CITY OF PELLA, IOWA

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2017

City of Pella, Iowa
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City of Pella, Iowa
City Officials
Year Ending June 30, 2017

Name	Title	Term Expires
	(Before January 2017)	
James Mueller	Mayor	January, 2020
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2018
Tony Bokhoven	Council Member	January, 2020
Harold Van Stryland	Council Member	January, 2020
Larry J. Peterson	Council Member	January, 2020
Bruce Schiebout	Council Member	January, 2018
Dan Vander Beek	Council Member	January, 2018
Mike Nardini	City Administrator	Indefinite
Corey Goodenow	Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2017
Ronda Brown	City Clerk	January, 2017
	(After January 2017)	
James Mueller	Mayor	January, 2020
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2018
Tony Bokhoven	Council Member	January, 2020
Harold Van Stryland	Council Member	January, 2020
Larry J. Peterson	Council Member	January, 2020
Bruce Schiebout	Council Member	January, 2018
Dan Vander Beek	Council Member	January, 2018
Mike Nardini	City Administrator	Indefinite
Corey Goodenow	Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2018
Mandy Smith	City Clerk	January, 2018

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Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Pella, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2017, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. 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 financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella as of June 30, 2017, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability- IPERS, the Schedule of City Contributions – IPERS, Schedule of the City's Proportionate Share of the Net Pension Liability – MFPRSI, Schedule of City Contributions – MFPRSI, and the Schedule of Funding Progress for the Retiree Health Plan on pages 5-11 and 59-68 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2016 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by Title 2, *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated November 22, 2017, on our consideration of the City of Pella's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City of Pella's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pella's internal control over financial reporting and compliance.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

November 22, 2017

The City of Pella provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Pella exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by $109,327,575 (net position).
- The assets and deferred outflows of resources of the City's governmental activities exceeded liabilities and deferred inflows of resources by $51,760,650.
- Assets and deferred outflows of resources of the business type activities exceeded liabilities and deferred inflows of resources by $57,566,925.
- The revenues of the governmental activities exceeded expenses by $1,484,135.
- Within the City's business-type activities, revenues exceeded expenses by $1,491,491. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2017, the general fund had an unassigned fund balance of $2,376,725 or working capital of nearly 39% of annual expenditures.

USING THIS 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.

Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the City of Pella, Iowa as a whole and present 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 statements by providing information about the most significant funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year, the City's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

The government-wide financial statements are divided into two categories:

Governmental activities - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

Business type activities - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

Fund Financial Statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. The City has two kinds of funds:

Governmental funds are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital project fund and debt service funds, all of which are considered to be major funds. Data from the other twenty governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Proprietary funds can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Internal Service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements with greater detail**.**

The financial statements required for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. The analysis that follows focuses on changes in the net position for governmental and business type activities.

	NET POSITION AT YEAR-END					
	Governmental Activities		Business Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 12,772,581	12,674,684	15,850,045	17,634,150	28,622,626	30,308,834
Capital assets	52,247,987	51,589,209	71,105,832	62,433,028	123,353,819	114,022,237
Total assets	65,020,568	64,263,893	86,955,877	80,067,178	151,976,445	144,331,071
Deferred outflows of resources	1,951,335	1,320,925	722,896	481,035	2,674,231	1,801,960
Long-term liabilities	6,908,060	6,628,992	24,847,266	19,577,716	31,755,326	26,206,708
Other liabilities	1,891,492	2,135,145	4,955,223	4,499,957	6,846,715	6,635,102
Total Liabilities	8,799,552	8,764,137	29,802,489	24,077,673	38,602,041	32,841,810
Deferred inflows of resources	6,411,701	6,544,166	309,359	395,106	6,721,060	6,939,272
Net position:						
Net investment in capital assets	49,345,811	47,968,200	46,718,554	43,682,489	96,064,365	91,650,689
Restricted	2,929,909	2,869,886	1,103,164	4,186,682	4,033,073	7,056,568
Unrestricted	(515,070)	(561,571)	9,745,207	8,206,263	9,230,137	7,644,692
Total net position	$ 51,760,650	50,276,515	57,566,925	56,075,434	109,327,575	106,351,949

The most significant portion of the city's net position (88.37%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending. A portion of the City's net position (3.69%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position or the unrestricted net position of $9,230,137 may be used to meet the City's ongoing obligations to citizens and creditors.

	CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30,					
	Governmental Activities		Business Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for service	$ 756,747	726,483	25,607,899	25,633,000	26,364,646	26,359,483
Operating grants, contributions	1,420,449	1,456,037	-	-	1,420,449	1,456,037
Capital grants, contributions	992,973	1,427,288	-	188,102	992,973	1,615,390
General revenues:						
Property tax levied for:						
General purposes	5,277,117	4,744,307	-	-	5,277,117	4,744,307
Debt service	-	280,138	-	-	-	280,138
Local option taxes	1,358,738	1,286,934	-	-	1,358,738	1,286,934
TIF	961,040	692,606	-	-	961,040	692,606
Grants & contributions not restricted to specific purposes	191,465	210,189	-	-	191,465	210,189
Payment in lieu of taxes	582,379	591,303	-	-	582,379	591,303
Unrestricted Investment earnings	16,016	13,338	47,272	37,463	63,288	50,801
Miscellaneous	2,681	-	649,186	35,948	651,867	35,948
Gain on sale of assets	-	4,563	14,885	98,787	14,885	103,350
Transfers	(424,239)	(243,980)	424,239	243,980	-	-
Total revenues	11,135,366	11,189,206	26,743,481	26,237,280	37,878,847	37,426,486
Expenses						
General government	815,543	777,742	-	-	815,543	777,742
Public Safety	2,503,655	2,213,183	-	-	2,503,655	2,213,183
Public Works	2,105,078	2,026,081	-	-	2,105,078	2,026,081
Culture & Recreation	3,128,673	3,019,009	-	-	3,128,673	3,019,009
Community & Economic Development	701,690	599,201	-	-	701,690	599,201
Facilities & Acquisition	316,535	340,194	-	-	316,535	340,194
Long-term debt and interest cost	80,057	110,064	-	-	80,057	110,064
Water	-	-	2,362,823	2,186,183	2,362,823	2,186,183
Wastewater	-	-	2,406,423	2,289,861	2,406,423	2,289,861
Sanitation	-	-	545,467	528,210	545,467	528,210
Electric	-	-	19,937,277	20,042,442	19,937,277	20,042,442
Total expenses	9,651,231	9,085,474	25,251,990	25,046,696	34,903,221	34,132,170
Change in net position	1,484,135	2,103,732	1,491,491	1,190,584	2,975,626	3,294,316
Net postion beginning of year	50,276,515	48,172,783	56,075,434	54,884,850	106,351,949	103,057,633
Net position end of year	$ 51,760,650	50,276,515	57,566,925	56,075,434	109,327,575	106,351,949

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of $5,312,225 at June 30, 2017. This was an increase of $324,386 from the prior year and was due to timing issues associated with large capital projects. A summary of each of the government major fund balances is as follows:

General Fund
The general fund's balance increased by $265,841 in Fiscal Year 2017. As a result, the City's fund balance increased to $2,377,770 which represents approximately 39% of annual expenditures. The increase was attributed to property tax valuation increases and the strong growth in the residential and commercial tax classes.

Debt Service Fund
The debt service fund balance remained at $22,683.

Capital Projects Funds
The capital project funds are comprised of one main fund and five smaller funds which are as follows:

> ***Capital Facilities Fund*** had a fund balance of $0 at June 30, 2017. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund.
>
> ***Other Capital Facility Funds*** had a total fund balance of $0 at June 30, 2017.

Proprietary Funds
The City's proprietary funds provide the same information found in the government-wide financial statements with greater detail.

The combined net position of the enterprise funds at June 30, 2017 totaled $57,566,925 of which $9,745,207 is unrestricted. Overall, net position for the enterprise funds increased by $1,491,491 largely due to an increase on the return of electric transmission investments and an increase in the contract with the City's power supplier for diesel capacity sales.

The net position of internal service funds, which is comprised of the City's health insurance trust fund decreased from $687,850 to $623,532. The decrease was due to an increase in health insurance premiums. The City continues to maintain a very sufficient net position.

BUDGETARY HIGHLIGHTS

The FY 2017 budget did not require a budget amendment.

CAPITAL ASSETS

Capital Assets
Major construction projects and purchases along with the associated expenses for the year included the following:

Governmental Activities
Compensation study was conducted for $33,500
Purchased downtown property for future parking for $156,515
One police vehicle was replaced for $42,355
Police Department records management system was purchased for $120,149
Police contributed to the new P25 Repeater Site for $77,570
Repainted the outdoor pool and adventure river for $56,200
Engineering for Caldwell Park improvements for $31,315
New Parks dump truck body for $40,599
Elm Street reconstruction from Broadway Street to W 3rd Street for $58,922
Lincoln Street and E 3rd Street reconstruction from Hazel Street to E 3rd Street and Columbus Street to Lincoln Street for $29,903
Huber Cul-De-Sac for $101,294
Public Works dump truck replacement for $152,938
Washington Street reconstruction was completed for $533,042
East Business 163 overlay for $118,242
Oskaloosa Street reconstruction was completed for $1,216,087

Water Fund
The implementation of the City's long term water supply plan amounted to $6,770,839
Oskaloosa Street water main replacement was completed for $218,801
Relocation of the Pella Corp water main for $31,447
Washington Street water main replacement was completed for $76,964
Elm Street water main replacement for $85,416
Jefferson Street water main replacement for $106,208
Staff performed general distribution main maintenance which amounted to $88,704

Wastewater Fund
Methane engine overhaul for $32,972
Oskaloosa Street sewer main was completed for $191,012
Washington Street sewer main was completed for $48,102

Electric Fund
Completion of the west central underground conversion for $387,109
Construction of the 69kV ring bus for $2,591,625
Vacuum Excavator replacement for $49,185
East Substation transformer replacement for $684,194
Transformers for upcoming projects for $206,061
Purchased three new pickups for $118,594
Added street lighting to Shady Brook and Westport for $86,336
Vermeer service line for $180,669

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

DEBT ADMINISTRATION

At the close of fiscal year ended June 30, 2017, the City had bonds outstanding of $27,175,032. The City maintains an Aa3 rating from Moody's Investor Services on all its general obligation debt and an A2 on electric revenue debt.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2015. The current general obligation debt limitation for the City is $38,630,373 and at June 30, 2017 there was $2,790,000 of outstanding general obligation debt. Therefore, the city's available debt margin is $35,840,373 or 92.8%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

While the City has experienced consistent growth in valuation of existing residential and commercial valuations, the past two years have resulted in considerable new residential and commercial construction. This continued growth has led to unemployment rates in Marion County of 3.0%, slightly under the State average of 4.1%. While the local economy continues to expand at a conservative rate, the need to replace aging infrastructure, respond to unfunded mandates by federal and state regulatory agencies may eventually necessitate utility rates increases.

Also of concern are the State's legislative changes to the property tax system, primarily the commercial property and industrial tax classification. While the City's balances maintain the necessary reserves and flexibility to accommodate modest changes, reductions in the ability to collect property tax or reductions in intergovernmental funds may impact the City's ability to continue to maintain or enhance service levels.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2017 Budget:

Property Taxes
The City was able to maintain its property tax rate at the historically stable rate of $10.20/$1,000 of taxable valuation. The expected rate for FY 2018 continues the City's commitment to maintaining one of the lowest property tax rates in the state.

Electric Rates

Missouri River Energy Services (MRES) has indicated there will not be a power supply cost increase in the next year which allowed the City to maintain the current rates in the 2018 fiscal year budgeted. Strong revenue growth as well as continued increases in transmission rate recovery and reduced transmission costs will allow the City to support continued operational and capital expenditures associated with the utility.

