

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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Des Moines, Iowa 50319-0006

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NEWS RELEASE

FOR RELEASE

March 10, 2021

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on City of Knoxville, Iowa.

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$13,762,653 for the year ended June 30, 2020, a 10.6% increase over the prior year. Disbursements for the year ended June 30, 2020 totaled \$15,419,601, a 1.4% increase over the prior year. The increase in receipts and disbursements is due primarily to the City's ongoing capital improvements. The City received bond proceeds in fiscal year 2020 for the purpose of undertaking street improvements, including the 2020 Highway 14 improvement project and the fiscal year 2021 pavement rehabilitation program. The increase in disbursements is mainly due to the airport improvement project.

AUDIT FINDINGS:

Sand reported fourteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 74 through 86 of this report. The findings address issues such as a lack of segregation of duties, misposting of material receipts, the lack of reconciliations of utility and rescue billings, collections and delinquent accounts, the lack of adequate support for credit card disbursements, and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

Ten of the fourteen findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

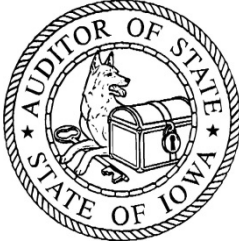
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CITY OF KNOXVILLE

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

JUNE 30, 2020

City of Knoxville



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STATE OF IOWA

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Telephone (515) 281-5834 Facsimile (515) 281-6518

February 24, 2021

Officials of the City of Knoxville
Knoxville, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Knoxville, Iowa for the year ended June 30, 2020. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Knoxville throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of Knoxville

Officials

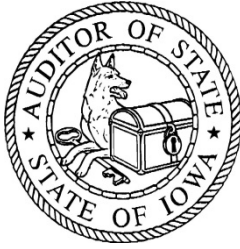
(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brian Hatch	Mayor	Jan 2020
James Lane	Mayor Pro tem	Jan 2020
Rick Kingery	Council Member	Jan 2020
Cal Stephens	Council Member	Jan 2020
Dylan Morse	Council Member	Jan 2022
Megan Suhr	Council Member	Jan 2022
Aaron Adam	City Manager	Indefinite
Heather Ussery	Assistant City Manager	Indefinite
Tricia Kincaid	City Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brian Hatch	Mayor	Jan 2022
Dylan Morse	Mayor Pro tem	Jan 2022
Megan Suhr	Council Member	Jan 2022
Jyl De Jong	Council Member	Jan 2024
John Gotta	Council Member	Jan 2024
Justin Plum	Council Member	Jan 2024
Aaron Adam	City Manager	Indefinite
Heather Ussery	Assistant City Manager	Indefinite
Tricia Kincaid	City Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite

City of Knoxville



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component units of the City of Knoxville, Iowa, as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include the financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require the financial data for the component units be reported with the financial data of the City's primary government unless the City also issues financial statements for the reporting entity which include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and cash balances of the aggregate discretely presented component units has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City of Knoxville as of June 30, 2020, or the changes in cash basis financial thereof for the year ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville as of June 30, 2020, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Knoxville'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 four years ended June 30, 2019 (which are not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. An adverse opinion was expressed on the financial statements of the aggregate discretely presented component units. The financial statements for the two years ended June 30, 2015 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. An adverse opinion was expressed on the financial statements of the aggregate discretely presented component units. The financial statements for the two years ended June 30, 2013 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. We also previously audited, in accordance with the standards referred to in the third paragraph of this report, the

financial statements for the year ended June 30, 2011 (which are not presented herein) and expressed unmodified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6, 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 directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. Because of the significance of the matter described in the “Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units” paragraph on the preceding page, it is inappropriate to, and we do not, express an opinion on the supplementary information.

The other information, the Budgetary Comparison Information, the Schedule of the City’s Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 46 through 55, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 24, 2021 on our consideration of the City of Knoxville’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Knoxville’s internal control over financial reporting and compliance.


Marlys K. Gaston, CPA
Deputy Auditor of State

February 24, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Knoxville 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, 2020. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2020 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 10.2%, or approximately \$981,000 from fiscal year 2019 to fiscal year 2020. Bond proceeds of approximately \$1,107,000 were received and property tax increased approximately \$292,000.
- Disbursements of the City's governmental activities decreased 24.9%, or approximately \$3,263,000 from fiscal year 2019 to fiscal year 2020. Public safety disbursements increased approximately \$220,000, while capital projects disbursements decreased approximately \$3,476,000.
- The City's total cash basis net position decreased 12.7%, or approximately \$1,657,000, from June 30, 2019 to June 30, 2020. Of this amount, the cash basis net position of the governmental activities increased approximately \$670,000 and the cash basis net position of the business type activities decreased approximately \$2,327,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

- 2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Sewer, Storm Water, and Airport Funds. The Sewer Fund is considered to be a major fund of the City. The Internal Service Fund provides information for the Self Insurance Fund.

