

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

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CITY OF ESTHERVILLE

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	
Kenny Billings	Mayor	January	2016
Larry W. Anderson	Mayor Pro Tem	January	2018
Mike Neiland	Council Member	January	2016
Roger Guge	Council Member	January	2016
Larry W. Anderson	Council Member	January	2018
Gene Haukoos	Council Member	January	2016
Dave Seylar	Council Member	January	2018
Ann Goebel	Council Member	January	2018
Julie Clark	Council Member	January	2018
Penny A. Clayton	City Administrator	Indefinite	
Elizabeth Burton	City Clerk/Finance Director/Treasurer	January	2016
Julie Miller	Deputy City Clerk	January	2016
Pelzer Law Firm	Attorney	January	2016

(After January 2016)

Kenny Billings	Mayor	January	2018
Larry W. Anderson	Mayor Pro Tem	January	2018
Brandon Carlin	Council Member	January	2020
Roger Guge	Council Member	January	2020
Larry W. Anderson	Council Member	January	2018
Gene Haukoos	Council Member	January	2020
Dave Seylar	Council Member	January	2018
Ann Goebel	Council Member	January	2018
Julie Clark	Council Member	January	2018
Penny A. Clayton	City Administrator	Indefinite	
Elizabeth Burton	City Clerk/Finance Director/Treasurer	January	2018
Julie Miller	Deputy City Clerk	January	2018
Pelzer Law Firm	Attorney	January	2018

City of Estherville

Brinkman & Reed, CPA's

103 South Sixth Street Estherville, Iowa 51334 712-362-5891 Phone 712-362-7172 Fax

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 Estherville, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Basis of Accounting

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

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Estherville's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the six years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. We did not audit, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2015, included on page 56. The supplementary information included in Schedules 1 through 4 is presented for the purposes of additional analysis and is not a required part of the basis financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial

statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 10 through 15 and 44 through 50, 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 September 27, 2016 on our consideration of the City of Estherville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Estherville's internal control over financial reporting and compliance.



Brinkman & Reed, CPA's

September 27, 2016

City of Estherville

CITY OF ESTHERVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2016 FINANCIAL HIGHLIGHTS

The City's total receipts exceeded total disbursements by \$830,829 during fiscal year 2016. Receipts had exceeded disbursements by \$1,036,844 during fiscal year 2015.

The City's total disbursements decreased from \$14,921,492 in fiscal year 2015 to \$14,434,197 in fiscal year 2016. This is a decrease of \$487,295 or 3%. The primary reasons for the decrease in disbursements are due to a decrease in airport and street projects in 2016.

The City's total receipts decreased from \$15,958,336 in fiscal year 2015 to \$15,265,026 in fiscal year 2016. This is a decrease of \$693,310 or 4%. The primary reason for the decrease is in grants for capital projects received in 2016.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statements consist of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water, wastewater, electric, and airport operation systems. These activities are financed primarily by user charges.

Fund Financial Statement

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing Funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.
- 2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the Water, Wastewater, Electric, and Airport Funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$7.4 million to approximately \$8.1 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:	\$ 854,171	\$ 877,929
Operating grants, contributions and restricted interest	909,347	730,967
Capital grants, contributions and restricted interest	211,103	324,552
General receipts		
Property tax	2,561,325	2,519,633
Local option sales tax	534,477	601,338
Hotel/motel tax	81,681	73,728
Unrestricted interest on investments	32,724	26,573
Bond proceeds	-	-
Miscellaneous	14,941	40,475
Sale of capital assets	13,284	7,751
Total receipts	5,213,053	5,202,946
Disbursements:		
Public safety	1,359,616	1,352,660
Public works	1,842,080	2,089,039
Health and social services	6,305	4,729
Culture and recreation	757,529	676,030
Community and economic development	453,003	691,367
General government	948,926	852,037
Debt service	482,696	477,526
Capital projects	220,867	48,248
Total disbursements	6,071,022	6,191,636
Change in cash basis net position before transfers	(857,969)	(988,690)
Transfers, net	1,627,151	1,448,461
Change in cash basis net position	769,182	459,771
Cash basis net position - beginning of year	7,376,084	6,916,313
Prior period adjustment	(23,643)	-
Cash basis net position - beginning of year, as restated	7,352,441	6,916,313
Less cash balance, end of year, in internal service funds	(771,623)	(592,251)
Cash basis net position - end of year	\$ 7,350,000	\$ 6,783,833

The City's total receipts for governmental activities increased 0.2%, or approximately \$10,107. The total cost of all programs and services before transfers decreased approximately \$120,614, or 1.9%, with no new programs added this year. The decrease in receipts and disbursements is the result of an additional street project on Park Road that was partially funded by a grant in 2015 and no grant funded street projects in 2016.

The cost of all governmental activities this year was approximately \$6.07 million compared to approximately \$6.19 million last year. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2016 from approximately \$5.20 million to approximately \$5.21 million.

The City's cash balance for business type activities increased from a year ago, increasing from approximately \$6.65 million to approximately \$6.7 million. The analysis that follows focuses on the changes in cash basis net position of business type activities.

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,621,457	\$ 1,668,299
Wastewater	1,708,734	1,776,267
Electric	6,490,174	6,616,811
Airport	93,560	98,897
Operating grants, contributions and restricted interest:		
Airport		534,986
Capital grants, contributions and restricted interest:		
Airport	120,661	
General receipts		
Unrestricted interest on investments	4,162	5,030
Sale of Assets	13,225	-
Other general receipts	-	55,100
Total receipts	10,051,973	10,755,390
Disbursements:		
Water	1,532,395	1,332,666
Wastewater	1,598,391	1,193,628
Electric	5,134,244	5,436,400
Airport	98,145	767,162
Total disbursements	8,363,175	8,729,856
Change in cash basis net position before transfers	1,688,798	2,025,534
Transfers, net	(1,627,151)	(1,448,461)
Change in cash basis net position	61,647	577,073
Cash basis net position - beginning of year	6,650,986	6,073,913
Prior period adjustment	23,643	-

Cash basis net position - beginning of year, as restated	6,674,629	6,073,913
Cash basis net position - end of year	\$ 6,736,276	\$ 6,650,986

Total business type activities receipts for the fiscal year were approximately \$10.05 million compared to approximately \$10.76 million last year. This decrease was due primarily to a decrease in usage. The cash balance increased approximately \$61,000 from the prior year. Total disbursements for the fiscal year decreased from \$8.73 million in the prior year to \$8.36 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

For the year ending June 30, 2016, governmental funds, not including internal service fund, cash balances totaled \$7,350,000. This is an increase of \$566,167 from the June 30, 2015 balance of \$6,783,833.

