4,336,200	4,336,200	240,354
146,447	1,600,292	1,731,749	1,731,749	131,457
231,156	2,037,571	2,131,850	2,222,850	185,279
-	165,075	704,000	704,000	538,925
238,642	1,401,940	1,412,350	1,662,350	260,410
-	2,838,250	2,849,600	2,849,600	11,350
-	249,880	1,583,500	1,583,500	1,333,620
<u>582,191</u>	<u>2,291,225</u>	<u>3,181,140</u>	<u>3,761,140</u>	<u>1,469,915</u>
<u>1,762,012</u>	<u>14,680,079</u>	<u>17,930,389</u>	<u>18,851,389</u>	<u>4,171,310</u>
(263,257)	1,417,457	(2,102,602)	(3,023,602)	4,441,059
-	<u>1,475,830</u>	<u>1,239,100</u>	<u>1,489,100</u>	<u>(13,270)</u>
(263,257)	2,893,287	(863,502)	(1,534,502)	4,427,789
<u>1,429,702</u>	<u>8,445,657</u>	<u>10,216,281</u>	<u>10,216,281</u>	<u>(1,770,624)</u>
<u>1,166,445</u>	<u>11,338,944</u>	<u>9,352,779</u>	<u>8,681,779</u>	<u>2,657,165</u>

CITY OF INDIANOLA

Notes to Other Information – Budgetary Reporting

June 30, 2016

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$921,000. The budget amendment is reflected in the final budgeted amounts.

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

CITY OF INDIANOLA

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

For the Last Two Years*

Other Information

<u>Iowa Public Employees' Retirement System</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.056689%	0.057425%
City's proportionate share of the net pension liability	\$ 2,800,726	\$ 2,277,403
City's covered-employee payroll	\$ 4,659,081	\$ 4,712,732
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.11%	48.32%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%
<u>Municipal Fire and Police Retirement System of Iowa</u>	<u>2015</u>	<u>2015</u>
City's proportion of the net pension liability	0.4503750%	0.4678200%
City's proportionate share of the net pension liability	\$ 1,632,600	\$ 1,695,838
City's covered-employee payroll	\$ 1,209,940	\$ 1,181,090
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	134.93%	143.58%
MFPRSI's net position as a percentage of the total pension liability	83.04%	86.27%

* In accordance with GASB 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

Schedule of City Contributions

For the Last 10 Years

Other Information

Iowa Public Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 423,224	429,312	437,236	413,609
Contributions in relation to the statutorily required contribution	<u>(423,224)</u>	<u>(429,312)</u>	<u>(437,236)</u>	<u>(413,609)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$4,659,081	4,712,732	4,796,576	4,622,402
Contributions as a percentage of covered-employee payroll	9.08%	9.11%	9.12%	8.95%

Municipal Fire and Police Retirement System of Iowa

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 336,000	359,159	359,824	292,321
Contributions in relation to the statutorily required contribution	<u>(336,000)</u>	<u>(359,159)</u>	<u>(359,824)</u>	<u>(292,321)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$1,209,940	1,181,090	1,194,671	1,119,635
Contributions as a percentage of covered-employee payroll	27.77%	30.41%	30.12%	26.11%

See accompanying independent auditor's report.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
366,270	309,971	283,588	258,142	237,406	216,879
<u>(366,270)</u>	<u>(309,971)</u>	<u>(283,588)</u>	<u>(258,142)</u>	<u>(237,406)</u>	<u>(216,879)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4,374,874	4,178,301	4,024,153	3,860,006	3,694,371	3,460,999
8.37%	7.42%	7.05%	6.69%	6.43%	6.27%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
275,284	205,493	165,526	186,950	231,966	240,170
<u>(275,284)</u>	<u>(205,493)</u>	<u>(165,526)</u>	<u>(186,950)</u>	<u>(231,966)</u>	<u>(240,170)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1,111,810	1,032,628	973,684	997,058	910,412	865,475
24.76%	19.90%	17.00%	18.75%	25.48%	27.75%

CITY OF INDIANOLA

Notes to Other Information – Pension Liability

Year Ended June 30, 2016

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.