Water Rates

For fiscal year 2018, the City initiate a rate increase of 7% effective September 20, 2017. The City is nearing completion of the $16 million water supply plan, future rate increases will be reviewed to ensure compliance with all debt service requirements are met.

Wastewater Rates

No rate increases are projected for fiscal year 2018, although the City is in the process of evaluating the necessary capital improvements associated with approval of the City's National Pollutant Discharge Elimination System NPDES permit.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be directed to the Finance Director, 825 Broadway Street, Pella, Iowa 50219.

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Basic Financial Statements

Exhibit A

City of Pella, Iowa
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Assets			
Cash, cash equivalents and pooled investments	$ 3,628,555	10,457,757	14,086,312
Receivables:			
Property tax:			
Delinquent	14,594	-	14,594
Succeeding year	4,917,498	-	4,917,498
Tax increment financing:			
Delinquent	1,344	-	1,344
Succeeding year	866,293	-	866,293
Local option sales tax	86,329	-	86,329
Accounts (net of allowance for uncollectibles)	7,200	2,657,366	2,664,566
Accrued interest	26	139	165
Due from other governments	319,788	786,677	1,106,465
Inventories	-	718,930	718,930
Deposits	-	70,000	70,000
Prepaid expenses	1,045	-	1,045
Restricted assets:			
Cash and pooled investments	2,929,909	1,159,176	4,089,085
Capital assets(net of accumulated depreciation)	52,247,987	71,105,832	123,353,819
Total assets	65,020,568	86,955,877	151,976,445
Deferred Outflows of Resources			
Pension related deferred outflows	1,951,335	722,896	2,674,231
Liabilities			
Excess of warrants over bank balance	$ 2,667	-	2,667
Accounts payable and accrued liabilities	794,013	2,772,385	3,566,398
Salaries and benefits payable	255,928	102,371	358,299
Deposits	425	126,012	126,437
Accrued interest payable	5,591	44,243	49,834
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes, net	638,319	-	638,319
Capital lease obligations	65,788	-	65,788
Revenue bonds payable, net	-	1,827,264	1,827,264
Compensated absences	128,761	82,948	211,709
Portion due or payable after one year:			
General obligation bonds, net	2,198,069	-	2,198,069
Capital lease obligations	-	-	-
Revenue bonds payable, net	-	22,560,014	22,560,014
Compensated absences	515,044	331,794	846,838
Net pension liability	4,072,369	1,869,702	5,942,071
Net OPEB liability	122,578	85,756	208,334
Total liabilities	8,799,552	29,802,489	38,602,041

Exhibit A

City of Pella, Iowa
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Continued from previous page.			
Deferred Inflows of Resources			
Unavailable revenues:			
Pension related deferred inflows	627,910	309,359	937,269
Succeeding year property tax	4,917,498	-	4,917,498
Tax increment financing	866,293	-	866,293
Total deferred inflows of resources	6,411,701	309,359	6,721,060
Net Position			
Net investment in capital assets	49,345,811	46,718,554	96,064,365
Restricted for:			
Expendable:			
Debt service, improvements and reserve	17,092	1,033,164	1,050,256
Special Purposes	2,771,772	-	2,771,772
Other	-	-	-
Non-expendable:			
Permanent Trust	140,000	-	140,000
Prepaid expenditures	1,045	-	1,045
Deposits	-	70,000	70,000
Unrestricted	(515,070)	9,745,207	9,230,137
Total net position	$ 51,760,650	57,566,925	109,327,575

See notes to financial statements.

Exhibit B

City of Pella, Iowa
Statement of Activities
Year ended June 30, 2017

		Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Functions/Programs				
Governmental activities:				
Public safety	$ 2,503,655	42,346	40,757	89,053
Public works	2,105,078	24,039	1,288,086	903,698
Culture and recreation	3,128,673	556,060	87,022	-
Community and economic development	701,690	102,742	4,584	-
General government	815,543	31,560	-	-
Long-term debt costs and interest	80,057	-	-	-
Facilities and acquisition	316,535	-	-	222
Total governmental activities	9,651,231	756,747	1,420,449	992,973
Business type activities:				
Water	2,362,823	2,285,685	-	-
Wastewater	2,406,423	2,072,007	-	-
Sanitation	545,467	607,611	-	-
Electric	19,937,277	20,642,596	-	-
Total business type activities	25,251,990	25,607,899	-	-
Total primary government	$ 34,903,221	26,364,646	1,420,449	992,973
General Revenues:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Unrestricted investment earnings				
Miscellaneous				
Sale/disposal of assets				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position beginning of year				
Net position end of year				

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(2,331,499)	-	(2,331,499)
110,745	-	110,745
(2,485,591)	-	(2,485,591)
(594,364)	-	(594,364)
(783,983)	-	(783,983)
(80,057)	-	(80,057)
(316,313)	-	(316,313)
(6,481,062)	-	(6,481,062)
-	(77,138)	(77,138)
-	(334,416)	(334,416)
-	62,144	62,144
-	705,319	705,319
-	355,909	355,909
(6,481,062)	355,909	(6,125,153)
5,277,117	-	5,277,117
-	-	-
961,040	-	961,040
1,358,738	-	1,358,738
191,465	-	191,465
582,379	-	582,379
16,016	47,272	63,288
5,130	649,186	654,316
(2,449)	14,885	12,436
(424,239)	424,239	-
7,965,197	1,135,582	9,100,779
1,484,135	1,491,491	2,975,626
50,276,515	56,075,434	106,351,949
$ 51,760,650	57,566,925	109,327,575

Exhibit C

City of Pella, Iowa
Balance Sheet
Governmental Funds
June 30, 2017

	Major Funds			Non-major	
	General	Capital Projects	Debt Service	Other Governmental Funds	Total
Assets					
Cash, cash equivalents and pooled investments	$ 2,791,911	201,600	22,683	2,883,381	5,899,575
Receivables:					
Accrued interest	18	1	-	-	19
Property tax:					
Delinquent	11,927	-	-	2,667	14,594
Succeeding year	4,016,122	-	-	901,376	4,917,498
Tax increment financing:					
Delinquent	-	-	-	1,344	1,344
Succeeding year	-	-	-	866,293	866,293
Local option sales tax	-	-	-	86,329	86,329
Accounts receivable, miscellaneous	3,599	163	-	3,438	7,200
Due from other governments	43,540	276,248	-	-	319,788
Prepaid expenditures	1,045	-	-	-	1,045
Total assets	$ 6,868,162	478,012	22,683	4,744,828	12,113,685
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Excess of warrants over bank balance	$ -	-	-	2,667	2,667
Accounts payable and accrued liabilities	236,657	478,012	-	43,980	758,649
Salaries and benefits payable	237,613	-	-	18,315	255,928
Customer deposits	-	-	-	425	425
Total liabilities	474,270	478,012	-	65,387	1,017,669
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	4,016,122	-	-	901,376	4,917,498
Tax increment financing	-	-	-	866,293	866,293
Total deferred inflows of resources	4,016,122	-	-	1,767,669	5,783,791
Fund balances:					
Nonspendable:					
Prepaid expenditures	1,045	-	-	-	1,045
Permanent Trust	-	-	-	140,000	140,000
Restricted for:					
Debt Service	-	-	22,683	-	22,683
Other purposes	-	-	-	2,771,772	2,771,772
Unassigned	2,376,725	-	-	-	2,376,725
Total fund balances	2,377,770	-	22,683	2,911,772	5,312,225
Total liabilities, deferred inflows of resources and fund balances	$ 6,868,162	478,012	22,683	4,744,828	12,113,685

See notes to financial statements.

Exhibit D

City of Pella, Iowa
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Position
June 30, 2017

Total fund balances of governmental funds (Exhibit C)		$	5,312,225
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is $79,178,653 and the accumulated depreciation is $26,930,666.			52,247,987
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:			
Deferred outflows of resources	$ 1,951,335		
Deferred inflows of resources	(627,910)		1,323,425
An internal service fund is used by management to track the collection and payment of various employee benefits. The assets and liabilities of the internal service fund are included in the statement of net position.			623,532
Long-term liabilities, including bonds/notes payable, bond discounts or premiums (initial and amortized),accrued interest payable, lease payable, compensated absences payable ,net pension liabilities and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.			
General obligation bonds payable	$ (2,790,000)		
Bond discounts	8,026		
Bond premiums	(54,414)		
Accrued interest	(5,591)		
Lease payable	(65,788)		
Compensated absences	(643,805)		
Net pension liability	(4,072,369)		
Other post employment benefits	(122,578)		
			(7,746,519)
Net position of governmental activities (Exhibit A)		$	51,760,650

See notes to financial statements.

Exhibit E

City of Pella, Iowa
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2017

	Major Funds			Non-major	
	General	Capital Projects	Debt Service	Other Governmental Funds	Totals
Revenues:					
Property tax	$ 3,895,398	-	-	869,737	4,765,135
Tax increment financing	-	-	-	961,041	961,041
Local option sales tax	-	-	-	1,050,492	1,050,492
Other city taxes	509,006	-	-	2,976	511,982
Licenses and permits	116,866	-	-	-	116,866
Use of money and property	87,972	222	-	6,447	94,641
Intergovernmental	810,295	992,751	-	1,660,159	3,463,205
Charges for services	518,184	-	-	107	518,291
Miscellaneous	54,000	5,450	-	21,065	80,515
Total revenues	5,991,721	998,423	-	4,572,024	11,562,168
Expenditures:					
Operating:					
Public safety	2,223,764	-	-	-	2,223,764
Public works	312,544	-	-	827,293	1,139,837
Culture and recreation	2,265,521	-	-	38,929	2,304,450
Community and economic development	644,359	-	-	53,647	698,006
General government	597,141	-	-	-	597,141
Debt service	-	-	800,333		800,333
Capital projects	-	3,049,898	-	-	3,049,898
Total expenditures	6,043,329	3,049,898	800,333	919,869	10,813,429
Excess (deficiency) of revenues over (under) expenditures	(51,608)	(2,051,475)	(800,333)	3,652,155	748,739
Other financing sources (uses):					
Operating transfers in	964,752	2,051,475	800,333	271,748	4,088,308
Operating transfers (out)	(647,303)	-	-	(3,865,244)	(4,512,547)
Unrealized gains (losses) on investments	-	-	-	(114)	(114)
Proceeds from sale of assets	-	-	-	-	-
Total other financing sources (uses)	317,449	2,051,475	800,333	(3,593,610)	(424,353)
Change in fund balances	265,841	-	-	58,545	324,386
Fund balances beginning of year	2,111,929	-	22,683	2,853,227	4,987,839
Fund balances end of year	$ 2,377,770	-	22,683	2,911,772	5,312,225

See notes to financial statements.

Exhibit F

City of Pella, Iowa
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds to the Statement of Activities
Year ended June 30, 2017

Change in fund balances - Total governmental funds (Exhibit E)		$ 324,386
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and depreciation expense in the current year are as follows:		
Expenditures for capital assets	$ 2,733,363	
Loss on equipment disposal/transfer	(2,449)	
Depreciation expense	(2,072,136)	658,778
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position. Also governmental funds report the effect of bond discounts and premiums, whereas these amounts are deferred and amortized in the Statement of Activities. Current year items are as follows:		
Issued	-	
Repaid	710,514	
Amortization of bond premiums	9,745	
Amortization of bond discounts	(1,426)	718,833
An internal service fund is used by management to track collections of medical and dental insurance premiums and Section 125 deductions from the employer and employee as well as disbursements for health and dental insurance premiums and claims, Section 125 claims, and other employee benefits.		
Interest revenue from governmental internal service fund	3,560	
Employer funds for benefits shifted from other funds	702,571	
Employee benefits collected through withholding	225,223	
Claims and premiums paid out	(995,672)	(64,318)
The current year City IPERS and MFPRSI contributions are reported as expenditures expenditures in the governmental funds but are reported as deferred outflows of resources in the Statement of Net Position.		458,397
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Compensated absenses	(34,082)	
Other postemployment benefits	(15,721)	
Pension expense	(563,581)	
Interest on long-term debt	1,443	(611,941)
Change in net position of governmental activities (Exhibit B)		$ 1,484,135

See notes to financial statements.