- The total General Fund cash balance increased \$553,212 from the prior year to \$3,785,862 on June 30, 2016. On June 30, 2016, the General Fund consisted of eight balances. During the fiscal year the unassigned General Fund increased \$269,319 to \$1,499,508. The committed Parks & Recreation Revolving Fund increased \$129,813 to \$630,573, the committed Equipment Revolving Fund increased \$191,420 to \$1,226,748, the committed Library – Sanborn Fund increased \$166 to \$237,379, the committed Library – Pearson Fund increased \$8 to \$15,496, the committed Police Miscellaneous Fund increased \$473 to \$16,914, the committed Housing Rehab Grant Fund remained unchanged at \$9,177 and the committed Economic Development Fund decreased \$65,347 to \$122,708.
- The Road Use Tax Fund cash balance increased during the fiscal year by \$216,632 to \$1,754,806 on June 30, 2016 due to a funding increase from the state gas tax.
- The Local Option Sales Tax Fund cash balance decreased \$113,316 during the year to \$743,776 on June 30, 2016.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

For the year ending June 30, 2016, business type funds cash balances totaled \$6,736,276. This is an increase of \$85,290 from the June 30, 2015 balance of \$6,650,986.

- The Water Fund cash balance decreased \$37,896 to \$1,366,532 on June 30, 2016 due to an increase in capital projects.
- The Wastewater Fund cash balance increased \$60,985 to \$1,608,882 on June 30, 2016 due to a decrease in capital projects and plant equipment repair.
- The Electric Fund cash balance decreased \$47,547 to \$3,650,475 on June 30, 2016 due to an increase in capital projects.

BUDGETARY HIGHLIGHTS

On October 5, 2015, an amendment to the fiscal year 2016 budget was approved to increase revenues by \$347,675 and increase expenses including transfers by \$952,825. On May 16, 2016, a second amendment to the fiscal year 2016 budget was approved to increase revenues by \$95,600 and increase expenses including transfers by \$1.6 million. The amendment authorized transfers, capital projects, and miscellaneous other expenses.

Total disbursements during the fiscal year did not exceed the authorized budget as amended.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$2,475, 000 in general obligation bonds outstanding compared to \$2,845,000 the year before. The balance on a lease-purchase agreement for the purchase of a fire pumper truck decreased from \$92,518 on June 30, 2015 to \$62,966 on June 30, 2016. The total City debt decreased from \$2,937,518 on June 30, 2015 to \$2,537,966 on June 30, 2016.

Debt decreased as a result of making the regular payments on the obligations.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation of \$2,475,000 is significantly below its constitutional debt limit of \$11,290,541 (21.9%).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The budget for fiscal year ending June 30, 2017, includes a decrease in disbursements of approximately \$131,000 (1%). The primary reasons for the decreased budget are decreases in capital projects.

The property tax levy remains at \$16.50 per \$1,000 of taxable valuation. The budgeted fund balance for the General Fund decreases by approximately \$16,311.

The City is very fortunate the Local Option Sales Tax (LOST) referendum was approved in August 2008. The revenue generated by LOST supports General Fund activities and provides funds for community betterment projects.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Elizabeth Burton, City Clerk, 2 North 7th Street, Estherville, Iowa 51334 or telephone (712) 362-7771.

City of Estherville

Basic Financial Statements

CITY OF ESTHERVILLE
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 1,359,616	\$ 45,520	\$ 57,608	\$ 5,445	\$ (1,251,043)	\$ -	\$ (1,251,043)
Public works	1,842,080	696,675	785,964	32,450	(326,991)	-	(326,991)
Health and social services	6,305	-	-	-	(6,305)	-	(6,305)
Culture and recreation	757,529	24,096	27,264	5,444	(700,725)	-	(700,725)
Community and economic development	453,003	-	38,511	-	(414,492)	-	(414,492)
General government	948,926	87,880	-	-	(861,046)	-	(861,046)
Debt service	482,696	-	-	-	(482,696)	-	(482,696)
Capital projects	220,867	-	-	167,764	(53,103)	-	(53,103)
Total governmental activities	6,071,022	854,171	909,347	211,103	(4,096,401)	-	(4,096,401)
Business type activities:							
Water	1,532,395	1,621,457	-	-	-	89,062	89,062
Wastewater	1,598,391	1,708,734	-	-	-	110,343	110,343
Electric	5,134,244	6,490,174	-	-	-	1,355,930	1,355,930
Airport	98,145	93,560	-	120,661	-	116,076	116,076
Total business type activities	8,363,175	9,913,925	-	120,661	-	1,671,411	1,671,411
Total	\$ 14,434,197	\$ 10,768,096	\$ 909,347	\$ 331,764	\$ (4,096,401)	\$ 1,671,411	\$ (2,424,990)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					1,887,176	-	1,887,176
Debt service					367,299	-	367,299
Tax increment financing					88,566	-	88,566
Local option sales tax					534,477	-	534,477
Hotel/motel tax					81,681	-	81,681
Commerical/industrial tax replacement					218,284	-	218,284
Unrestricted interest on investments					32,724	4,162	36,886
Miscellaneous					14,941	-	14,941
Sale of capital assets					13,284	13,225	26,509
Transfers					1,627,151	(1,627,151)	-
Total general receipts and transfers					4,865,583	(1,609,764)	3,255,819
Change in cash basis net position					769,182	61,647	830,829
Cash basis net position beginning of year, as previously reported					7,376,084	6,650,986	14,027,070
Prior period adjustment					(23,643)	23,643	-
Cash basis net position beginning of year, as restated					7,352,441	6,674,629	14,027,070
Cash basis net position end of year					\$ 8,121,623	\$ 6,736,276	\$ 14,857,899
Cash Basis Net Position							
Restricted:							
Nonexpendable:							
Library Trust					\$ 57,574	\$ -	\$ 57,574
Expendable:							
Insurance					27,359	-	27,359
Streets					1,754,806	-	1,754,806
Other Purposes					3,993,839	-	3,993,839
Unrestricted					2,288,045	6,736,276	9,024,321
Total cash basis net position					\$ 8,121,623	\$ 6,736,276	\$ 14,857,899