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

Changes of assumptions:

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

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

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

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

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

CITY OF INDIANOLA

Notes to Other Information – Pension Liability

Year Ended June 30, 2016

Municipal Fire and Police Retirement System of Iowa

Changes of benefit terms:

There were no significant changes of benefit terms.

Changes of assumptions:

Effective July 1, 2014, two additional steps were taken to phase in the 1994 Group Annuity Mortality Table for post-retirement mortality. The two additional steps result 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

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2016

	Special			
	Industrial Park Urban Renewal Tax Increment	Employee Benefits Levy	Downtown Tax Increment	Police Retirement
Receipts				
Property tax	\$ -	1,400,968	-	-
Tax increment financing collections	1,203,988	-	338,536	-
Use of money and property	-	-	-	1,508
Intergovernmental	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	<u>1,203,988</u>	<u>1,400,968</u>	<u>338,536</u>	<u>1,508</u>
Disbursements				
Operating				
Community and economic development	21,822	-	11,279	-
Capital projects	-	-	-	-
Total disbursements	<u>21,822</u>	<u>-</u>	<u>11,279</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,182,166</u>	<u>1,400,968</u>	<u>327,257</u>	<u>1,508</u>
Other financing uses				
Operating transfers in (out)	<u>(1,271,206)</u>	<u>(1,400,968)</u>	<u>219,483</u>	<u>(12,500)</u>
Total other financing sources (uses)	<u>(1,271,206)</u>	<u>(1,400,968)</u>	<u>219,483</u>	<u>(12,500)</u>
Change in cash balances	(89,040)	-	546,740	(10,992)
Cash balances beginning of year	<u>89,040</u>	<u>-</u>	<u>403,188</u>	<u>100,863</u>
Cash balances end of year	<u>\$ -</u>	<u>-</u>	<u>949,928</u>	<u>89,871</u>
Cash Basis Fund Balances				
Restricted for:				
Urban renewal purposes	\$ -	-	949,928	-
Other purposes	-	-	-	89,871
Committed	-	-	-	-
Total cash basis fund balances	<u>\$ -</u>	<u>-</u>	<u>949,928</u>	<u>89,871</u>

See accompanying independent auditor's report.

Revenue	Capital Projects					
			Community			
Police Seizures	Capital Projects	Street Construction	Athletic Facility	Community Redevelopment	Total	
-	490,570	-	-	-	1,891,538	
-	-	-	-	-	1,542,524	
-	-	-	69	-	1,577	
-	-	118,105	-	-	118,105	
-	-	4,929	-	-	4,929	
-	20,000	19,514	-	-	39,514	
-	<u>510,570</u>	<u>142,548</u>	<u>69</u>	-	<u>3,598,187</u>	
-	-	-	-	-	33,101	
-	<u>225,268</u>	<u>12,552</u>	<u>3,455</u>	<u>8,605</u>	<u>249,880</u>	
-	<u>225,268</u>	<u>12,552</u>	<u>3,455</u>	<u>8,605</u>	<u>282,981</u>	
-	<u>285,302</u>	<u>129,996</u>	<u>(3,386)</u>	<u>(8,605)</u>	<u>3,315,206</u>	
-	-	160,000	-	-	(2,305,191)	
-	-	160,000	-	-	(2,305,191)	
-	285,302	289,996	(3,386)	(8,605)	1,010,015	
19,830	<u>120,890</u>	<u>(163,832)</u>	<u>5,987</u>	<u>(43,590)</u>	<u>532,376</u>	
<u>19,830</u>	<u>406,192</u>	<u>126,164</u>	<u>2,601</u>	<u>(52,195)</u>	<u>1,542,391</u>	
-	-	-	-	-	949,928	
19,830	-	-	-	-	109,701	
-	406,192	126,164	2,601	(52,195)	482,762	
<u>19,830</u>	<u>406,192</u>	<u>126,164</u>	<u>2,601</u>	<u>(52,195)</u>	<u>1,542,391</u>	

CITY OF INDIANOLA
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds
As of and for the Year Ended June 30, 2016