Exhibit G

City of Pella, Iowa
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal
	Water	Wastewater	Electric	Sanitation	Totals	Service Funds
Assets						
Current assets:						
Cash, cash equivalents and pooled investments	$ 1,423,772	872,369	7,922,069	239,547	10,457,757	658,889
Receivables:						
Accrued interest	7	7	124	1	139	7
Trade (net of allowance for uncollectible)	210,941	180,768	2,214,857	50,800	2,657,366	-
Due from other governments	786,677	-	-	-	786,677	-
Inventories	122,623	92,636	503,671	-	718,930	-
Security Deposit	-	-	70,000	-	70,000	-
Total current assets	2,544,020	1,145,780	10,710,721	290,348	14,690,869	658,896
Non-current assets:						
Restricted cash and cash equivalents	-	-	1,159,176	-	1,159,176	-
Capital assets (net of accumulated depreciation/amortization)	19,758,536	10,993,878	40,353,418	-	71,105,832	-
Total non-current assets	19,758,536	10,993,878	41,512,594	-	72,265,008	-
Total assets	$ 22,302,556	12,139,658	52,223,315	290,348	86,955,877	658,896
Deferred Outflows of Resources						
Pension related deferred outflows	226,409	180,433	303,961	12,093	722,896	-
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	416,541	61,562	2,255,524	38,758	2,772,385	35,364
Salaries and benefits payable	27,425	18,819	54,555	1,572	102,371	-
Accrued interest payable	20,127	11,584	12,532	-	44,243	-
Compensated absences payable	22,662	14,087	46,015	184	82,948	-
Payable from restricted assets:						
Revenue notes, net	664,000	485,000	678,264	-	1,827,264	-
Deposits	-	-	126,012	-	126,012	-
Total current liabilities	1,150,755	591,052	3,172,902	40,514	4,955,223	35,364
Noncurrent liabilities:						
Revenue notes, net	12,174,664	4,700,580	5,684,770	-	22,560,014	-
Compensated absences payable	90,650	56,348	184,058	738	331,794	-
Net pension liability	501,803	391,357	954,637	21,905	1,869,702	-
Net OPEB liability	22,499	18,284	42,459	2,514	85,756	-
Total noncurrent liabilities	12,789,616	5,166,569	6,865,924	25,157	24,847,266	-
Total liabilities	13,940,371	5,757,621	10,038,826	65,671	29,802,489	35,364
Deferred Inflows of Resources						
Unavailable revenues:						
Pension related deferred inflows	65,894	49,341	192,627	1,497	309,359	-
Net Position						
Net investment in capital assets	6,919,872	5,808,298	33,990,384	-	46,718,554	-
Restricted for:						
Nonexpendable:						
Security Deposit	-	-	70,000	-	70,000	-
Expendable:						
Revenue bond reserve	-	-	1,033,164	-	1,033,164	-
Unrestricted	1,602,828	704,831	7,202,275	235,273	9,745,207	623,532
Total net position	$ 8,522,700	6,513,129	42,295,823	235,273	57,566,925	623,532

See notes to financial statements

Exhibit H

City of Pella, Iowa
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
June 30, 2017

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal
	Water	Wastewater	Electric	Sanitation	Totals	Service Funds
Operating revenues:						
Charges for service						
(pledged for revenue notes)	$ 2,246,624	2,065,462	17,235,743	607,611	22,155,440	-
Miscellaneous	39,061	6,545	3,406,853	-	3,452,459	-
Internal service charges	-	-	-	-	-	927,794
Total operating revenues	2,285,685	2,072,007	20,642,596	607,611	25,607,899	927,794
Operating expenses:						
Business type activities:						
Personnel services	824,632	648,712	1,677,923	47,312	3,198,579	-
Contractual	-	18,328	-	460,185	478,513	816,000
Franchise fees	56,025	-	-	-	56,025	-
Materials and Supplies	613,883	629,800	2,624,305	37,970	3,905,958	-
Purchased power	-	-	13,185,114	-	13,185,114	-
Payments in lieu of taxes	-	-	582,379	-	582,379	-
Payments in lieu of services	-	-	96,475	-	96,475	-
Depreciation/Amortization	694,625	948,385	1,578,541	-	3,221,551	-
Claims expense	-	-	-	-	-	179,672
Total operating expenses	2,189,165	2,245,225	19,744,737	545,467	24,724,594	995,672
Operating income (loss)	96,520	(173,218)	897,859	62,144	883,305	(67,878)
Non-operating revenues (expenses):						
Debt costs and interest	(173,658)	(161,198)	(155,214)	-	(490,070)	-
Interest income	2,883	3,899	39,656	834	47,272	3,560
Rents	-	68,050	-	-	68,050	-
Sale/disposal of fixed assets	113	-	14,772	-	14,885	-
Net loss on sale of fixed assets	-	-	(31,960)	-	(31,960)	-
Unreallized gains (losses) on investments	-	-	(5,366)	-	(5,366)	-
Miscellaneous revenues	188,476	-	379,764	12,896	581,136	-
Net non-operating revenues (expenses)	17,814	(89,249)	241,652	13,730	183,947	3,560
Income (loss) before operating transfers	114,334	(262,467)	1,139,511	75,874	1,067,252	(64,318)
Transfers in	295,766	239,114	-	-	534,880	-
Transfers (out)	(18,254)	(18,254)	(18,254)	(55,879)	(110,641)	-
Net other financing sources (uses)	277,512	220,860	(18,254)	(55,879)	424,239	-
Change in net position	391,846	(41,607)	1,121,257	19,995	1,491,491	(64,318)
Net position beginning of year	8,130,854	6,554,736	41,174,566	215,278	56,075,434	687,850
Net position end of year	$ 8,522,700	6,513,129	42,295,823	235,273	57,566,925	623,532

See notes to financial statements.

Exhibit I

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2017

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal
	Water	Wastewater	Electric	Sanitation	Total	Service Funds
Cash flows from operating activities:						
Cash received from customers and users	$ 2,285,109	2,081,762	20,528,972	607,372	25,503,215	-
Cash received from internal service charges	-	-	-	-	-	927,794
Cash paid for personal services	(827,922)	(713,670)	(1,600,386)	(46,799)	(3,188,777)	-
Cash paid to suppliers	(742,089)	(647,454)	(15,679,078)	(497,433)	(17,566,054)	(939,865)
Replacement tax, transfers	-	-	(582,379)	-	(582,379)	-
Net cash provided (used) by operating activities	715,098	720,638	2,667,129	63,140	4,166,005	(12,071)
Cash flows from non-capital financing activities:						
Miscellaneous receipts	188,476	68,050	379,764	12,896	649,186	-
Transfers in (out)	277,512	220,860	(18,254)	(55,879)	424,239	-
Net cash provided (used) by non-capital financing activities	465,988	288,910	361,510	(42,983)	1,073,425	-
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(7,591,046)	(295,231)	(3,934,576)	-	(11,820,853)	-
Principal paid on revenue notes	-	(468,000)	(660,000)	-	(1,128,000)	-
Proceeds from revenue bonds issued	6,773,003	-	-	-	6,773,003	-
Interest costs (not capitalized)	(161,231)	(149,282)	(163,578)	-	(474,091)	-
Other long-term debt costs	-	(12,813)	(1,000)	-	(13,813)	-
Proceeds from sale of capital assets	113	-	14,772	-	14,885	-
Net cash provided (used) by capital and related financing activities	(979,161)	(925,326)	(4,744,382)	-	(6,648,869)	-
Cash flows from investing activities:						
Proceeds from (deposits into) investments	(264)	(257)	(107,302)	(48)	(107,871)	209
Interest on investments	4,328	3,892	34,269	833	43,322	3,553
Net cash provided (used) by investing activities	4,064	3,635	(73,033)	785	(64,549)	3,762
Net increase (decrease) in cash and cash equivalents	205,989	87,857	(1,788,776)	20,942	(1,473,988)	(8,309)
Cash and cash equivalents at beginning of year	1,182,386	750,054	10,199,582	212,170	12,344,192	633,021
Cash and cash equivalents at end of year	$ 1,388,375	837,911	8,410,806	233,112	10,870,204	624,712

Exhibit I

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2017

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal
	Water	Wastewater	Electric	Sanitation	Total	Service Funds
Continued from previous page						
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	$ 96,520	(173,218)	897,859	62,144	883,305	(67,878)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation/Amortization	694,625	948,385	1,578,541	-	3,221,551	-
Change in assets and liabilities:						
(Increase) decrease in receivables	(576)	9,755	(119,524)	(239)	(110,584)	-
(Increase) decrease in due from other governments	436,864	-	-	-	436,864	-
(Increase) decrease in inventory	(6,580)	30,813	(39,403)	-	(15,170)	-
(Increase) decrease in prepaid expense	-	-	-	-	-	57,394
Increase (decrease) in accounts payable	(502,465)	(30,139)	266,219	722	(265,663)	(1,587)
Increase (decrease) in accrued expenses	3,941	(550)	16,086	503	19,980	-
Increase (decrease) in compensated absences	1,108	(53,375)	19,563	(309)	(33,013)	-
Increase in deposits held	-	-	5,900	-	5,900	-
Increase (decrease) in net pension liability	120,910	97,555	122,669	6,664	347,798	-
(Increase) in deferred outflows of resources	(99,380)	(81,553)	(55,391)	(5,537)	(241,861)	-
(Decrease) in deferred inflows of resources	(29,903)	(24,135)	(30,057)	(1,652)	(85,747)	-
Increase (decrease) in other postemployment benefits	34	(2,900)	4,667	844	2,645	-
Total adjustments	618,578	893,856	1,769,270	996	3,282,700	55,807
Net cash provided (used) by operating activities	$ 715,098	720,638	2,667,129	63,140	4,166,005	(12,071)
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Position:						
Current assets:						
Unrestricted assets:						
Cash, cash equivelents and pooled investments	$ 1,423,772	872,369	7,922,069	239,547	10,457,757	658,889
Restricted assets:						
Cash and pooled investments:						
Revenue bond reserve	-	-	1,033,164	-	1,033,164	-
Customer deposits & project share	-	-	126,012	-	126,012	-
Sanitation totes	-	-	-	-	-	-
	-	-	1,159,176	-	1,159,176	-
Total cash, cash equivelents and pooled investments	1,423,772	872,369	9,081,245	239,547	11,616,933	658,889
Less items not meeting definition of cash and cash equivalent:						
Certificates of deposit	(18,094)	(17,614)	(157,349)	(3,289)	(196,346)	(17,470)
Iowa Public Agency Investment Trust	(17,303)	(16,844)	(150,473)	(3,146)	(187,766)	(16,707)
Government Bonds	.	-	(362,617)	-	(362,617)	-
	(35,397)	(34,458)	(670,439)	(6,435)	(746,729)	(34,177)
Cash and cash equivalents at year end	$ 1,388,375	837,911	8,410,806	233,112	10,870,204	624,712

Exhibit I

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2017

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal
	Water	Wastewater	Electric	Sanitation	Total	Service Funds
Continued from previous page						
Non-cash investing, capital and financing activities:						
Current premium amortization, prior cash payment	$ -	-	11,338	-	11,338	-
Current discount amortization, prior cash receipt	-	-	(3,074)	-	(3,074)	-
Loss on sale of fixed assets	-	-	(31,960)		(31,960)	-
Donated Capital assets	188,476	-	-	-	188,476	-

See notes to financial statements.