CITY OF ESTHERVILLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2016

	Special Revenue				Total
	General	Road Use Tax	Local Option Sales Tax	Nonmajor	
Receipts:					
Property tax	\$ 1,181,804	\$ -	\$ -	\$ 1,049,093	\$ 2,230,897
Tax increment financing	-	-	-	88,566	88,566
Other city tax	94,377	-	534,477	10,880	639,734
Licenses and permits	75,390	-	-	-	75,390
Use of money and property	29,408	-	1,083	505	30,996
Intergovernmental	237,549	785,964	-	270,473	1,293,986
Charges for service	789,181	-	-	-	789,181
Special assessments	29,870	-	-	-	29,870
Miscellaneous	19,073	-	-	-	19,073
Total receipts	2,456,652	785,964	535,560	1,419,517	5,197,693
Disbursements:					
Operating:					
Public safety	1,005,966	-	59,688	293,962	1,359,616
Public works	1,114,040	569,331	-	158,709	1,842,080
Health and social services	6,305	-	-	-	6,305
Culture and recreation	552,221	-	89,868	115,440	757,529
Community and economic development	224,673	-	191,921	36,409	453,003
General government	797,720	-	-	151,206	948,926
Debt service	-	-	-	482,696	482,696
Capital projects	-	-	-	220,867	220,867
Total disbursements	3,700,925	569,331	341,477	1,459,289	6,071,022
Excess (deficiency) of receipts over (under) disbursements	(1,244,273)	216,633	194,083	(39,772)	(873,329)
Other financing sources (uses):					
Sale of capital assets	13,284	-	-	-	13,284
Transfers in	1,934,105	-	18,000	319,108	2,271,213
Transfers out	(149,904)	-	(325,399)	(346,055)	(821,358)
Total other financing sources (uses)	1,797,485	-	(307,399)	(26,947)	1,463,139
Change in cash balances	553,212	216,633	(113,316)	(66,719)	589,810
Cash balances beginning of year, as previously reported	3,232,650	1,538,173	857,092	1,155,918	6,783,833
Prior period adjustment	-	-	-	(23,643)	(23,643)
Cash balances beginning of year, as restated	3,232,650	1,538,173	857,092	1,132,275	6,760,190
Cash balances end of year	\$ 3,785,862	\$ 1,754,806	\$ 743,776	\$ 1,065,556	\$ 7,350,000
Cash Basis Fund Balances					
Nonspendable - Library trust	\$ -	\$ -	\$ -	\$ 57,574	\$ 57,574
Restricted for:					
Insurance	27,359	-	-	-	27,359
Streets	-	1,754,806	-	-	1,754,806
Debt Service	-	-	-	132,194	132,194
Other purposes	-	-	743,776	875,788	1,619,564
Committed for:					
Economic development	122,708	-	-	-	122,708
Parks and recreation	630,573	-	-	-	630,573
Equipment	1,226,748	-	-	-	1,226,748
Housing rehab	9,177	-	-	-	9,177
Library	252,875	-	-	-	252,875
Assigned for police	16,914	-	-	-	16,914
Unassigned	1,499,508	-	-	-	1,499,508
Total cash basis fund balances	\$ 3,785,862	\$ 1,754,806	\$ 743,776	\$ 1,065,556	\$ 7,350,000

CITY OF ESTHERVILLE

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 governmental funds cash balances (page 19)	\$ 7,350,000
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Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Garage Fund is used by management to account for costs associated with the City's use of vehicles. The assets of the Garage Fund are included in governmental activities in the Cash Basis Statement of Activities and Net Position.	51,317
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The Self-Funded Insurance Fund is used by management to charge costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Self-Funded Insurance Fund are included in governmental activities in the Cash Basis Statement of Activities and Net Position.	<u>720,306</u>
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Cash basis net position of governmental activities (page 18)	<u>\$ 8,121,623</u>
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Net change in governmental funds cash balances (page 19)	\$ 589,810
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Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Self-Funded Insurance Fund is used by management to charge costs of partial self funding of the City's health insurance benefit plan to individual funds. The change in net assets of the Self-Funded Insurance Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.	<u>179,372</u>
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Change in cash basis net position of governmental activities (page 18)	<u>\$ 769,182</u>
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See notes to financial statements.