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

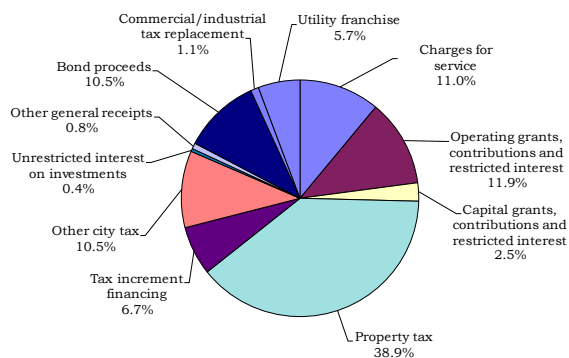
Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

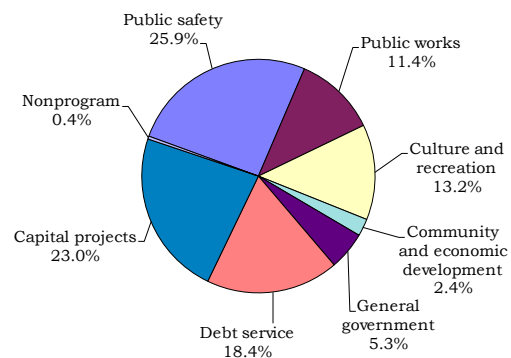
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$8.097 million to approximately \$8.767 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2020	2019
Receipts:		
Program receipts:		
Charges for service	\$ 1,165	1,228
Operating grants, contributions and restricted interest	1,258	1,124
Capital grants, contributions and restricted interest	261	974
General receipts:		
Property tax	4,110	3,818
Tax increment financing	705	554
Other city tax	1,113	1,039
Commercial/industrial tax replacement	114	113
Utility franchise	607	652
Unrestricted interest on investments	39	48
Bond proceeds	1,107	-
Other general receipts	87	35
Total receipts	10,566	9,585
Disbursements:		
Public safety	2,546	2,326
Public works	1,127	1,065
Culture and recreation	1,303	1,215
Community and economic development	232	234
General government	521	470
Debt service	1,815	2,025
Capital projects	2,269	5,745
Nonprogram	44	40
Total disbursements	9,857	13,120
Change in cash basis net position before transfers	709	6,023
Transfers, net	(39)	(39)
Change in cash basis net position	670	5,369
Cash basis net position beginning of year	8,097	11,672
Cash basis net position end of year	\$ 8,767	8,097

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 10.2%, or approximately \$981,000, over the prior year, primarily due to the receipt of approximately \$1,107,000 of bond proceeds during the year, offset by a decrease in capital grants of approximately \$713, or 73%, due to large sewer and sidewalk projects in fiscal year 2019, which resulted in approximately \$680,000 more in capital grant revenue during fiscal year 2019. The total cost of all programs and services decreased approximately \$3,263,000, or 24.9%, with no new programs added this year. The significant decrease in disbursement was primarily the result of decreased capital project payments, as the sewer and sidewalk projects either wound down or completed during the current fiscal year.

The City increased property tax rates for fiscal year 2020 an average of 6.82%. This increase raised the City's property tax receipts approximately \$292,000 in fiscal year 2020. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase 7.3%, or roughly \$741,386 next year.

The cost of all governmental activities this year was approximately \$9.9 million compared to approximately \$13.1 million last year. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$7.173 million because some of the cost was paid by those directly benefiting from the programs (approximately \$1,165,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,519,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2020 from approximately \$3,326,000 to approximately \$2,684,000.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2020	2019
Receipts:		
Program receipts:		
Charges for service	\$ 2,802	2,735
Capital grants, contributions and restricted interest	309	2
General receipts:		
Unrestricted interest on investments	44	48
Other general receipts	40	70
Total receipts	<u>3,195</u>	<u>2,967</u>
Disbursements:		
Sewer	2,249	1,715
Airport	3,100	357
Storm water	212	12
Total disbursements	<u>5,561</u>	<u>2,084</u>
Change in cash basis net position before transfers	(2,366)	771
Transfers, net	39	39
Change in cash basis net position	(2,327)	810
Cash basis net position beginning of year	<u>4,943</u>	<u>4,133</u>
Cash basis net position end of year	<u>\$ 2,616</u>	<u>4,943</u>