(1) Summary of Significant Accounting Policies

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. It also provides water, sewer, electrical and sanitation utilities.

The financial statements of the City of Pella, Iowa, have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

While the South Central Regional Airport Agency did not fit the criteria to be included as a component unit, disclosure about the nature of the relationship and accountability is required. The City of Pella, City of Oskaloosa and Mahaska County have entered into a 28E Agreement known as the South Central Regional Airport Agency. The City of Pella appoints 3 of the 6 members on the board. Four votes are required for a majority to approve matters. Capital expenditures are reimbursed 90% by the Federal Aviation Authority, 5% by the City of Pella and 5% by the City of Oskaloosa. Operating expenditures are reimbursed 60% by the City of Pella and 40% by the City of Oskaloosa. The South Central Regional Airport Agency had a separate audit. Financial statements are available at the Pella City Hall, 825 Broadway Street, Pella, IA 50219 or the Oskaloosa City Hall, 220 S. Market St., Oskaloosa, IA 52577, 641-673-9431.

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 police officials are members of the following boards and commissions: Marion County Emergency Management Commission, Marion County E-911 Service Board, Mahaska County Emergency Management Commission and Mahaska County E-911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the City's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

(1) Summary of Significant Accounting Policies (continued from previous page)

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position 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 Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues from general and emergency levies and other revenues 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 expenditures, the fixed charges and the capital improvement costs not paid from other funds.

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

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

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Electric Fund is used to account for the operation and maintenance of the City's electricity production, procurement and transmission system.

In addition, the City reports the following fund types:

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

These non-major governmental funds are grouped for financial statement reporting purposes:

(1) Summary of Significant Accounting Policies (continued from previous page)

Special Revenue:

The Pella Business Corridor Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The High Point Tax Increment Financing fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Mills Farm Tax Increment Financing fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Road Use Tax fund is used to account for road construction and maintenance.

The Local Option Sales Tax fund is used to account for the revenues from the tax authorized by referendum and used for aquatic center, debt relief, capital improvements, equipment and community programs and services.

The Employee Benefits fund is used to account for property tax levied to finance the payment of employee benefits.

The Pella Clothing Bank, Police Reserve, Community Development Trust, Carnegie-Viersen Library Gift/Memorial, Pella Community Center Trust, Art Center Trust, Airport Trust, Police Asset Forfeiture, Soccer Complex, Community Gardens Trust, Community Service Scholarship Trust, Parks Development, and Carnegie-Viersen-Van Gorp Trust funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

(1) Summary of Significant Accounting Policies (continued from previous page)

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

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted 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 revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the modified accrual basis. The financial statements of the City are prepared by making memorandum adjusting entries to the modified accrual basis financial records.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Trade receivables – Trade receivables are recorded in the enterprise funds at the time the service is billed. Trade receivables for the enterprise funds are listed net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated each year. See note 3.

Inventories - Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2017 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

(1) Summary of Significant Accounting Policies (continued from previous page)

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2015 assessed property valuations; is for the tax accrual period July 1, 2016 through June 30, 2017 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2016.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include special purpose funds and customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets, which include property, equipment, vehicles and infrastructure assets acquired after July 1, 1980 (e.g. roads, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position and in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Capital assets are defined by the City as assets with an initial, individual cost in excess of $5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of five years.

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Roads	20-50
Wastewater, Water and Electrical Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the City after the measurement date but before the end of the City's reporting period.

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water, sewer and electric funds were financed with existing revenues, no interest on debt was incurred or capitalized.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be

(1) Summary of Significant Accounting Policies (continued from previous page)

paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2017.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Position and the proprietary fund Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System and the Municipal Fire and Police Retirement System (Systems') and additions to/deductions from Systems' fiduciary net position have been determined on the same basis as they are reported by Systems'. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or 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 which can be used only for specific purposes determined pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

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

(2) Cash, Cash Equivalents and Pooled Investments

The City's deposits in banks at June 30, 2017 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to 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.

The City's investments at June 30, 2017 are as follows:

Certificates of deposit	$	259,030
Iowa Public Agency Investment Trust		247,711
Money Market Liquid Funds		44,545
Government Bonds		374,048
Total	$	925,334

The investments in the Iowa Public Agency Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The investment in the Iowa Public Agency Investment Trust is rated unrated. The investments in Government Bonds are primarily invested in U.S. Treasury securities.

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

(3) Trade Accounts Receivable and Allowance for Uncollectibles

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Wastewater, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts 60 days or older and 50% of accounts 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Wastewater and Sanitation. Amounts are as follows: $272,900, $46,678, $42,302 and $18,365, respectively.

(4) Proprietary Revenues Net of Discounts and Allowances

Enterprise Fund	Gross Charges for Services	(Increase) Decrease in Allowance	Net Charges for Service
Water	$ 2,245,786	838	2,246,624
Wastewater	2,064,254	1,208	2,065,462
Electric	17,238,016	(2,273)	17,235,743
Sanitation	607,781	(170)	607,611
Total	$ 22,155,837	(397)	22,155,440

(5) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(6) Emission Credits

The Electric Fund earns emission credits throughout the year. These credits are expended if emissions are below EPA set requirements. The City has no cost in the credits; therefore, according to available accounting guidance, they have not been recorded in the financial statements. The credits are potentially saleable, however, and should the City's emissions be below acceptable levels, these credits would offset otherwise imposed costs. Emission credit activity and value of the unused credits for the year ended June 30, 2017 is as follows:

	Number of Credits					Value	
Credit Type	7/1/2016	Earned	Used/ Transferred	Bought/Sold	6/30/2017	Each	Total
SO2 (1 Ton)	8,492	0	0	0	8,492	$0.35	$ 2,972
SO2 (.5 Ton)	10,584	1,764	0	0	12,348	0.25	3,087
Total	19,076	1,764	0	0	20,840		$ 6,059

(7) Capital Assets

Capital assets activity for the year ended June 30, 2017 was as follows:

Primary Government: **Governmental activities:**	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	$ 7,088,894	15,000	-	7,103,894
Construction in progress:				
Oskaloosa St. project	1,469,123	1,216,087	2,685,210	-
Vermeer Trail	21,682	-	-	21,682
Washington St. Reconstruction	195,768	533,042	728,810	-
CAD-Record Management System	-	120,149	-	120,149
Permitting Software	-	2,127	-	2,127
Airport Rundway Rehab	-	17,977	-	17,977
Caldwell Park Improvements	-	52,018	-	52,018
Sunken Gardens Windmill	-	9,750	-	9,750
Elm St-Broadway to W. 3rd	-	58,922	-	58,922
Lincoln/E 3rd	-	29,903	-	29,903
Huber Cul-De-Sac	-	101,294	-	101,294
Wash/Hwy 163 Traffic Lights	-	6,000	-	6,000
Total capital assets not being depreciated	8,775,467	2,162,269	3,414,020	7,523,716
Capital assets being depreciated:				
Vehicles	1,870,983	231,012	-	2,101,995
Buildings and improvements	35,392,298	225,792	-	35,618,090
Machinery and equipment	6,599,951	108,130	126,241	6,581,840
Infrastructure	23,932,832	3,420,180	-	27,353,012
Total capital assets being depreciated	67,796,064	3,985,114	126,241	71,654,937
Less accumulated depreciation for:				
Vehicles	1,231,629	201,690	-	1,433,319
Buildings and improvements	8,834,600	949,768	-	9,784,368
Machinery and equipment	5,123,874	232,086	123,792	5,232,168
Infrastructure	9,792,219	688,592	-	10,480,811
Total accumulated depreciation	24,982,322	2,072,136	123,792	26,930,666
Total capital assets being depreciated net	42,813,742	1,912,978	2,449	44,724,271
Governmental activities capital assets, net	$ 51,589,209	4,075,247	3,416,469	52,247,987

(7) Capital assets (continued from previous page)

Business type activities:	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Water Fund:				
Capital assets not being depreciated:				
Land	$ 118,360	-	-	118,360
Construction in progress:				
Membrane Treatment Addition	3,609,164	4,829,610	-	8,438,774
Oskaloosa Main replacement	161,801	218,801	380,602	-
Washington St. reconstruction	113,942	76,964	190,906	-
Raw Water Main	2,733	1,445,900	1,448,633	-
Pella Corp Water Main Relocation	-	31,447	-	31,447
Elm St-Broadway to W 3rd	-	85,416	-	85,416
GAC Filter Sand Replacement	-	27,517	-	27,517
Total capital assets not being depreciated	4,006,000	6,715,655	2,020,141	8,701,514
Capital assets being depreciated:				
Buildings and improvements	12,806,384	495,329	-	13,301,713
Machinery and equipment	965,347	-	-	965,347
Furniture and fixtures	-	-	-	-
Vehicles	138,850	-	-	138,850
Infrastructure	6,561,385	2,400,203	-	8,961,588
Total capital assets being depreciated	20,471,966	2,895,532	-	23,367,498
Less accumulated depreciation for:				
Buildings and improvements	7,133,024	367,561	-	7,500,585
Machinery and equipment	809,410	48,326	-	857,736
Furniture and fixtures	-	-	-	-
Vehicles	109,344	9,989	-	119,333
Infrastructure	3,564,073	268,749	-	3,832,822
Total accumulated depreciation	11,615,851	694,625	-	12,310,476
Total capital assets being depreciated net	8,856,115	2,200,907	-	11,057,022
Water - capital assets, net	$ 12,862,115	8,916,562	2,020,141	19,758,536

(7) Capital assets (continued from previous page)

Wastewater Fund:	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	$ 907,049	-	-	907,049
Construction in Progress:				
Washington St. Sewer Main	64,527	48,102	112,629	-
Oskaloosa St. Sewer Main	43,623	191,012	234,635	-
Lincoln/E 3rd Sewer Main	-	3,866	-	3,866
Total capital assets not being depreciated	1,015,199	242,980	347,264	910,915
Capital assets being depreciated:				
Buildings and improvements	19,989,390	-	-	19,989,390
Machinery and equipment	825,800	38,493	-	864,293
Furniture and fixtures	3,900	-	-	3,900
Vehicles	323,874	-	-	323,874
Infrastructure	10,391,377	361,022	-	10,752,399
Total capital assets being depreciated	31,534,341	399,515	-	31,933,856
Less accumulated depreciation for:				
Buildings and improvements	14,453,914	521,519	-	14,975,433
Machinery and equipment	620,592	45,357	-	665,949
Furniture and fixtures	3,900	-	-	3,900
Vehicles	315,480	5,301	-	320,781
Infrastructure	5,508,622	376,208	-	5,884,830
Total accumulated depreciation	20,902,508	948,385	-	21,850,893
Total capital assets being depreciated net	10,631,833	(548,870)	-	10,082,963
Wastewater - capital assets, net	$ 11,647,032	(305,890)	347,264	10,993,878

(7) Capital assets (continued from previous page)