CITY OF ESTHERVILLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2016

	Enterprise					Internal Service Funds
	Water	Wastewater	Electric	Nonmajor Airport	Total	
Operating receipts:						
Charges for service	\$ 1,620,604	\$ 1,707,499	\$ 6,483,144	\$ 20,751	\$ 9,831,998	\$ 866,390
Miscellaneous	853	985	7,030	-	8,868	-
Total operating receipts	1,621,457	1,708,484	6,490,174	20,751	9,840,866	866,390
Operating disbursements:						
Business type activities	1,532,395	1,598,391	5,134,244	64,291	8,329,321	866,390
Total operating disbursements	1,532,395	1,598,391	5,134,244	64,291	8,329,321	866,390
Excess (deficiency) of operating receipts over (under) operating disbursements	89,062	110,093	1,355,930	(43,540)	1,511,545	-
Non-operating receipts (disbursements):						
Intergovernmental	-	-	-	120,725	120,725	-
Interest on investments	709	351	3,073	29	4,162	2,077
Lease Income	-	250	-	72,745	72,995	-
Miscellaneous	-	13,225	-	-	13,225	-
Capital Projects	-	-	-	(33,854)	(33,854)	-
Total non-operating receipts (disbursements)	709	13,826	3,073	159,645	177,253	2,077
Excess of receipts over disbursements	89,771	123,919	1,359,003	116,105	1,688,798	2,077
Transfers in	-	-	108,503	-	108,503	177,296
Transfers out	(313,593)	(206,549)	(1,185,512)	(30,000)	(1,735,654)	-
Change in cash balances	(223,822)	(82,630)	281,994	86,105	61,647	179,373
Cash balances beginning of year, as previously reported	1,404,428	1,547,897	3,698,022	639	6,650,986	592,250
Prior period adjustment	185,926	143,615	(329,541)	23,643	23,643	-
Cash balances beginning of year, as restated	1,590,354	1,691,512	3,368,481	24,282	6,674,629	592,250
Cash balances end of year	\$ 1,366,532	\$ 1,608,882	\$ 3,650,475	\$ 110,387	\$ 6,736,276	\$ 771,623
Cash Basis Fund Balances						
Unrestricted	\$ 1,366,532	\$ 1,608,882	\$ 3,650,475	\$ 110,387	\$ 6,736,276	\$ 771,623
Total cash basis fund balances	\$ 1,366,532	\$ 1,608,882	\$ 3,650,475	\$ 110,387	\$ 6,736,276	\$ 771,623

See notes to financial statements.

CITY OF ESTHERVILLE
Notes to Financial Statements
June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Estherville is a political subdivision of the State of Iowa located in Emmet County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides electric, water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Estherville 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Emmet County Council of Governments, Emmet County E911 Service Board, Emmet County Assessor's Conference Board, and Northwest Iowa Planning and Development Commission.

B. Basis of Presentation

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

Government-wide Financial Statement – Continued

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

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

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

Fund Financial Statements – Continued

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for community betterment and general fund assistance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system and the accumulation of funds for expenditures for the City in case of a water emergency.

The Wastewater Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system and the accumulation of funds for expenditures for the City in case of a wastewater emergency.

The Electric Fund accounts for the operation and maintenance of the City's electrical system and the accumulation of funds for expenditures for the City in case of an electrical emergency.

The City also reports the following proprietary funds:

Internal Service:

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

The Self-Funded Insurance Fund is utilized to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds.

C. Measurement Focus and Basis of Accounting

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

C. Measurement Focus and Basis of Accounting – Continued

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Committed – Amounts only available to be used for specific purposes pursuant to constraints imposed by City Council through ordinance or resolution.

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted in the general government and business type activities function.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(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.

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

At June 30, 2016, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U. S. Treasury Note	<u>\$32,990</u>	<u>\$33,019</u>	September 2016
U. S. Treasury Note	<u>\$13,992</u>	<u>\$14,006</u>	January 2017
U. S. Treasury Note	<u>\$ 9,926</u>	<u>\$10,027</u>	December 2017

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 U.S. Treasury Notes were determined using quoted market prices. (Level 1 inputs)

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and lease are as follows:

Year Ending June 30,	General Obligation Bonds		Lease Purchase		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 375,000	\$ 70,863	\$ 30,821	\$ 2,703	\$ 405,821	\$ 73,566
2018	265,000	63,893	32,144	1,380	297,144	65,273
2019	275,000	57,833	-	-	275,000	57,833
2020	280,000	51,013	-	-	280,000	51,013
2021	285,000	43,463	-	-	285,000	43,463
2022-2025	995,000	85,416	-	-	995,000	85,416
	<u>\$ 2,475,000</u>	<u>\$ 372,481</u>	<u>\$ 62,965</u>	<u>\$ 4,083</u>	<u>\$ 2,537,965</u>	<u>\$ 376,564</u>

The lease purchase is for equipment purchased in 2007 and has a principal balance outstanding of \$62,965 at June 30, 2016. The lease purchase is payable in equal yearly installments of \$33,524 plus interest through the year ending June 30, 2018. The lease interest rate is 4.29%.

(4) Pension Plan

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 the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, 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 ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(4) Pension Plan – IPERS - 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, any time reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

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

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

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

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

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

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(4) Pension Plan – IPERS - 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 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 \$200,008.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$1,556,876 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015 the City's proportion was 0.031513%, which was a decrease of 0.001942% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$131,954, \$301,328 and \$365,797, respectively.

There were no non-employer contributing entities to IPERS.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(4) Pension Plan – IPERS - 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, as follows:

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

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

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

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric 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 ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(4) Pension Plan – IPERS - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments 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 7.50%, 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 (8.50%) than the current rate.

	1 % Decrease <u>(6.50%)</u>	Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
City's proportionate share of the net pension liability	\$2,734,542	\$1,556,876	\$562,853

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

Municipal Fire and Police Retirement System of Iowa (MFPRSI)

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

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

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(4) Pension Plan – MFPRSI – 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 a permanent disability incurred in the line of duty, which 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.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(4) Pension Plan – MFPRSI – continued

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

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

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

Contributions – Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 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 totaled \$163,238.

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 Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans.

There were no state appropriations to MFPRSI during the year ended June 30, 2016.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(4) Pension Plan – MFPRSI – continued

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$1,104,411 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 MFPRSI relative to the contributions of all MFPRSI participating employers. At June 30, 2015, the City's proportion was 0.235074%, which was a decrease of 0.015242% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$102,525, \$299,531, and \$302,312, respectively.

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

Rate of inflation	3.00%.
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 July 1, 2002 through June 30, 2012.