	Enterprise			Internal
	Recycling	Stormwater Utility	Total	Health Insurance Reserve
Operating receipts				
Charges for service	\$ 220,586	203,091	423,677	16,253
Miscellaneous	-	-	-	25,496
Total operating receipts	220,586	203,091	423,677	41,749
Operating disbursements				
Governmental activities				
Public safety	-	-	-	18,881
Public works	-	-	-	4,438
Culture and recreation	-	-	-	7,558
General government	-	-	-	7,345
Business type activities				
Sewer	-	-	-	3,331
Other	189,583	66,947	256,530	-
Component Unit:				
Municipal Utilities	-	-	-	14,059
Total disbursements	189,583	66,947	256,530	55,612
Excess (deficiency) of operating receipts over (under) operating disbursements	31,003	136,144	167,147	(13,863)
Non-operating receipts (disbursements)				
Interest on investments	-	-	-	-
Net non-operating receipts (disbursements)	-	-	-	-
Excess of receipts over disbursements	31,003	136,144	167,147	(13,863)
Operating transfers in (out)	(18,100)	(61,400)	(79,500)	-
Change in cash balances	12,903	74,744	87,647	(13,863)
Cash balances beginning of year	77,430	427,389	504,819	218,571
Cash balances end of year	\$ 90,333	502,133	592,466	204,708
Cash Basis Fund Balances				
Unrestricted	90,333	502,133	592,466	204,708
Total cash basis fund balances	\$ 90,333	502,133	592,466	204,708

See accompanying independent auditor's report.

Service

Property Insurance Council	Health Pool	Health Reimbursement Arrangement	Total
-	1,211,423	108,158	1,335,834
<u>418</u>	<u>136,513</u>	<u>-</u>	<u>162,427</u>
<u>418</u>	<u>1,347,936</u>	<u>108,158</u>	<u>1,498,261</u>
4,925	511,455	28,315	563,576
1,382	132,670	7,957	146,447
898	211,183	11,517	231,156
1,037	218,393	11,867	238,642
1,382	88,287	5,024	98,024
-	-	-	-
-	<u>440,312</u>	<u>29,796</u>	<u>484,167</u>
<u>9,624</u>	<u>1,602,300</u>	<u>94,476</u>	<u>1,762,012</u>
<u>(9,206)</u>	<u>(254,364)</u>	<u>13,682</u>	<u>(263,751)</u>
<u>494</u>	<u>-</u>	<u>-</u>	<u>494</u>
<u>494</u>	<u>-</u>	<u>-</u>	<u>494</u>
<u>(8,712)</u>	<u>(254,364)</u>	<u>13,682</u>	<u>(263,257)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(8,712)</u>	<u>(254,364)</u>	<u>13,682</u>	<u>(263,257)</u>
<u>36,508</u>	<u>944,766</u>	<u>229,857</u>	<u>1,429,702</u>
<u>27,796</u>	<u>690,402</u>	<u>243,539</u>	<u>1,166,445</u>
<u>27,796</u>	<u>690,402</u>	<u>243,539</u>	<u>1,166,445</u>
<u>27,796</u>	<u>690,402</u>	<u>243,539</u>	<u>1,166,445</u>

CITY OF INDIANOLA

Schedule of Indebtedness
Year Ended June 30, 2016

OBLIGATION	DATE OF ISSUE	INTEREST RATES	AMOUNT ORIGINALLY ISSUED
2011 General Obligation Refunding	1/13/2011	1.00-2.50	3,915,000
2011 General Obligation	10/19/2011	0.55-2.25	850,000
2011 General Obligation Urban Renewal	12/28/2011	1.30-2.95	2,410,000
2012 General Obligation Urban Renewal	5/1/2012	2.00-2.95	4,580,000
2012 General Obligation	5/1/2012	0.50-2.40	3,875,000
2013 General Obligation	1/9/2013	0.50-1.55	1,865,000
2013 General Obligation	1/9/2013	1.25-2.00	5,510,000
2013 General Obligation Refunding	7/13/2013	1.00-1.50	2,070,000
 Capital Loan Notes			
2009 Sewer Revenue	5/20/2009	3.00	9,090,000
2009 General Obligation	8/31/2009	1.25-3.25	620,000
2011 General Obligation	12/20/2011	1.30	700,000
2013 Sewer Revenue	4/19/2013	2.00	4,036,000
 Total City of Indianola			
 Indianola Municipal Utilities			
Revenue Bonds and Notes			
2011 Water Revenue Refunding	12/29/2011	0.50-1.30	1,350,000
2015 Electric Revenue Refunding Capital Loan Note	3/26/2015	2.6	7,241,000

See accompanying independent auditor's report.