Electric Fund:	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated/amortized:				
Land	$ 881,078	-	-	881,078
Construction in progress:				
Diesel Tanks & Tower Support Painting	15,728	19,988	35,716	-
West Central Conversion	79,264	387,108	466,372	-
SCADA-Radio to Fiber Comm	124,470	-	124,470	-
69KV Ring Bus	910,182	2,591,625	-	3,501,807
Oostport Alley Conversion	-	6,756	-	6,756
East Substation Transformer	-	684,194	-	684,194
North Feeder	-	1,918	-	1,918
Vermeer Service Line	-	180,669	-	180,669
Total capital assets not being depreciated/amortized	2,010,722	3,872,258	626,558	5,256,422
Capital assets being depreciated/amortized:				
Buildings and improvements	11,500,444	35,716	39,301	11,496,859
Machinery and equipment	32,332,426	655,027	58,022	32,929,431
Furniture and fixtures	16,988	-	-	16,988
Vehicles	595,514	118,595	23,139	690,970
Intangibles	8,460,000	-	-	8,460,000
Total capital assets being depreciated/amortized	52,905,372	809,338	120,462	53,594,248
Less accumulated depreciation/amortization for:				
Buildings and improvements	3,223,446	292,114	16,867	3,498,693
Machinery and equipment	12,178,565	969,521	33,496	13,114,590
Furniture and fixtures	16,988	-	-	16,988
Vehicles	490,790	60,542	23,139	528,193
Intangibles	1,082,424	256,364	-	1,338,788
Total accumulated depreciation/amortization	16,992,213	1,578,541	73,502	18,497,252
Total capital assets being depreciated/amortized net	35,913,159	(769,203)	46,960	35,096,996
Electric-capital assets, net	$ 37,923,881	3,103,055	673,518	40,353,418

(7) Capital assets (continued from previous page)

Combining Schedule **Business type activities:**	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated/amortized:				
Land	$ 1,906,487	-	-	1,906,487
Construction in progress	5,125,434	10,830,893	(2,993,963)	12,962,364
Total capital assets not being depreciated/amortized	7,031,921	10,830,893	(2,993,963)	14,868,851
Capital assets being depreciated/amortized:				
Total capital assets being depreciated/amortized	104,911,679	4,104,385	(120,462)	108,895,602
Total accumulated depreciation/amortization	49,510,572	3,221,551	(73,502)	52,658,621
Total capital assets being depreciated/amortized (net)	55,401,107	882,834	(46,960)	56,236,981
Business type activities capital assets, net	$ 62,433,028	11,713,727	(3,040,923)	71,105,832

Depreciation was charged to functions of the primary government as follows:

Governmental activities:	
Public works	$ 934,502
Public safety	160,522
Culture and recreation	812,866
General government	164,246
Total depreciation expense - governmental activities	2,072,136
Business type activities:	
Water	$ 694,625
Wastewater	948,385
Electric	1,578,541
Total depreciation/amortization expense - business type activities	$ 3,221,551

(8) Long-Term Liabilities

The City currently has long-term debt obligations in the form of general obligation bonds and revenue bonds. The City does not have any special assessment debt. A summary of changes in long-term liabilities for the year ended June 30, 2017 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due in More than One Year
Governmental activities:						
General obligation bonds/notes (gross)	$ 3,405,000	-	615,000	2,790,000	630,000	2,160,000
Unamortized premiums	64,159	-	(9,745)	54,414	9,745	44,669
Unamortized discount	(9,452)	-	1,426	(8,026)	(1,426)	(6,600)
Total G.O. bonds payable, net	$ 3,459,707	-	606,681	2,836,388	638,319	2,198,069
Capital Lease	161,302	-	95,514	65,788	65,788	-
Compensated absences	609,723	156,027	121,945	643,805	128,761	515,044
Net pension liability	3,132,181	940,188		4,072,369	-	4,072,369
Net OPEB liability	106,857	25,329	9,608	122,578	-	122,578
Total governmental activities	$ 7,469,770	1,121,544	833,748	7,740,928	832,868	6,908,060
Business type activities:						
Revenue bonds/notes (gross)	$ 18,674,241	6,773,003	1,128,000	24,319,244	1,819,000	22,500,244
Unamortized premiums	105,473	-	11,338	94,135	11,338	82,797
Unamortized discount	(29,175)	-	(3,074)	(26,101)	(3,074)	(23,027)
Total revenue bonds payable, net	$ 18,750,539	6,773,003	1,136,264	24,387,278	1,827,264	22,560,014
Compensated absences	447,754	56,539	89,551	414,742	82,948	331,794
Net pension liability	1,521,904	347,798	-	1,869,702	-	1,869,702
Net OPEB liability	83,111	4,262	1,617	85,756	-	85,756
Total business type activities	$ 20,803,308	7,181,602	1,227,432	26,757,478	1,910,212	24,847,266

General Obligation Bonds and Capital Leases

Three issues of unmatured general obligation bonds/notes totaling $2,790,000 are outstanding at June 30, 2017. General obligation bonds/notes bear interest rates ranging from 1.85% to 4.10% per annum and mature in varying annual amounts, ranging from $135,000 to $390,000, with final maturities due in the year ending June 30, 2023.

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

The City entered into a capital lease agreement with Turfwerks for Bos Landen Irrigation System Improvements for a total of $329,167. The lease bears an interest rate of 3.59% and is payable monthly with monthly principal and interest payments beginning May 31, 2015 and ending October 31, 2017. Payments for the current fiscal year totaled $95,514.

(8) Long-Term Liabilities (continued from previous page)

Details of general obligation bonds and capital leases payable at June 30, 2017 are as follows:

Governmental activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2017
General and essential corporate purpose	2008A	3.90%	June 1, 2018	150,000	1,230,000	150,000
General and essential corporate purpose	2008B	4.00-4.10%	June 1, 2020	135,000-150,000	1,420,000	430,000
General and essential corporate purpose	2014	1.85-2.05-%	June 1, 2023	345,000-390,000	3,200,000	2,210,000
						2,790,000
Unamortized premiums						54,414
Unamortized discounts						(8,026)
Total governmental activities -General obligation bonds, net						2,836,388
Capital Lease Turfwerks	2014	3.59%	Oct. 31, 2017	65,788	329,167	65,788
Total governmental activities -G.O Bonds(net) & Capital leases						$ 2,902,176

A summary of the annual general obligation bond and capital lease principal and interest requirements to maturity by year is as follows:

Year ending June 30,	General Obligation Debt Principal	Interest	Total
2018	$ 630,000	67,098	697,098
2019	500,000	48,947	548,947
2020	515,000	35,975	550,975
2021	375,000	22,525	397,525
2022	380,000	15,025	395,025
2023	390,000	7,995	397,995
Total	$ 2,790,000	197,565	2,987,565

Year ending June 30,	Capital Lease Principal	Interest	Total
2018	$ 65,788	492	66,280
Total	$ 65,788	492	66,280

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
General Government G/O	2008A	1,230,000	On & after 6/1/2016
General Government G/O	2008B	1,420,000	On & after 6/1/2016
G/O LOSST Bonds	2014	3,200,000	June 1, 2021

(8) Long-Term Liabilities (continued from previous page)

Revenue Notes

Seven issues of unmatured revenue notes totaling $24,319,244 are outstanding at June 30, 2017. These notes bear interest at rates ranging from 1.75% to 3.10% per annum and mature in varying annual amounts ranging from $102,000 to $894,000 (estimated) with the final maturity due in the year ending June 30, 2034.

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

a) The notes will only be redeemed from the future net revenues of the enterprise activity and the note holders hold a lien on the future net revenues of the funds.

b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.

c) Separate water and wastewater improvement and replacement accounts have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions, repairs to the system, or principal or interest payments if necessary.

d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% for wastewater, not less than 125% for electric, and not less than 130% for water, of the amount of principal and interest on the notes falling due in the same year. Net revenues are defined as gross earnings after the deduction of current expenses; including the cost of operating, maintaining, repairing and insuring the system, purchases at wholesale, salaries, wages, and cost of materials and supplies. This excludes; the cost of depreciation, principal and interest payments, capital expenditures, franchise fees and transfers.

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

Details of revenue notes payable at June 30, 2017, are as follows:

Business type activites	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2017
Wastewater	1999	1.75%	June 1, 2021	$175,000-197,000	2,800,000	744,000
Wastewater	2000	1.75%	June 1, 2021	102,000-116,000	1,604,000	436,000
Wastewater	2000	1.75%	June 1, 2021	34,000-39,000	641,000	146,000
Wastewater SRF Drawdown	2014	3.00%	June 1, 2034	174,000-291,000	4,364,580	3,859,580
Water SRF Drawdown		1.75%			Not Final	12,838,664
Electric	2014	2.00-3.10%	June 1, 2025	300,000-375,000	3,500,000	2,660,000
Electric	2015	2.00-2.50%	June 1, 2026	370,000-460,000	4,000,000	3,635,000
						24,319,244
Unamortized discount						(26,101)
Unamortized premium						94,135
Total business type activities -Net revenue bonds						$ 24,387,278

(8) Long-Term Liabilities (continued from previous page)

A summary of annual revenue note principal and interest requirements to maturity are as follows:

	Enterprise Funds							
Year ended	Water (estimated)		Wastewater		Electric		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 664,000	265,440	485,000	139,455	670,000	150,377	1,819,000	555,272
2019	677,000	253,820	504,000	128,792	680,000	136,978	1,861,000	519,590
2020	691,000	241,973	523,000	117,706	700,000	123,377	1,914,000	483,056
2021	705,000	229,880	543,000	106,211	715,000	106,228	1,963,000	442,319
2022	719,000	217,543	197,000	94,290	735,000	88,677	1,651,000	400,510
2023-2027	3,816,000	811,055	1,087,000	378,330	2,795,000	167,968	7,698,000	1,357,353
2028-2032	4,212,000	546,403	1,276,000	203,700	-	-	5,488,000	750,103
2033-2035	1,354,664	146,160	570,580	25,920	-	-	1,925,244	172,080
Total	$ 12,838,664	2,712,274	5,185,580	1,194,404	6,295,000	773,605	24,319,244	4,680,283

Revenue notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Wastewater	1999	$ 2,800,000	Dec. 15, 2009
Wastewater	2000	1,604,000	Dec. 15, 2009
Wastewater	2000	641,000	Dec. 15, 2009
Wastewater	2011	4,364,580	Not subject to call
Water	2014	Longterm water suppy-final amount not determined	
Electric	2014	3,500,000	June 1, 2022
Electric	2015	4,000,000	June 1, 2023

The following is a summary of the transactions for revenue notes, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2017:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Water revenue notes	$ 6,065,661	6,773,003	-	12,838,664
Net water revenue notes	6,065,661	6,773,003	-	12,838,664
Sewer revenue notes	5,653,580	-	(468,000)	5,185,580
Net sewer revenue notes	5,653,580	-	(468,000)	5,185,580
Electric revenue notes	6,955,000	-	(660,000)	6,295,000
Unamortized discount	(29,175)	-	3,074	(26,101)
Unamortized premium	105,473	-	(11,338)	94,135
Net electric revenue notes	7,031,298	-	(668,264)	6,363,034
Total net revenue notes	$ 18,750,539	6,773,003	(1,136,264)	24,387,278

(8) Long-Term Liabilities (continued from previous page)

The $6,773,003 increase in water revenue notes is from the SRF loan fund. The water revenue note has taken a partial draw down on a loan that has been approved to be up to $15,819,000. Water revenue note interest and principal payments will be determined by the timing and extent of the actual funds borrowed. Principal and interest payments for the purpose of this report were based on the estimated amortization tables provided. Interest is estimated to be at 1.75% for up to 20 years. Costs also include a 0.25% annual services fee on the outstanding principal.

Long-term Debt Interest Expense - The long-term debt costs and interest, governmental activities, in the Statement of Activities in the amount of $80,057 is all direct debt costs and interest expense on long-term debt.

Loan discounts and premiums are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Discounts are presented as a reduction, premiums are presented as an increase to the face amount of bonds payable. The details of the discounts and premiums are listed in the previous schedules.