Mortality rates were based on 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.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

4) **Pension Plan – MFPRSI – continued**

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>12.5</u>	7.0
Core investments		40.0%
Tactical asset allocation		35.0
Private equity		15.0
Private non-core real estate	5.0	9.3
Private core real estate	<u>5.0</u>	6.8
Real estate		<u>10.0</u>
Total		<u>100.0%</u>

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed contributions will be made at 9.40% of covered payroll and the City's 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 to current plan members. Therefore, the long-term expected rate of return on MFPRSI's investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1 % Decrease <u>(6.50%)</u>	Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
City's proportionate share of the net pension liability	\$1,922,813	\$1,104,411	\$424,415

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

4) Pension Plan – MFPRSI – continued

MFPRSI's Fiduciary Net Position – Detailed information about 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) Contracts Receivable

The City has provided the funding for Tax Increment Financing (TIF) projects. The City will be repaid through the collection of real estate taxes which are generated by the projects funded. Outstanding receivables for TIF projects at June 30, 2016 are as follows:

<u>Project</u>	<u>Balance</u>	<u>Interest Rate / Security</u>
Iowa Lakes Electric Cooperative	22,903	6.00 /Unsecured
WWTP Improvements	132,178	6.00 /Unsecured
Industrial Park	74,805	5.00 /Unsecured

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits and dental insurance for employees, retirees and their spouses. Police officers do not participate in the dental plan. There are 52 active and 6 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a self-funded insurance plan. Wellmark Blue Cross/Blue Shield is the third party administrator for the plan. National Pharmaceutical Services is the third party benefit manager for the prescription drug portion of the program. The City is responsible for the first \$35,000 of claims after the deductible has been paid for each member covered under the plan. Specific stop loss reinsurance provides coverage after \$35,000 of claims has been paid. The City also has an aggregate stop loss, above a certain total of claims paid.

Dental benefits are provided through a fully-insured plan with Delta Dental. Retirees under age 65 pay the same premium for the medical/prescription drug benefits and dental benefits as active employees.

Funding Policy – The contribution requirements of plan members are contained in the collective bargaining agreements. The City currently finances the retiree benefit on a pay-as-you-go basis. Retirees and their spouse pay the entire premium if they choose to continue under the City's plan. The City offers two medical/prescription plans. The most recent active member monthly premiums for the City and plan members are \$623 for single coverage and \$1,339 for family coverage and the alternate plan is \$696 for single coverage and \$1,739 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2016, the City contributed \$570,053 and plan members eligible for benefits contributed \$177,639 to the plan.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(6) Other Postemployment Benefits (OPEB) - Continued

The dental premiums for fiscal year 2016 were \$20 per month for single coverage and \$55 per month for family coverage. For the year ended June 30, 2016, the city contributed \$18,651 and plan members eligible for benefits contributed \$4,663.

(7) Compensated Absences

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$144,786
Sick Leave	510,238
Total	<u>\$655,024</u>

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

(8) Risk Management

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

(9) Lease

The City of Estherville entered into an operating lease agreement on February 4, 2013 with Estherville Housing, Inc. to lease office space. The city's total rent expense for the year ending June 30, 2016 was \$17,500. Rental adjustments in the amount of \$600 will occur annually and continue through June 30, 2018.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(9) Lease - Continued

After June 30, 2018, the lease amount may be renewed upon the same terms and conditions or upon any such other terms as mutually agreed upon. The lease may be terminated by either party at any time upon three years written notice to the other party by registered mail or in person.

Future Minimum Rental Payments

Year ending <u>June 30,</u>	<u>Amount</u>
2017	\$18,100
2018	<u>18,700</u>
Total	<u>\$36,800</u>

(10) Special Assessments Interest

The City of Estherville collects special assessments from property owners related to certain construction projects. Property owners may pay the assessment in full without interest by a certain date. Subsequently, annual payments are made which bear a stated interest rate.

(11) Joint Venture

On November 4, 1997, the City entered into a joint venture agreement pursuant to the provisions of Chapter 390 of the Code of Iowa with the Municipal Electric Utility of the City of Cedar Falls, Algona Municipal Utilities, the City of Ellsworth, Westfield Municipal Utilities, Montezuma Light and Power, and the City of Fonda.

This joint venture agreement is a collaborative effort of the parties above, the U.S. Department of Energy (“DOE”), and the Electric Power Research Institute (“EPRI”) to develop, construct and operate a wind-powered electric generation facility (Iowa Distributed Wind Generation Project – “IDWGP”). The project is partially funded by a grant from EPRI consisting of 47.42% of construction and operating expenses for 1999 and 2000 funded by EPRI.

The City of Estherville owns an 8% interest in the project. The City receives 8% of the income and pays 8% of the expenses generated by IDWGP. Generally, expenses exceed income.

At the November 6, 2015 IDWGP owners’ meeting, the owners agreed to shut all three turbines down and begin work to decommission the project in 2016 due to ongoing maintenance and operations issues. The decommissioning process is currently being pursued by IDWGP with the expectation of the turbines being removed by September 2017.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(12) Interest Paid

During the year ended June 30, 2016, interest paid by the City on bonds, notes and customer utility deposits totaled \$81,815.

(13) General Fund – Committed/Assigned Balance

The City had committed/assigned part of the balance of the general fund for specific future uses. The balance which has been committed as Parks and Recreation Revolving is for funding future parks and recreation projects. The Equipment Revolving balance is committed for future purchases of equipment needed for the general fund. The Library - Pearson and Library - Sanborn are committed for library expenditures. Economic development is committed for development projects such as subdivisions and grants for improvement projects. Housing rehab is committed for future residential housing rehabilitation projects. The Forfeiture is assigned for deterring criminal activity.

<u>Committed/Assigned Balances at June 30, 2016</u>	<u>Amount</u>
Parks and Recreation Revolving	\$630,573
Equipment Revolving	1,226,748
Library - Pearson	15,496
Library - Sanborn	237,379
Economic Development	122,708
Housing Rehab	9,177
Forfeiture	<u>16,914</u>
 Total Committed/Assigned Balances	 <u>\$2,258,995</u>

(14) Construction Commitments

The City has entered into a contract totaling \$282,853 for the Airport Jet A Fuel Project. As of June 30, 2016, costs of \$152,066 on the project have been paid. The balance remaining on the project at June 30, 2016 (\$130,787) will be paid as work on the project progresses.

The City has entered into contracts totaling \$647,187 for the 2016 Street Improvements. As of June 30, 2016, costs of \$0 on the projects have been paid. The balance remaining on the projects at June 30, 2016 (\$647,187) will be paid as work on the project progresses.