<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>	<u>INTEREST DUE AND UNPAID</u>
\$ 815,000	-	535,000	280,000	16,800	-
630,000	-	55,000	575,000	11,742	-
2,210,000	-	100,000	2,110,000	53,800	-
4,480,000	-	380,000	4,100,000	99,970	-
3,195,000	-	305,000	2,890,000	55,740	-
1,865,000	-	125,000	1,740,000	20,380	-
4,700,000	-	320,000	4,380,000	72,403	-
1,900,000	-	445,000	1,455,000	21,450	-
<u>19,795,000</u>	<u>-</u>	<u>2,265,000</u>	<u>17,530,000</u>	<u>352,285</u>	<u>-</u>
7,666,000	-	192,000	7,474,000	229,980	-
220,000	-	70,000	150,000	6,835	-
285,000	-	140,000	145,000	3,720	-
<u>2,649,203</u>	<u>153,761</u>	<u>173,000</u>	<u>2,629,964</u>	<u>54,737</u>	<u>-</u>
<u>10,820,203</u>	<u>153,761</u>	<u>575,000</u>	<u>10,398,964</u>	<u>295,272</u>	<u>-</u>
<u>\$ 30,615,203</u>	<u>153,761</u>	<u>2,840,000</u>	<u>27,928,964</u>	<u>647,557</u>	<u>-</u>
\$ 545,000	-	270,000	275,000	5,060	-
<u>6,941,000</u>	<u>-</u>	<u>683,000</u>	<u>6,258,000</u>	<u>180,466</u>	<u>-</u>
<u>\$ 7,486,000</u>	<u>-</u>	<u>953,000</u>	<u>6,533,000</u>	<u>185,526</u>	<u>-</u>

CITY OF INDIANOLA

Bond and Note Maturities
June 30, 2016

YEAR ENDING JUNE 30,	GENERAL OBLIGATION REFUNDING		GENERAL OBLIGATION	
	ISSUED JANUARY 13, 2011		ISSUED OCTOBER 19, 2011	
	INTEREST		INTEREST	
	RATE	AMOUNT	RATE	AMOUNT
2017	2.00	\$ 180,000	1.35	\$ 105,000
2018	2.50	100,000	1.65	110,000
2019		-	1.90	115,000
2020		-	2.10	120,000
2021		-	2.25	125,000
		<u>\$ 280,000</u>		<u>\$ 575,000</u>

YEAR ENDING JUNE 30,	GENERAL OBLIGATION URBAN RENEWAL		GENERAL OBLIGATION URBAN RENEWAL	
	ISSUED DECEMBER 28, 2011		ISSUED MAY 1, 2012	
	INTEREST		INTEREST	
	RATE	AMOUNT	RATE	AMOUNT
2017	1.50	\$ 100,000	2.00	\$ 485,000
2018	1.50	100,000	2.00	380,000
2019	1.65	100,000	2.00	390,000
2020	1.90	150,000	2.00	350,000
2021	2.05	150,000	2.00	335,000
2022	2.20	150,000	2.05	345,000
2023	2.30	150,000	2.20	355,000
2024	2.40	150,000	2.35	370,000
2025	2.60	150,000	2.50	195,000
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		-
		<u>\$ 2,110,000</u>		<u>\$ 4,100,000</u>

OBLIGATION	
GENERAL OBLIGATION REFUNDING	
ISSUED JULY 17, 2013	
INTEREST	
RATE	AMOUNT
1.00	\$ 450,000
1.05	450,000
1.30	275,000
1.50	280,000
	-
	<u>\$ 1,455,000</u>