(9) Interfund Transfers

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The detail of interfund transfers for the year ended June 30, 2017 is as follows:

Transfer to:	Transfer from:	Amount
	Special Revenue:	
General	Employee Benefits	$ 908,873
	Sanitation	55,879
		964,752
Special Revenue:	Special Revenue:	
Road Use Tax	Local option sales tax	271,748
	Special Revenue:	
Debt Service	Pella Business Corridor- TIF	309,788
	Local option sales tax	391,125
	General	99,420
		800,333
Capital Projects	General	547,883
	Electric	18,254
	Water	18,254
	Wastewater	18,254
	Special Revenue:	
	Local option sales tax	249,298
	Road Use Tax	560,018
	Pella Business Corridor- TIF	639,514
		2,051,475
	Special Revenue:	
Wastewater	Pella Business Corridor- TIF	239,114
	Special Revenue:	
Water	Pella Business Corridor- TIF	295,766

(10) Net Position Restricted by Enabling Legislation

The components of Net Restricted Position listed in Exhibit A are as follows:

Restricted for:	Governmental Activities	Business Type Activities
Nonexpendable:		
Security deposit	$ -	70,000
Prepaid expenditures	1,045	-
Permanently restricted donation - Carnegie-Viersen Trust	40,000	-
Permanently restriction donation - Van Gorp Trust	100,000	-
Expendable:		
Debt service	17,092	-
Debt restricted - Electric Bond Reserve	-	1,033,164
Special purposes:		
TIF - Mills Farm	199	-
Road use	1,157,610	-
Local Option Sales Tax	1,344,898	-
Pella Clothing Bank	716	-
Police Reserve	1,217	-
Community Development	4,995	-
Library Gifts/Memorials	76,991	-
Pella Community Center	237	-
Art Center	16,030	-
Airport	39,332	-
Police Asset Forfeiture	27,919	-
Soccer Complex	171	-
Community Gardens Trust Fund	4,067	-
Community Service Scholarship Trust	364	-
Parks Development	21,786	-
Carnegie-Viersen Trust Earnings - Educational purposes	35,695	-
Carnegie-Viersen-Van Gorp Trust - Library operations and repairs	35,120	-
Van Gorp Trust Earnings - Information Windmill Repairs	4,425	-
Total net restricted funds/position	$ 2,929,909	1,103,164

(11) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by 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.

(11) Pension Plan (continued from previous page)

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

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

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

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

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

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

In the fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2017 totaled $400,422.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the City reported a liability of $3,850,956 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's collective proportion was 0.061751%, which was a decrease of 0.000789% from its proportions measured as of June 30, 2015.

(11) Pension Plan (continued from previous page)

For the year ended June 30, 2017, the City recognized pension expense of $428,873 related to IPERS. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 34,035	45,960
Changes of assumptions	58,754	-
Net difference between projected and actual earnings on IPERS investments	1,025,186	476,547
Changes in proportion and differences between City contributions and proportionate share of contributions	-	99,237
City contributions subsequent to the measurement date	400,422	-
Total	$ 1,518,397	621,744

$400,422 reported as deferred outflows of resources related to IPERS resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to IPERS will be recognized in pension expense as follows:

Year Ended June, 30	
2018	$ 46,351
2019	46,351
2020	261,822
2021	147,784
2022	(6,077)
	$ 496,231

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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 investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

(11) Pension Plan (continued from previous page)

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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	-0.26
Total	100%	

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proporationate share of the net pension liability	$ 6,230,326	$ 3,850,956	$ 1,842,737

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

Payables to IPERS - At June 30, 2017, the City reported payables to the IPERS of $31,860 for legally required City contributions and $21,228 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(12) 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 of Pella are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at www.mfprsi.org.

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

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

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

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

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

Death benefits are similar to disability benefits. Benefits for accidental death are 50 percent 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 9.4% of earnable compensation for the year ended June 30, 2017.

(12) Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued from previous page)

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 employer's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 25.92% for the year ended June 30, 2017.

The City's contributions to MFPRSI for the year ended June 30, 2017 was $245,716.

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

There were no state appropriations to MFPRSI during the fiscal year ended June 30, 2017.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the City reported a liability of $2,091,116 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the MFPRSI relative to the contributions of all MFPRSI participating employers. At June 30, 2016, the City's proportion was 0.334439% which was an increase of 0.005601% from its proportions measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized MFPRSI pension expense of $342,639. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 53,969	1,939
Changes of assumptions	88,288	28,643
Net difference between projected and actual earnings on MFPRSI investments	654,701	284,943
Changes in proportion and differences between City contributions and proportionate share of contributions	113,161	-
City contributions subsequent to the measurement date	245,716	-
Total	$ 1,155,835	315,525

$245,716 reported as deferred outflows of resources related to MFPRSI resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to MFPRSI will be recognized in pension expense as follows:

Year Ended June, 30	
2018	$ 67,608
2019	67,608
2020	322,775
2021	171,192
2022	(34,589)
	$ 594,594

(12) Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued from previous page)

Actuarial Assumptions The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation	3.00%
Salary Increases	4.50% to 15.00%, including inflation
Investment rate of return	7.50%, net pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Post retirement mortality rates were based on the RP2000 Blue Collar Combined Healthy Mortality Table with males set-back two years, females set-forward one year and disabled individuals set-forward one year (male only rates), with no projection of future mortality improvement.

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

Asset Class	Long-Term Expected Real Rate of Return
Large cap	6.0%
Small cap	5.8
International large cap	7.0
Emerging markets	8.8
Emerging market debt	6.5
Private non-core real estate	9.3
Master limited partnerships	8.5
Private equity	9.8
Core plus fixed income	3.8
Private core real estate	6.8
Treasury inflation protected securities	2.8
Tactical asset allocation	6.0

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 that 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 contribution 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 MRPRSI investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proporationate share of the net pension liability	$ 3,281,901	$ 2,091,116	$ 1,099,447

(12) Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued from previous page)

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

Payables to MFPRSI - At June 30, 2017, the City of Pella reported payables to the MFPRSI defined benefit pension plan of $19,494 for legally required employer contributions and $7,069 for legally required employee contributions which had been withheld from employee wages but not yet remitted to MFPRSI.

(13) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 86 eligible, 82 active and 4 retired members in the plan. General participants (IPERS) must be age 55 or older at retirement. Police participants (MFPRSI) must be age 55 or older with 22 years of service at retirement. Surviving spouse/dependents of retirees are allowed to remain on health coverage at their own expense until age 65.

The medical/prescription drug coverage is provided through a purchased high deductible health insurance plan and a partially self-funded plan where the City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2017, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	$	29,251
Interest on net OPEB obligation		7,599
Adjustment to annual required contribution		(7,259)
Annual OPEB cost		29,591
Contributions made		(11,225)
Increase in net OPEB obligation		18,366
Net OPEB obligation beginning of year		189,968
Net OPEB obligation end of year	$	208,334

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2014. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2017.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2017, the City contributed $4,544 toward the annual required OPEB contribution. It also funded 90% of the established premium toward active members' health coverage. Active members receiving benefits contributed $89,406, or 10% of the established premium, through their required contribution of $49.70 or $104.70 per month, depending on whether single or family coverage is elected. There were four retirees covered during the 2017 fiscal year.

(13) Other Postemployment Benefits (continued from previous page)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$ 24,155	4.4%	$ 45,156
June 30, 2011	20,780	4.4%	65,936
June 30, 2012	26,230	4.0%	92,166
June 30, 2013	30,195	4.0%	118,468
June 30, 2014	30,242	4.0%	140,061
June 30, 2015	29,449	4.0%	164,966
June 30, 2016	29,546	4.0%	189,968
June 30, 2017	29,591	4.0%	208,334

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2016 through June 30, 2017, the actuarial accrued liability was $231,346, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $231,346. The covered payroll (annual payroll of active employees covered by the plan) was approximately $5,910,000 and the ratio of the UAAL to covered payroll was 3.9%. As of June 30, 2017, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014, actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the City's funding policy. The projected annual medical trend rate is 7.0%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2014 Mortality Tables with Scale MP-2014, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2014 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2014.

The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(14) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for employees and Code Section 401 for the position of City Administrator. The 457 plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

(14) Deferred Compensation Plan (continued fro previous page)

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust of the exclusive benefit of plan participants and beneficiaries. These funds are invested and held by the ICMA-RA (International City County Management Association Retirement Corporation) and not by the City. Therefore, they are not listed as a liability of the City.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

(15) Related Party Transactions

The City had business transactions between the City and City officials totaling $498 during the year ended June 30, 2017. There were no related payables at June 30, 2017.

(16) Major Customer

During the year ended June 30, 2017, the City of Pella Municipal Electric Utility had two major customers. They purchased 16.47% and 12.26% of the electric operating revenues.

(17) Risk Management

Insurance - The City of Pella carries commercial insurance purchased from issuers for coverage associated with risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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.

Shared Funding/Partial Self-Funding Health Care Plan – The City of Pella entered into a 28E agreement on July 1, 2015, as allowed by Chapter 28E of the Code of Iowa which authorizes the joint exercise of governmental powers that would include a cooperative agreement to create and maintain a health benefit program. The participating agencies join together to form the Iowa Community Trust (ICT). ICT is a benefits trust for shared risk pooling among Public Employers in the State of Iowa. Its unique design allows entities to enter into the trust based on claims experience, plan design and demographics. The entities are then pooled at renewal, using total claims experience to develop renewal percentages.

ICT purchases a high deductible health insurance plan from Wellmark, Blue Cross/Blue Shield. The City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan.

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the City for claims incurred is limited by the spread between the deductibles and out-of-pocket maximums and those of the policy carried by the City. For 2017, the risk spread for singles was $2,950 per employee and for those with family coverage was $5,900 per employee. The total risk in 2017 was $439,550 if every employee hit their maximum out-of-pocket amounts.

At June 30, 2017, the plan held $658,889 cash and pooled investments. The actuarial estimate of the reserves necessary for the claims incurred but not yet paid was $35,364, which is listed as the accounts payable balance of the Internal Service Fund.

(18) Commitments

The City has entered into several contracts totaling $13,515,139. At June 30, 2017, $10,313,213 had been paid towards these contracts. The remaining amounts will be paid as work on the projects progresses.

Contracts	Contract Amount	Amount Paid	% Complete
RO Water Treatment Plant			
Eriksen Construction Co, Inc.	$ 8,858,473	7,144,023	81%
RO Waste & Raw Water Main			
Dave Schmitt Construction	1,282,525	1,218,398	95%
West Substation Ring Bus Conversion			
Primoris Aevenia, Inc	1,809,420	1,407,273	78%
Elm Street Reconstruction			
Blommers Construction	445,510	124,141	28%
Huber Street Cul-De-Sac			
TK Concrete	100,574	93,777	93%
Lincoln Street Construction			
Blommers Construction	373,026	16,960	5%
Vermeer Trail			
Garden & Associates, Ltd	94,800	21,682	23%
West Central Underground Conversion			
DGR Enginerring	88,100	79,760	91%
Elm Street Reconstruction			
Garden & Associates, Ltd	80,200	19,920	25%
Lincoln Street Construction			
Garden & Associates, Ltd	61,400	16,809	27%
Airport Runway & Taxiway Rehabilitation			
Garden & Associates, Ltd	56,966	16,489	29%
Pella Corp Water Main Relocation			
Veenstra & Kimm, Inc	32,100	30,943	96%
Cladwell Park Improvements			
Klingner & Associates, P.C.	78,145	60,638	78%
Wastewatter Treatment Plant Facility Planning			
Fox Engineering	57,000	18,000	32%
Wastewatter Treatment Plant Repairs			
Fox Engineering	53,900	13,950	26%
Wastewatter Collection System Services			
Fox Engineering	33,000	22,450	68%
ARC Flash Study Update-City Facilities			
DGR Enginerring	10,000	8,000	80%
	$ 13,515,139	10,313,213	

(18) Commitments (continued from previous page)

Other Contracts:		Expires:
Power Supply Agreement		
Missouri River Energy Services	Monthly charges	1/1/2057
Transmission Service Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
MISO Market Implementation Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
Dedicated Capacity Agreement		
Missouri River Energy Services	Monthly revenue	12/31/2018
Solid Waste Collection		
Kal Services, Inc.	per tote	7/31/2020

(19) Urban Renewal Development Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for infrastructure improvements, rehabilitation and development of commercial projects by the developer. The total to be paid by the City under the agreements is not to exceed $523,096. Certain agreements include provisions for the payment of interest.