The City has entered into a contract totaling \$143,415 for the Meadows Subdivision infrastructure. As of June 30, 2016, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2016 (\$143,415) will be paid as work on the project progresses.

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(14) Construction Commitments - Continued

The City has entered into a contract totaling \$509,490 for the 2016 Trail Project. As of June 30, 2016, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2016 (\$509,490) will be paid as work on the project progresses.

The City has entered into a contract totaling \$89,469 for the 2016 Thoreson Trail Project. As of June 30, 2016, costs of \$0 on the project have been paid. The balance remaining on the project at June 30, 2016 (\$89,469) will be paid as work on the project progresses.

(15) Interfund Transfers

The City had numerous interfund transfers during the year ended June 30, 2016. The transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

Transfer To	Transfer From	Amount
General	Water	\$ 302,288
	Wastewater	165,200
	Electric	1,094,598
	Local Option Sales Tax	291,875
	Nonmajor Governmental Funds	<u>80,144</u>
		1,934,105
Local Option Sales Tax	General	18,000
Electric	Wastewater	20,000
	Nonmajor Governmental Funds	<u>88,503</u>
		108,503
Nonmajor Governmental Funds	Local Option Sales Tax	33,524
	Electric	61,840
	General	131,904
	Nonmajor Governmental Funds	61,840
	Nonmajor Proprietary Funds	<u>30,000</u>
		319,108
Internal Service Funds	Water	11,305
	Wastewater	21,349
	Electric	29,074
	Nonmajor Governmental Funds	<u>115,568</u>
		<u>\$ 177,296</u>

CITY OF ESTHERVILLE
Notes to Financial Statements – Continued
June 30, 2016

(16) Litigation

The City is a defendant in a lawsuit. The City has referred the matter to their insurance company. At the present time, the outcome of the matter is uncertain and the amount of loss, if any, cannot be reasonably estimated.

(17) 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.

(18) Prior Period Adjustment

In the previous fiscal year, the equipment revolving funds for the Water and Wastewater Funds were reported as part of the Electric Fund. A prior period adjustment has been made to reallocate \$185,926 to Water and \$143,615 to Wastewater from the Electric Fund to correct this. The City also made a prior period adjustment to correct a \$23,643 disbursement from the fiscal year ended June 30, 2015 which was incorrectly made from the Airport Fund instead of the Airport Fuel Farm Fund.

City of Estherville

Other Information

CITY OF ESTHERVILLE
 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	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 2,230,897	\$ -	\$ 2,230,897	\$ 2,357,389	\$ 2,357,389	\$ (126,492)
Tax increment financing	88,566	-	88,566	88,125	88,125	441
Other city tax	639,734	-	639,734	640,921	670,921	(31,187)
Licenses and permits	75,390	-	75,390	72,500	72,500	2,890
Use of money and property	30,996	79,234	110,230	33,980	33,980	76,250
Intergovernmental	1,293,986	120,725	1,414,711	1,892,171	1,917,171	(502,460)
Charges for service	789,181	10,698,388	11,487,569	11,877,106	11,877,106	(389,537)
Special assessments	29,870	-	29,870	50,000	50,000	(20,130)
Miscellaneous	19,073	22,093	41,166	75,500	75,500	(34,334)
Total receipts	5,197,693	10,920,440	16,118,133	17,087,692	17,142,692	(1,024,559)
Disbursements:						
Public safety	1,359,616	-	1,359,616	1,602,019	1,717,519	357,903
Public works	1,842,080	-	1,842,080	2,057,515	2,249,615	407,535
Health and social services	6,305	-	6,305	7,250	7,250	945
Culture and recreation	757,529	-	757,529	833,473	945,473	187,944
Community and economic development	453,003	-	453,003	1,061,000	1,470,500	1,017,497
General government	948,926	-	948,926	975,325	1,086,535	137,609
Debt service	482,696	-	482,696	483,697	483,697	1,001
Capital projects	220,867	-	220,867	427,000	427,000	206,133
Business type activities	-	9,229,565	9,229,565	10,240,988	11,487,288	2,257,723
Total disbursements	6,071,022	9,229,565	15,300,587	17,688,267	19,874,877	4,574,290
Excess (deficiency) of receipts over (under) disbursements	(873,329)	1,690,875	817,546	(600,575)	(2,732,185)	3,549,731
Other financing sources, net	1,463,139	(1,449,855)	13,284	-	5,000	8,284
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	589,810	241,020	830,830	(600,575)	(2,727,185)	3,558,015
Balances beginning of year, as previously reported	6,783,833	7,243,236	14,027,069	12,183,287	12,183,287	1,843,782
Prior period adjustment	(23,643)	23,643	-	-	-	-
Balances beginning of year, as restated	6,760,190	7,266,879	14,027,069	12,183,287	12,183,287	1,843,782
Balances end of year	\$ 7,350,000	\$ 7,507,899	\$ 14,857,899	\$ 11,582,712	\$ 9,456,102	\$ 5,401,797

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted revenues by \$55,000 and budgeted disbursements by \$2,186,610. The budget amendments are reflected in the final budgeted amounts.

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

City of Estherville

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

Iowa Public Employees' Retirement System
For the Last Two Years*

Other Information

	2016	2015
City's proportion of the net pension liability	0.031513%	0.037860%
City's proportionate share of the net pension liability	\$1,556,876	\$1,326,788
City's covered-employee payroll	\$2,175,601	\$2,208,086
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.56%	60.09%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

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

See accompanying independent auditor's report.

City of Estherville

Schedule of City Contributions

Iowa Public Employee's Retirement System
For the Last Two Years

Other Information

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 200,008	\$ 194,758
Contributions in relation to the statutorily required contribution	(200,008)	(194,758)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$2,238,269	\$2,179,029
Contributions as a percentage of covered-employee payroll	8.94%	8.94%

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
Notes to Other Information – Pension Liability
June 30, 2016

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 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 Estherville

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

Municipal Fire and Police Retirement System of Iowa
For the Last Two Years*

Other Information

	2016	2015
City's proportion of the net pension liability	0.235074%	0.250320%
City's proportionate share of the net pension liability	\$ 1,104,411	\$ 907,392
City's covered-employee payroll	\$ 616,471	\$ 639,223
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	179.15%	141.95%
MFPRSI's net position as a percentage of the total pension liability	83.04%	86.27%

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

See accompanying independent auditor's report.