OBLIGATION		GENERAL OBLIGATION		GENERAL OBLIGATION		GENERAL OBLIGATION	
ISSUED MAY 1, 2012		ISSUED JANUARY 9, 2013		ISSUED JANUARY 9, 2013			
INTEREST		INTEREST		INTEREST		TOTAL	
RATE	AMOUNT	RATE	AMOUNT	RATE	AMOUNT		
1.10	\$ 310,000	0.65	\$ 150,000	1.25	\$ 325,000	\$	2,105,000
1.30	315,000	0.80	255,000	1.25	335,000		2,045,000
1.50	320,000	0.95	260,000	1.30	340,000		1,800,000
1.70	325,000	1.10	265,000	1.10	345,000		1,835,000
1.90	330,000	1.25	265,000	1.25	355,000		1,560,000
2.10	340,000	1.40	270,000	1.40	360,000		1,465,000
2.20	345,000	1.55	275,000	1.55	370,000		1,495,000
2.30	355,000		-	1.70	375,000		1,250,000
2.40	250,000		-	1.80	380,000		975,000
	-		-	1.90	390,000		745,000
	-		-	2.00	400,000		770,000
	-		-	2.00	405,000		785,000
	-		-		-		390,000
	-		-		-		150,000
	-		-		-		160,000
	<u>\$ 2,890,000</u>		<u>\$ 1,740,000</u>		<u>\$ 4,380,000</u>		<u>\$ 17,530,000</u>

CITY OF INDIANOLA

Bond and Note Maturities
June 30, 2016

YEAR ENDING JUNE 30,	CAPITAL					
	SEWER REVENUE ISSUED MAY 20, 2009		GENERAL OBLIGATION ISSUED AUGUST 31, 2009		GENERAL OBLIGATION ISSUED DECEMBER 20, 2011	
	INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT
2017	3.00	\$ 198,000	3.25	\$ 75,000	1.30	\$ 145,000
2018	3.00	205,000	3.25	75,000		-
2019	3.00	212,000		-		-
2020	3.00	218,000		-		-
2021	3.00	225,000		-		-
2022	3.00	233,000		-		-
2023	3.00	240,000		-		-
2024	3.00	248,000		-		-
2025	3.00	256,000		-		-
2026	3.00	265,000		-		-
2027	3.00	273,000		-		-
2028	3.00	282,000		-		-
2029	3.00	291,000		-		-
2030	3.00	301,000		-		-
2031	3.00	310,000		-		-
2032	3.00	321,000		-		-
2033	3.00	331,000		-		-
2034	3.00	342,000		-		-
2035	3.00	353,000		-		-
2036	3.00	364,000		-		-
2037	3.00	376,000		-		-
2038	3.00	388,000		-		-
2039	3.00	401,000		-		-
2040	3.00	414,000		-		-
2041	3.00	427,000		-		-
		<u>\$ 7,474,000</u>		<u>\$ 150,000</u>		<u>\$ 145,000</u>

See accompanying independent auditor's report.

LOAN NOTES

SEWER REVENUE
ISSUED APRIL 19, 2013

<u>INTEREST</u>		
<u>RATE</u>	<u>AMOUNT</u>	<u>TOTAL</u>
2.00	\$ 176,000	\$ 594,000
2.00	180,000	460,000
2.00	183,000	395,000
2.00	187,000	405,000
2.00	191,000	416,000
2.00	195,000	428,000
2.00	198,000	438,000
2.00	202,000	450,000
2.00	207,000	463,000
2.00	211,000	476,000
2.00	215,000	488,000
2.00	219,000	501,000
2.00	224,000	515,000
2.00	41,964	342,964
	-	310,000
	-	321,000
	-	331,000
	-	342,000
	-	353,000
	-	364,000
	-	376,000
	-	388,000
	-	401,000
	-	414,000
	-	427,000
	<u>\$ 2,629,964</u>	<u>\$ 10,398,964</u>