During the year ended June 30, 2017, the City rebated $53,563 of incremental property tax to developers. The total cumulative principal amount rebated on the agreements is $138,022. The outstanding balance on the agreements at June 30, 2017 was $385,074.

The agreements are not general obligations of the City and, due to their nature, are not recorded as a liability in the City's financial statements. However, the agreements are subject to the constitutional debt limitation of the City.

All the City of Pella agreements include an annual appropriation clause and, accordingly, only the amount payable in the succeeding year on the agreements is subject to the constitutional debt limitation.

(20) Tax Abatements

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

City Tax Abatements

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

For the year ended June 30, 2017, the City abated $18,838 of property tax under the urban renewal and economic development projects.

(21) New Accounting Pronouncement

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

(22) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statements No. 75, *Accounting and Financial reporting for Postemployment Benefits Other Than Pensions*. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's other postemployment benefits.

Required Supplementary Information

City of Pella, Iowa
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances
Budget and Actual (Modified Accrual Basis)
Governmental and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2017

	Governmental Funds-Actual	Proprietary Funds-Actual	Total Actual	Original and Final	Final to Actual Variance
Revenues:					
Property taxes	$ 4,765,135	-	4,765,135	4,751,063	14,072
Tax increment financing	961,041	-	961,041	950,005	11,036
Other city taxes	1,562,474	-	1,562,474	1,487,745	74,729
Licenses and permits	116,866	-	116,866	82,857	34,009
Use of money and property	94,641	115,322	209,963	127,697	82,266
Intergovernmental	3,463,205	-	3,463,205	3,558,566	(95,361)
Charges for services	518,291	25,607,899	26,126,190	26,124,289	1,901
Special Assessments	-	-	-	-	-
Miscellaneous	80,515	392,660	473,175	1,806,320	(1,333,145)
Total revenues	11,562,168	26,115,881	37,678,049	38,888,542	(1,210,493)
Expenditures:					
Public safety	2,223,764	-	2,223,764	2,293,959	70,195
Public works	1,139,837	-	1,139,837	1,254,030	114,193
Culture and recreation	2,304,450	-	2,304,450	2,355,779	51,329
Community and economic development	698,006	-	698,006	712,382	14,376
General government	597,141	-	597,141	616,878	19,737
Debt service	800,333	-	800,333	800,333	-
Capital projects	3,049,898	-	3,049,898	4,206,399	1,156,501
Business type activities	-	34,859,381	34,859,381	35,288,644	429,263
Total expenditures	10,813,429	34,859,381	45,672,810	47,528,404	1,855,594
Excess (deficiency) of revenues over (under) expenditures	748,739	(8,743,500)	(7,994,761)	(8,639,862)	645,101
Other financing sources (uses):					
Operating transfers in	4,088,308	534,880	4,623,188	17,904,809	13,281,621
Operating transfers out	(4,512,547)	(110,641)	(4,623,188)	(17,904,809)	(13,281,621)
Unrealized gains(losses) on investments	(114)	(5,366)	(5,480)	-	5,480
Debt Proceeds	-	6,773,003	6,773,003	6,791,000	17,997
Net (loss) gain on sale of fixed assets	-	15,000	15,000	-	(15,000)
Proceeds from sale of assets	-	14,885	14,885	-	(14,885)
Total other financing sources	(424,353)	7,221,761	6,797,408	6,791,000	(6,408)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	324,386	(1,521,739)	(1,197,353)	(1,848,862)	651,509
Balance beginning of year	4,987,839	13,912,031	18,899,870	15,763,463	3,136,407
Balance end of year	$ 5,312,225	12,390,292	17,702,517	13,914,601	3,787,916

See the following page for GAAP to modified accrual conversion necessary for this comparison.

See accompanying independent auditor's report.

City of Pella, Iowa
Budgetary Comparison Schedule
Proprietary-GAAP to Modified Accrual Reconciliation
Required Supplementary Information
Year ended June 30, 2017

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	$ 26,304,357	(188,476)	26,115,881
Expenses:			
Business type activities	25,214,664	9,644,717	34,859,381
Excess (deficiency) of revenues under expenses	1,089,693	(9,833,193)	(8,743,500)
Other financing sources (uses):			
Operating transfers from other funds	534,880	-	534,880
Operating transfers (to) other funds	(110,641)		(110,641)
Net sale/purchase of fixed assets	14,885	-	14,885
Net (loss) gain on sale of fixed assets	(31,960)	46,960	15,000
Unrealized gains(losses) on investments	(5,366)	-	(5,366)
Debt proceeds	-	6,773,003	6,773,003
Total other financing sources (uses)	401,798	6,819,963	7,221,761
Increase in net positon	1,491,491	(3,013,230)	(1,521,739)
Beginning net position	56,075,434	(42,163,403)	13,912,031
Ending net position	$ 57,566,925	(45,176,633)	12,390,292

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting.

See accompanying independent auditor's report.

The budgetary comparison is presented as Required Supplementary Information in accordance with *Government 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 modified accrual 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, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

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

City of Pella, Iowa
Schedule of the City's Proportionate Share of the Net Pension Liability
Iowa Public Employee's Retirement System
For the Last Three Years* (In Thousands)
Required Supplementary Information

		2017	2016	2015
City's proportion of the net pension liability, IPERS		0.061751%	0.062540%	0.064427%
City's proportion of the net pension pension liability, IPERS	$	3,851	3,109	2,607
City's covered-employee payroll	$	4,391	4,311	4,306
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll		87.70%	72.12%	60.54%
Plan fiduciary net position as a percentage of the total pension liability		81.82%	85.19%	87.61%

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

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Pella, Iowa
Schedule of City Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years (In Thousands)
Required Supplementary Information

		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statutorily required contribution	$	400	392	385	385	362	380	315	321	285	260
Contributions in relation to the statutorily required contribution		(400)	(392)	(385)	(385)	(362)	(380)	(315)	(321)	(285)	(260)
Contribution deficiency (excess)	$	-	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	$	4,484	4,391	4,311	4,306	4,181	4,712	4,533	4,829	4,492	4,429
Contributions as a percentage of covered-employee payroll		8.92%	8.93%	8.93%	8.94%	8.66%	8.06%	6.95%	6.65%	6.34%	5.87%

See accompanying independent auditor's report.

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 percent per year measured from the member's first unreduced retirement age to a 6 percent 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 rated of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- 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.

City of Pella, Iowa
Schedule of the City's Proportionate Share of the Net Pension Liability
Municipal Fire and Police Retirement System of Iowa
For the Last Three Years* (In Thousands)
Required Supplementary Information

		2017	2016	2015
City's proportion of the net pension liability, MFPRSI		0.334439%	0.328838%	0.309936%
City's proportion of the net pension pension liability, MFPRSI	$	1,571	1,545	1,124
City's covered-employee payroll	$	906	862	791
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll		173.40%	179.23%	142.10%
Plan fiduciary net position as a percentage of the total pension liability		78.20%	83.04%	86.27%

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

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Pella, Iowa
Schedule of City Contributions
Municipal Fire and Police Retirement System of Iowa
Last 10 Fiscal Years (In Thousands)
Required Supplementary Information

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statutorily required contribution	$ 255	252	260	235	201	171	137	117	121	163
Contributions in relation to the statutorily required contribution	(255)	(252)	(260)	(235)	(201)	(171)	(137)	(117)	(121)	(163)
Contribution deficiency (excess)	$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	$ 983	906	862	791	745	731	698	683	636	641
Contributions as a percentage of covered-employee payroll	25.94%	27.81%	30.16%	29.71%	26.98%	23.39%	19.63%	17.13%	19.03%	25.43%

See accompanying independent auditor's report.

Changes of benefit terms:

There were no significant changes of benefit terms.

Changes of assumptions:

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

City of Pella, Iowa
Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2009	$ -	199,000	199,000	0.0%	$ 4,866,000	4.1%
2010	July 1, 2009	-	199,000	199,000	0.0%	4,259,187	4.7%
2011	July 1, 2009	-	199,000	199,000	0.0%	4,202,220	4.7%
2012	July 1, 2011	-	256,727	256,727	0.0%	4,543,545	5.7%
2013	July 1, 2011	-	256,727	256,727	0.0%	4,522,000	5.7%
2014	July 1, 2011	-	256,727	256,727	0.0%	4,450,076	5.8%
2015	July 1, 2014	-	231,346	231,346	0.0%	5,031,240	4.6%
2016	July 1, 2014	-	231,346	231,346	0.0%	5,352,243	4.3%
2017	July 1, 2014	-	231,346	231,346	0.0%	5,912,827	3.9%

See Note 13 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

Schedule 1

City of Pella, Iowa
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2017

	Special Revenue Funds									
	Pella Business Corridor Tax Increment Financing	Highpoint Tax Increment Financing	Mills Farm Tax Increment Financing	Road Use	Local Option Sales Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/Memorial
Assets										
Cash, cash equivalents and pooled investments	$ -	-	9,890	1,205,067	1,258,569	-	716	1,217	4,995	77,175
Receivable:										
Property tax:										
Delinquent	-	-	-	-	-	2,667	-	-	-	-
Succeeding year	-	-	-	-	-	901,376	-	-	-	-
Tax increment financing:										
Delinquent	-	-	1,344	-	-	-	-	-	-	-
Succeeding year	860,006	-	6,287	-	-	-	-	-	-	-
Local option sales tax	-	-	-	-	86,329	-	-	-	-	-
Accounts receivable, miscellaneous	-	-	-	3,436	-	-	-	-	-	1
Total assets	$ 860,006	-	17,521	1,208,503	1,344,898	904,043	716	1,217	4,995	77,176
Liabilities, Deferred Inflows of Resources and Fund Balances										
Liabilities:										
Excess of warrants over bank balance	$ -	-	-	-	-	2,667	-	-	-	-
Accounts payable	-	-	11,035	32,578	-	-	-	-	-	185
Salaries and benefits payable	-	-	-	18,315	-	-	-	-	-	-
Customer Deposits	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	11,035	50,893	-	2,667	-	-	-	185
Deferred inflows of resources:										
Unavailable revenues:										
Succeeding year property tax	-	-	-	-	-	901,376	-	-	-	-
Tax increment financing	860,006	-	6,287	-	-	-	-	-	-	-
Total deferred inflows of resources	860,006	-	6,287	-	-	901,376	-	-	-	-
Fund balances:										
Nonspendable:										
Permanent trust	-	-	-	-	-	-	-	-	-	-
Restricted for:										
Other purposes	-	-	199	1,157,610	1,344,898	-	716	1,217	4,995	76,991
Total fund balances	-	-	199	1,157,610	1,344,898	-	716	1,217	4,995	76,991
Total liabilities, deferred inflows of resources and fund balances	$ 860,006	-	17,521	1,208,503	1,344,898	904,043	716	1,217	4,995	77,176

See accompanying independent auditor's report.