Total business type activities receipts for the fiscal year were approximately \$3.195 million compared to approximately \$2.967 million last year. This significant increase was due primarily to the receipt of approximately \$309,000 of reimbursements for airport improvement disbursements. The cash balance decreased approximately \$2.327 million compared to the prior year due to disbursements for the airport improvement project which will not be reimbursed until fiscal year 2021. Total disbursements for the fiscal year increased 167% to approximately \$5.561 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$8,364,151, an increase of \$615,653 above last year's total of \$7,748,498. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$171,500 compared to the prior year to a balance of \$1,687,919. Revenues increased \$17,151 and disbursements increased \$302,961 in fiscal year 2020, mainly due to an increase in public safety employee wages.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$91,703 to \$434,042. Receipts decreased by \$229,604 and expenditures increased by \$74,478. The decrease in receipts was due to reimbursements for a road project completed in fiscal year 2019.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased by \$125,610 to \$742,054. The decrease was attributable to approximately \$123,300 of local option sales tax transferred to the Capital Project Fund as part of a bike trail project.
- The Special Revenue, Urban Renewal Tax Increment Fund ended the year with a cash balance of \$885,578, an increase of \$513,167 over the previous year. This increase was mainly attributable to debt service disbursements decreasing by approximately \$260,000 in fiscal year 2020. In addition, an interfund loan of \$240,000 was transferred from the General Fund to the Urban Renewal Tax Increment Fund in fiscal year 2020.
- The Debt Service Fund cash balance increased \$116,589 to \$199,772. Revenues increased \$203,440 while expenditures increased by \$49,476. The increase in revenues was due to an increase in property tax in fiscal year 2020.
- The Capital Projects Fund cash balance increased \$293,418 over the previous year. The increase was the result of proceeds of \$1,106,757 from the issuance of a general obligation bond for a sidewalk project. Revenues and expenditures both decreased in fiscal year 2020 by \$427,974 and \$3,583,231, respectively. The decrease in revenues was mainly due to a library grant received during fiscal year 2019. The decrease in disbursements was mainly due to a library project and a sidewalk project that either wound down or were completed during fiscal year 2019.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance increased \$238,043, or 5.5%, to \$4,562,733. There were no significant changes in operating receipts or disbursements. Capital outlay disbursements increased \$504,660 over the prior year due to a sewer project that completed during the current fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget. The City's receipts were \$2,749,807 less than budgeted, a variance of 18.4%. This was primarily due to a delay in the receipt of an airport grant until the next fiscal year.

Total disbursements were \$3,344,537 less than budgeted. Actual disbursements for the capital projects, business type activities, debt service, public safety, and community and economic development functions were \$1,650,951, \$1,282,999, \$593,110, \$72,891 and \$21,310, respectively, less than budgeted.

The City exceeded the amounts budgeted in the public works, culture and recreation, and general government functions for the year ended June 30, 2020, primarily due to costs associated with the Highway 14 project, library building, and recreation center not being budgeted.

DEBT ADMINISTRATION

At June 30, 2020, the City had \$16,355,000 of bonds and other long-term debt outstanding, compared to \$17,204,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2020	2019
General obligation bonds	\$ 10,320	10,590
General obligation capital loan notes	320	320
Sewer revenue bonds	5,676	6,217
Capital lease	39	77
Total	\$ 16,355	17,204

Debt decreased during the year due to scheduled payments of principal due.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and tax increment financing debt of \$11,475,000, including the appropriated portion of the tax increment financing rebate agreements of \$796,000, is significantly below its constitutional debt limit of approximately \$17 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

City of Knoxville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2021 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 6.8% versus 2.2% a year ago. This compares with the State's unemployment rate of 6.8% and the national rate of 10.2%.

These indicators were taken into account when adopting the budget for fiscal year 2021. Budgeted receipts are approximately \$16.668 million and budgeted disbursements are approximately \$16.493 million.

If these estimates are realized, the City's cash balance is expected to decrease approximately \$1.196 million by the close of fiscal year 2021.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tricia Kincaid, City Clerk, 101 Main Street, Knoxville, Iowa 50138.

Basic Financial Statements

City of Knoxville

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2020

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,546,105	865,239	139,519	-
Public works	1,127,223	780	1,008,404	-
Culture and recreation	1,303,284	260,838	92,588	-
Community and economic development	231,933	31,731	5,083	-
General government	521,184	6,717	12,441	-
Debt service	1,814,891	-	2	-
Capital projects	2,269,249	-	-	261,544
Nonprogram	43,936	-	-	-
Total governmental activities	9,857,805	1,165,305	1,258,037	261,544
Business type activities:				
Sewer	2,249,565	2,438,467	-	-
Airport	3,100,017	73,325	-	309,167
Storm water	212,214	290,605	-	-
Total business type activities	5,561,796	2,802,397	-	309,167
Total	\$ 15,419,601	3,967,702	1,258,037	570,711
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Commercial/industrial tax replacement				
Utility franchise				
Bond Proceeds				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Permanent fund				
Expendable:				
Streets				
Debt service				
Capital projects and equipment				
Employee benefits				
Police retirement				
Other purposes				
Unrestricted				
Total cash basis net position				
See notes to financial statements.				