CITY OF INDIANOLA

Statement of Receipts By Source
and Disbursements By Function -
All Governmental Funds
For the Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Receipts					
Property tax	\$ 6,122,001	6,155,219	5,472,196	5,163,954	4,929,375
Tax increment financing collections	1,542,524	1,365,455	1,383,060	1,368,810	1,146,801
Other city tax	265,487	298,515	294,866	205,910	152,908
Licenses and permits	192,408	132,554	164,364	117,693	144,940
Use of money and property	469,188	400,099	335,498	326,083	298,072
Intergovernmental	2,384,472	4,575,268	1,692,398	2,060,498	1,651,642
Charges for service	949,420	1,024,782	1,024,228	993,286	983,827
Special assessments	112,573	118,173	109,522	144,055	139,226
Miscellaneous	541,806	477,149	1,980,786	353,021	416,059
Total	<u>\$ 12,579,879</u>	<u>14,547,214</u>	<u>12,456,918</u>	<u>10,733,310</u>	<u>9,862,850</u>
Disbursements					
Operating					
Public safety	\$ 4,095,846	4,018,718	4,257,526	3,902,002	3,953,821
Public works	1,600,292	1,293,247	1,336,452	1,416,552	1,329,010
Culture and recreation	2,037,571	2,009,849	2,085,707	2,130,514	2,113,184
Community and economic development	165,075	557,205	430,585	704,168	1,295,997
General government	1,401,940	1,394,110	1,505,152	1,411,552	1,303,284
Debt service	2,838,250	3,003,458	3,000,167	2,622,940	3,368,178
Capital projects	249,880	5,220,131	2,860,272	16,012,963	2,778,034
Total	<u>\$ 12,388,854</u>	<u>17,496,718</u>	<u>15,475,861</u>	<u>28,200,691</u>	<u>16,141,508</u>

See accompanying independent auditor's report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
4,836,322	4,826,350	4,739,284	4,380,621	4,302,700
865,761	712,476	632,566	652,571	414,117
137,481	118,906	116,449	119,660	115,249
197,339	96,392	66,923	187,498	198,688
318,803	366,427	339,169	320,015	377,916
1,825,569	2,337,365	1,648,354	1,813,522	2,252,514
982,632	888,563	1,117,293	1,033,928	867,941
92,034	197,299	161,882	331,949	284,420
<u>623,383</u>	<u>418,791</u>	<u>351,465</u>	<u>648,262</u>	<u>620,475</u>
<u>9,879,324</u>	<u>9,962,569</u>	<u>9,173,385</u>	<u>9,488,026</u>	<u>9,434,020</u>
3,574,355	3,356,421	3,269,051	3,173,199	3,085,903
1,185,798	1,151,366	1,282,170	1,348,228	1,256,853
1,992,708	2,020,345	2,316,774	1,904,951	1,936,423
123,554	96,617	104,155	83,781	617,772
1,196,933	1,144,194	1,037,373	995,407	965,143
5,718,378	2,276,339	2,219,139	1,956,788	2,792,481
<u>1,904,710</u>	<u>2,713,016</u>	<u>1,678,814</u>	<u>966,954</u>	<u>3,041,721</u>
<u>15,696,436</u>	<u>12,758,298</u>	<u>11,907,476</u>	<u>10,429,308</u>	<u>13,696,296</u>



Shull, Schrum, McClafin
& Co., Inc.
certified public accountants

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council

We have audited in accordance with 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, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 1, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies in 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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Indianola's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of control deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Indianola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in 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, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Indianola's Responses to Findings

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

Purpose of this Report

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

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

Shull, Schrum, McClellan & Co., Inc.

December 1, 2016

CITY OF INDIANOLA

Schedule of Findings
Year Ended June 30, 2016

Part I: Findings Related to the Financial Statements:

None

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-16 Certified Budget - Disbursements during the year ended June 30, 2016, did not exceed the amounts budgeted.
- II-B-16 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-16 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-16 Business Transactions - No business transactions between the City and City officials or employees were noted.
- II-E-16 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-F-16 City Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-16 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-16 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.
- II-I-16 Financial Condition - The Community Redevelopment capital project funds had a deficit balance of \$51,195 at June 30, 2016.

Recommendation - The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response - The deficit balance was a result of project costs incurred prior to availability of funds. If any of this programs property currently being held is sold those funds will improve this financial position; and FY18 20,000 is being allocated to this program to improve this funds financial position.

Conclusion - Response accepted.