Schedule 1

	Special Revenue Funds								Permanent Funds		
Pella Community Center	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Gardens Trust Fund	Community Service Scholarship Trust	Parks Development	Carnegie-Viersen-Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
237	16,095	39,332	27,919	171	4,524	364	21,871	35,695	75,120	104,424	2,883,381
-	-	-	-	-	-	-	-	-	-	-	2,667
-	-	-	-	-	-	-	-	-	-	-	901,376
-	-	-	-	-	-	-	-	-	-	-	1,344
-	-	-	-	-	-	-	-	-	-	-	866,293
-	-	-	-	-	-	-	-	-	-	-	86,329
-	-	-	-	-	-	-	-	-	-	1	3,438
237	16,095	39,332	27,919	171	4,524	364	21,871	35,695	75,120	104,425	4,744,828
-	-	-	-	-	-	-	-	-	-	-	2,667
-	65	-	-	-	32	-	85	-	-	-	43,980
-	-	-	-	-	-	-	-	-	-	-	18,315
-	-	-	-	-	425	-	-	-	-	-	425
-	65	-	-	-	457	-	85	-	-	-	65,387
-	-	-	-	-	-	-	-	-	-	-	901,376
-	-	-	-	-	-	-	-	-	-	-	866,293
-	-	-	-	-	-	-	-	-	-	-	1,767,669
-	-	-	-	-	-	-	-	-	40,000	100,000	140,000
237	16,030	39,332	27,919	171	4,067	364	21,786	35,695	35,120	4,425	2,771,772
237	16,030	39,332	27,919	171	4,067	364	21,786	35,695	75,120	104,425	2,911,772
237	16,095	39,332	27,919	171	4,524	364	21,871	35,695	75,120	104,425	4,744,828

Schedule 2

City of Pella, Iowa
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Non-Major Other Governmental Funds
Year ended June 30, 2017

	Special Revenue Funds									
	Pella Business Corridor Tax Increment Financing	Highpoint Tax Increment Financing	Mills Farm Tax Increment Financing	Road Use	Local option sales tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/ Memorial
Revenues:										
Property tax	$ -	-	-	-	-	869,737	-	-	-	-
Tax increment financing	950,006	-	11,035	-	-	-	-	-	-	-
Local option sales tax	-	-	-	-	1,050,492	-	-	-	-	-
Other City Taxes	-	-	-	-	-	2,976	-	-	-	-
Intergovernmental	-	-	-	1,285,135	308,246	34,992	-	-	-	14,585
Use of money and property	1,307	-	6	-	1,761	1,168	4	6	24	447
Charges for service	-	-	-	107	-	-	-	-	-	-
Miscellaneous	-	-	-	2,031	-	-	1,491	-	-	8,024
Total revenues	951,313	-	11,041	1,287,273	1,360,499	908,873	1,495	6	24	23,056
Expenditures:										
Operating:										
Public Safety	-	-	-	-	-	-	-	-	-	-
Public works	-	-	-	827,293	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	1,700	-	-	27,476
Community and economic development	42,612	-	11,035	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-	-	-	-	-
Total expenditures	42,612	-	11,035	827,293	-	-	1,700	-	-	27,476
Excess (deficiendcy) of revenues over (under) expenditures	908,701	-	6	459,980	1,360,499	908,873	(205)	6	24	(4,420)
Other financing sources (uses):										
Operating transfer in	-	-	-	271,748	-	-	-	-	-	-
Operating transfer (out)	(1,484,182)	-	-	(560,018)	(912,171)	(908,873)	-	-	-	-
Unrealized gains(losses) in investments	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(1,484,182)	-	-	(288,270)	(912,171)	(908,873)	-	-	-	-
Changes in fund balances	(575,481)	-	6	171,710	448,328	-	(205)	6	24	(4,420)
Fund balances beginning of year	575,481	-	193	985,900	896,570	-	921	1,211	4,971	81,411
Fund balances end of year	$ -	-	199	1,157,610	1,344,898	-	716	1,217	4,995	76,991

See accompanying independent auditor's report.

Schedule 2

Special Revenue Funds									Permanent Funds		
Pella Community Center	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Gardens Trust Fund	Community Service Scholarship Trust	Parks Develop-ment	Carnegie-Viersen-Van Gorp Trust Fund	Carnegie-Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
-	-	-	-	-	-	-	-	-	-	-	869,737
-	-	-	-	-	-	-	-	-	-	-	961,041
-	-	-	-	-	-	-	-	-	-	-	1,050,492
-	-	-	-	-	-	-	-	-	-	-	2,976
-	-	-	17,201	-	-	-	-	-	-	-	1,660,159
-	19	201	53	-	605	-	82	186	23	555	6,447
-	-	-	-	-	-	-	-	-	-	-	107
-	471	-	-	-	-	415	8,633	-	-	-	21,065
-	490	201	17,254	-	605	415	8,715	186	23	555	4,572,024
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	827,293
-	518	-	-	-	162	140	8,933	-	-	-	38,929
-	-	-	-	-	-	-	-	-	-	-	53,647
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	518	-	-	-	162	140	8,933	-	-	-	919,869
-	(28)	201	17,254	-	443	275	(218)	186	23	555	3,652,155
-	-	-	-	-	-	-	-	-	-	-	271,748
-	-	-	-	-	-	-	-	-	-	-	(3,865,244)
-	-	-	-	-	-	-	-	-	(114)	-	(114)
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	(114)	-	(3,593,610)
-	(28)	201	17,254	-	443	275	(218)	186	(91)	555	58,545
237	16,058	39,131	10,665	171	3,624	89	22,004	35,509	75,211	103,870	2,853,227
237	16,030	39,332	27,919	171	4,067	364	21,786	35,695	75,120	104,425	2,911,772

Schedule 3

City of Pella, Iowa
Schedule of Revenues by Sources and Expenditures by Function
All Governmental Funds
For the Last Ten Years

	Modified Accrual Basis									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues:										
Property tax	$ 4,765,135	4,538,229	4,562,415	4,309,539	3,851,629	3,804,765	3,740,164	3,844,577	3,420,082	2,863,107
Tax increment financing revenue	961,041	692,606	640,576	414,713	1,460,029	1,500,001	1,367,004	944,634	1,616,632	2,022,553
Local option sales tax	1,050,492	1,016,934	991,254	998,237	944,294	954,070	937,924	806,475	1,180,851	875,711
Other city tax	511,982	486,216	454,343	453,159	458,477	452,189	417,145	381,025	400,928	516,806
Licenses and permits	116,866	115,971	146,254	104,104	93,058	66,381	50,908	41,960	29,859	18,266
Use of money and property	94,641	72,658	54,895	55,121	49,831	58,294	54,493	65,787	117,224	158,941
Intergovernmental	3,463,205	3,458,536	2,355,494	1,982,474	1,764,581	2,741,810	2,324,156	2,064,034	1,709,321	1,622,953
Special assessments	-	-	-	-	-	-	-	-	-	-
Charges for service	518,291	511,267	400,671	411,515	405,978	446,540	385,197	460,177	492,108	411,384
Miscellaneous	80,515	583,979	2,229,312	2,080,350	1,190,810	161,446	99,958	125,394	112,268	170,369
Total	$ 11,562,168	11,476,396	11,835,214	10,809,212	10,218,687	10,185,496	9,376,949	8,734,063	9,079,273	8,660,090
Expenditures:										
Operating:										
Public safety	$ 2,223,764	2,151,634	2,132,520	1,971,557	1,847,144	1,778,204	1,743,896	1,551,122	1,538,082	1,568,486
Public works	1,139,837	1,135,503	1,188,040	1,133,579	1,114,288	1,110,420	1,126,308	1,122,410	1,101,806	1,037,294
Culture and recreation	2,304,450	2,396,826	2,079,499	2,070,076	1,909,927	1,725,022	1,797,234	1,687,573	1,815,563	1,645,610
Community and economic development	698,006	602,407	546,442	638,673	620,265	579,804	670,113	479,241	504,894	463,659
General government	597,141	616,807	566,714	534,095	520,791	500,472	583,175	468,360	450,969	344,179
Debt service	800,333	1,067,803	1,446,277	998,354	962,228	957,882	977,618	3,719,956	1,372,483	5,853,291
Capital projects	3,049,898	3,403,574	5,892,536	6,609,085	3,052,512	2,048,265	2,666,864	631,463	1,255,727	3,142,731
Total	$ 10,813,429	11,374,554	13,852,028	13,955,419	10,027,155	8,700,069	9,565,208	9,660,125	8,039,524	14,055,250

See accompanying independent auditor's report.

Schedule 4

City of Pella, Iowa
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

Grantor/Program	CFDA Number	Grant Number	Expenditures
Direct:			
U.S. Department of Justice			
Bulletproof Vest Partnership Program	16.607		$ 3,893
U.S. Department of Transportation:			
Airport Improvement Program	20.205		15,042
Total direct			18,935
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-5947(615)-70-63	888,656
Iowa Department of Public Safety:			
State and Community Highway Safety Grant	20.601	PAP 16-402, M0OP,Task 9	6,348
State and Community Highway Safety Grant	20.601	PAP 17-402, M0OP,Task 9	3,952
			10,300
U.S. Environmental Protection Agency:			
Iowa Finance Authority:			
Clean Water State Revolving Fund	66.458	LS6314DWSRF2012	6,773,003
Total indirect			7,671,959
Total			$ 7,690,894

See accompanying notes to schedule of expenditures of federal awards

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal awards activity of the City of Pella under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Pella, it is not intended to and does not present the financial position or cash flows of the City of Pella.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual or modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles on OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The City of Pella has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4. Federal Loan Outstanding

The City participates in the following loan program for which loan amounts and payments are not required to be included on the schedule of expenditures of federal awards.

CFDA #	Program	Outstanding Balance As of June 30, 2017
66.458	Clean Water State Revolving Fund	$16,698,244

See accompanying independent auditor's report.

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Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and Members of the City Council
City of Pella, Iowa:

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 Pella, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 22, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pella'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, 2017 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Pella's Responses to Findings

The City of Pella's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Pella'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 result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

November 22, 2017

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CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council
City of Pella, Iowa:

Report on Compliance for Each Major Federal Program

We have audited the City of Pella's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect its major federal programs for the year ended June 30, 2017. The City of Pella's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Pella's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pella's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination on the City of Pella's compliance.

Opinion on each Major Federal Program

In our opinion, the City of Pella complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The management of the City of Pella is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Pella's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

November 22, 2017

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

(a) Unmodified opinions were issued on the financial statements prepared in accordance with U.S. generally accepted accounting principles.

(b) No 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.

(d) No material weaknesses in internal control over the major programs were noted.

(e) An unmodified opinion was issued on compliance with requirements applicable to each major program.

(f) The audit disclosed no audit findings which were required to be reported in accordance with the Uniform Guidance, Section 200.516(a).

(g) The major programs were as follows:
- CFDA Number 20.205 – Highway Planning and Construction
- CFDA Number 66.458 – Clean Water State Revolving Fund

(h) The dollar threshold used to distinguish between Type A and Type B programs was $750,000.

(i) The City of Pella qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over major programs were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

(1) Certified Budget - Expenditures for the year ended June 30, 2017, did not exceed the budget.

(2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

(3) Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

(4) Business Transactions - Business transactions between the City and City officials or employees for the year ended June 30, 2017 are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Bruce Schiebout, Council Member Owner of Eagle Electric	Control Cabinet – Clark St. Substation	$353
Mark De Jong, Council Member Owner of De Jong Greenhouses through 12/31/16, now General Manager	Plants	$145

There were no related payables at June 30, 2017.

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

(6) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

(7) Council Minutes - No transactions were found that should have been approved in the Council Minutes but were not.

(8) Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.

(9) Annual Urban Renewal Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1, 2016.