City of Estherville

Schedule of City Contributions

Municipal Fire and Police Retirement System of Iowa
For the Last Two Years

Other Information

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 163,238	\$ 187,469
Contributions in relation to the statutorily required contribution	(163,238)	(187,469)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 587,822	\$ 616,472
Contributions as a percentage of covered-employee payroll	27.77%	30.41%

See accompanying independent auditor's report.

Supplementary Information

CITY OF ESTHERVILLE
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2016

	Special Revenue					Debt Service		Capital Projects		
	Group Insurance	Police Retirement	FICA & IPERS	Industrial Park TIF	Oakridge TIF	Morrell TIF	Emergency Levy	Debt Service	Parks & Recreation Construction	Airport Fuel Farm
Receipts:										
Property tax	\$ 367,359	\$ 147,469	\$ 134,298	\$ -	\$ -	\$ -	\$ 36,420	\$ 363,547	\$ -	\$ -
Tax increment financing	-	-	-	63	66,285	22,218	-	-	-	-
Other city tax	3,713	1,553	1,485	-	-	-	378	3,751	-	-
Use of money and property	-	-	-	-	-	-	-	157	-	-
Intergovernmental	-	31,783	31,783	-	-	-	3,572	35,571	-	167,764
Total receipts	371,072	180,805	167,566	63	66,285	22,218	40,370	403,026	-	167,764
Disbursements:										
Operating:										
Public safety	120,686	163,238	10,038	-	-	-	-	-	-	-
Public works	90,023	-	68,686	-	-	-	-	-	-	-
Culture and recreation	73,264	-	42,176	-	-	-	-	-	-	-
Community and economic development	-	-	-	36,409	-	-	-	-	-	-
General government	70,427	-	80,779	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	482,696	-	-
Capital projects	-	-	-	-	-	-	-	-	47,495	173,372
Total disbursements	354,400	163,238	201,679	36,409	-	-	-	482,696	47,495	173,372
Excess (deficiency) of receipts over (under) disbursements	16,672	17,567	(34,113)	(36,346)	66,285	22,218	40,370	(79,670)	(47,495)	(5,608)
Other financing sources (uses):										
Transfers in	-	-	-	36,409	61,840	-	-	95,364	95,495	30,000
Transfers out	(115,569)	-	-	(63)	(128,125)	(22,218)	(80,080)	-	-	-
Total other financing sources (uses)	(115,569)	-	-	36,346	(66,285)	(22,218)	(80,080)	95,364	95,495	30,000
Change in cash balances	(98,897)	17,567	(34,113)	-	-	-	(39,710)	15,694	48,000	24,392
Cash balances beginning of year, as previously reported	611,119	109,804	168,052	-	-	-	39,710	116,500	-	-
Prior period adjustment	-	-	-	-	-	-	-	-	-	(23,643)
Cash balances beginning of year, as restated	611,119	109,804	168,052	-	-	-	39,710	116,500	-	(23,643)
Cash balances end of year	\$ 512,222	\$ 127,371	\$ 133,939	\$ -	\$ -	\$ -	\$ -	\$ 132,194	\$ 48,000	\$ 749
Cash Basis Fund Balances										
Nonspendable - Library trust	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for:										
Debt Service	-	-	-	-	-	-	-	132,194	-	-
Other purposes	512,222	127,371	133,939	-	-	-	-	-	48,000	749
Total cash basis fund balances	\$ 512,222	\$ 127,371	\$ 133,939	\$ -	\$ -	\$ -	\$ -	\$ 132,194	\$ 48,000	\$ 749 \$ -

CITY OF ESTHERVILLE
 Schedule of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Nonmajor Governmental Funds
 As of and for the year ended June 30, 2016

	Permanent	
	Library Trust	Total
Receipts:		
Property tax	\$ -	\$ 1,049,093
Tax increment financing	-	88,566
Other city tax	-	10,880
Use of money and property	348	505
Intergovernmental	-	270,473
Total receipts	348	1,419,517
Disbursements:		
Operating:		
Public safety	-	293,962
Public works	-	158,709
Culture and recreation	-	115,440
Community and economic development	-	36,409
General government	-	151,206
Debt service	-	482,696
Capital projects	-	220,867
Total disbursements	-	1,459,289
Excess (deficiency) of receipts over (under) disbursements	348	(39,772)
Other financing sources (uses):		
Transfers in	-	319,108
Transfers out	-	(346,055)
Total other financing sources (uses)	-	(26,947)
Change in cash balances	348	(66,719)
Cash balances beginning of year, as previously reported	110,733	1,155,918
Prior period adjustment	-	(23,643)
Cash balances beginning of year, as restated	110,733	1,132,275
Cash balances end of year	\$ 111,081	\$ 1,065,556
Cash Basis Fund Balances		
Nonspendable - Library trust	\$ 57,574	\$ 57,574
Restricted for:		
Debt Service	-	132,194
Other purposes	53,507	875,788
Total cash basis fund balances	\$ 111,081	\$ 1,065,556

CITY OF ESTHERVILLE
Schedule of Indebtedness
Year ended June 30, 2016

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds/notes:									
Water and Wastewater	June 1, 2010	1.00-4.15%	2,350,000	1,690,000	-	140,000	1,550,000	61,643	-
Refunding	December 22, 2011	0.45-1.45%	705,000	240,000	-	120,000	120,000	3,180	-
Sanitary Sewer	March 1, 2013	0.40-1.90%	1,125,000	915,000	-	110,000	805,000	11,850	-
Total				<u>\$ 2,845,000</u>	<u>\$ -</u>	<u>\$ 370,000</u>	<u>\$ 2,475,000</u>	<u>\$ 76,673</u>	<u>\$ -</u>
Lease Purchase:									
Fire Truck	December 21, 2007	4.29%	268,000	<u>\$ 92,518</u>	<u>\$ -</u>	<u>\$ 29,553</u>	<u>\$ 62,965</u>	<u>\$ 3,971</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
 Bond and Note Maturities
 June 30, 2016

Schedule 3

General Obligation Bonds/Notes

Year Ending June 30,	Water and Wastewater Issued June 1, 2010		Refunding Issued December 22, 2011		Sanitary Sewer Issued March 1, 2013		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2017	3.00 %	\$ 145,000	1.45 %	\$ 120,000	0.80 %	\$ 110,000	\$ 375,000
2018	3.20	155,000	-	-	1.00	110,000	265,000
2019	3.40	160,000	-	-	1.20	115,000	275,000
2020	3.60	165,000	-	-	1.40	115,000	280,000
2021	3.80	170,000	-	-	1.60	115,000	285,000
2022	4.00	180,000	-	-	1.75	120,000	300,000
2023	4.05	185,000	-	-	1.90	120,000	305,000
2024	4.10	190,000	-	-	-	-	190,000
2025	4.15	200,000	-	-	-	-	200,000
		<u>\$ 1,550,000</u>		<u>\$ 120,000</u>		<u>\$ 805,000</u>	<u>\$2,475,000</u>

Notes Payable

Year Ending June 30,	Fire Truck Issued December 21, 2007	
	Interest Rates	Amount
2017	4.29 %	\$ 30,821
2018	4.29	32,144
		<u>\$ 62,965</u>

See accompanying independent auditor's report.

CITY OF ESTHERVILLE
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Receipts:										
Property tax	\$ 2,230,897	\$ 2,324,743	\$ 2,363,132	\$ 2,277,243	\$ 2,232,308	\$ 2,202,283	\$ 2,012,054	\$ 1,874,028	\$ 1,841,129	\$ 1,847,308
Tax increment financing	88,566	88,043	94,026	130,252	121,024	142,914	164,369	353,698	206,847	279,748
Other city tax	639,734	781,913	643,031	648,423	615,569	645,934	511,508	248,999	108,342	97,023
Licenses and permits	75,390	74,589	75,068	77,561	78,322	79,104	82,977	78,378	80,157	72,341
Use of money and property	30,996	27,380	30,163	32,232	29,797	43,260	94,722	157,040	242,809	300,481
Intergovernmental	1,293,986	1,042,413	733,327	688,394	801,511	879,999	1,371,750	735,551	691,222	651,060
Charges for service	789,181	741,419	739,594	708,096	714,680	697,076	679,051	689,896	608,147	566,992
Special assessments	29,870	38,700	54,457	69,213	54,245	79,612	20,049	57,244	11,366	16,708
Miscellaneous	19,073	75,996	52,237	71,837	187,426	109,537	48,384	52,081	105,863	40,918
Total	\$ 5,197,693	\$ 5,195,196	\$ 4,785,035	\$ 4,703,251	\$ 4,834,882	\$ 4,879,719	\$ 4,984,864	\$ 4,246,915	\$ 3,895,882	\$ 3,872,579
Disbursements:										
Operating:										
Public safety	\$ 1,359,616	\$ 1,384,984	\$ 1,421,774	\$ 1,420,507	\$ 1,323,160	\$ 1,268,132	\$ 1,315,489	\$ 1,088,479	\$ 1,454,875	\$ 1,066,190
Public works	1,842,080	2,120,349	2,400,459	2,174,852	1,829,655	2,082,442	1,643,183	2,570,899	1,473,098	1,606,151
Health and social services	6,305	4,729	3,915	3,915	3,915	4,223	5,237	5,297	4,923	5,727
Culture and recreation	757,529	699,023	757,351	721,276	739,509	678,704	660,497	648,557	600,593	729,999
Community and economic development	453,003	691,367	254,928	232,018	330,388	376,493	334,115	254,250	195,775	190,272
General government	948,926	875,031	841,683	865,987	891,957	838,737	883,670	853,777	803,714	836,076
Debt service	482,696	477,526	480,765	355,421	1,197,785	478,909	272,851	269,456	237,058	242,925
Capital projects	220,867	71,891	31,702	29,640	109,173	1,171,869	1,994,359	24,430	78,194	29,749
Total	\$ 6,071,022	\$ 6,324,900	\$ 6,192,577	\$ 5,803,616	\$ 6,425,542	\$ 6,899,509	\$ 7,109,401	\$ 5,715,145	\$ 4,848,230	\$ 4,707,089

See accompanying independent auditor's report.

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

City of Estherville

Brinkman & Reed, CPA's

103 South Sixth Street Estherville, Iowa 51334 712-362-5891 Phone 712-362-7172 Fax

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

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Estherville, 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 September 27, 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 City of Estherville'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 City of Estherville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Estherville's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Estherville's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as item II-A-16 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Estherville'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.

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.

City of Estherville's Responses to the Findings

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

Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Estherville 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.

Brinkman + Reed, CPA's

Brinkman & Reed, CPA's

September 27, 2016

CITY OF ESTHERVILLE
Schedule of Findings
Year ended June 30, 2016

Part I: Summary of the Independent Auditor's Results:

- a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF ESTHERVILLE
Schedule of Findings – Continued
Year Ended June 30, 2016

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-16 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that employees who handle cash receipts are also involved with the preparation of bank reconciliations and postings of payments.

Recommendation – We realize that segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will make every effort to comply.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

CITY OF ESTHERVILLE
 Schedule of Findings – Continued
 Year Ended June 30, 2016

Part III: Other Findings Related to Statutory Reporting:

- III-A-16 Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amount budgeted.
- III-B-16 Questionable Disbursements – No expenses that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- III-C-16 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-16 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ann Goebel, Council Member, Owner of Riverside Hills Boarding	Boarding Dogs	\$385
Dale Bradely, Electric Generation employee	Park Sign Bracket	\$628

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Council Member and Electric Generation Employee do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- III-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 the coverage is adequate for current operations.
- III-F-16 Council Minutes – No transactions were found that we believe should have not been approved in the City Council minutes but were not.
- III-G-16 Deposit 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.
- III-H-16 Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.