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

Governmental Activities	Business Type Activities	Total
(1,541,347)	-	(1,541,347)
(118,039)	-	(118,039)
(949,858)	-	(949,858)
(195,119)	-	(195,119)
(502,026)	-	(502,026)
(1,814,889)	-	(1,814,889)
(2,007,705)	-	(2,007,705)
(43,936)	-	(43,936)
(7,172,919)	-	(7,172,919)
-	188,902	188,902
-	(2,717,525)	(2,717,525)
-	78,391	78,391
-	(2,450,232)	(2,450,232)
(7,172,919)	(2,450,232)	(9,623,151)
2,776,123	-	2,776,123
1,333,538	-	1,333,538
705,342	-	705,342
1,036,803	-	1,036,803
76,485	-	76,485
114,126	-	114,126
606,630	-	606,630
1,106,757	-	1,106,757
39,256	44,276	83,532
87,002	39,865	126,867
(39,000)	39,000	-
7,843,062	123,141	7,966,203
670,143	(2,327,091)	(1,656,948)
8,096,984	4,942,684	13,039,668
\$ 8,767,127	2,615,593	11,382,720
\$ 286,646	-	286,646
434,042	-	434,042
845,350	777,040	1,622,390
3,506,686	688,610	4,195,296
241,465	-	241,465
413,337	-	413,337
948,706	-	948,706
2,090,895	1,169,943	3,260,838
\$ 8,767,127	2,635,593	11,402,720

City of Knoxville

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

As of and for the year ended June 30, 2020

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 1,675,132	-	-	-
Tax increment financing	-	-	-	705,342
Local option sales tax	-	-	1,036,803	-
Other city tax	116,765	-	-	-
Licenses and permits	640,953	-	-	-
Use of money and property	57,962	-	-	6,461
Intergovernmental	210,437	1,004,178	-	-
Charges for service	1,097,187	-	-	-
Special assessments	2,216	-	-	-
Miscellaneous	83,228	4,226	-	-
Total receipts	3,883,880	1,008,404	1,036,803	711,803
Disbursements:				
Operating:				
Public safety	1,996,884	-	-	-
Public works	30,342	960,422	-	-
Culture and recreation	1,096,829	-	-	-
Community and economic development	206,572	-	-	-
General government	445,753	-	-	-
Debt service	-	-	-	198,636
Capital projects	-	-	342,413	-
Total disbursements	3,776,380	960,422	342,413	198,636
Excess (deficiency) of receipts over (under) disbursements	107,500	47,982	694,390	513,167
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Transfers in	35,000	-	-	-
Transfers out	(314,000)	(139,685)	(820,000)	-
Total other financing sources (uses)	(279,000)	(139,685)	(820,000)	-
Change in cash balances	(171,500)	(91,703)	(125,610)	513,167
Cash balances beginning of year	\$ 1,859,419	525,745	867,664	132,411
Cash balances end of year	\$ 1,687,919	434,042	742,054	645,578
Cash Basis Fund Balances				
Nonspendable	\$ -	-	-	-
Restricted for:				
Streets	-	434,042	-	-
Debt service	-	-	-	645,578
Capital outlay	-	-	-	-
Employee benefits	-	-	-	-
Police retirement	-	-	-	-
Other purposes	-	-	742,054	-
Unassigned	1,687,919	-	-	-
Total cash basis fund balances	\$ 1,687,919	434,042	742,054	645,578

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
1,303,213	-	1,039,892	4,018,237
-	-	-	705,342
-	-	-	1,036,803
30,325	-	20,819	167,909
-	-	-	640,953
2	1,180	2,795	68,400
37,354	-	28,426	1,280,395
-	-	-	1,097,187
-	-	-	2,216
-	274,582	18,479	380,515
<u>1,370,894</u>	<u>275,762</u>	<u>1,110,411</u>	<u>9,397,957</u>
-	-	568,573	2,565,457
-	-	142,940	1,133,704
-	-	212,992	1,309,821
-	-	25,914	232,486
-	-	78,700	524,453
1,616,255	-	-	1,814,891
-	1,926,836	-	2,269,249
<u>1,616,255</u>	<u>1,926,836</u>	<u>1,029,119</u>	<u>9,850,061</u>
<u>(245,361)</u>	<u>(1,651,074)</u>	<u>81,292</u>	<u>(452,104)</u>
-	1,106,757	-	1,106,757
361,950	837,735	-	1,234,685
-	-	-	(1,273,685)
<u>361,950</u>	<u>1,944,492</u>	<u>-</u>	<u>1,067,757</u>
116,589	293,418	81,292	615,653
<u>83,183</u>	<u>3,213,268</u>	<u>1,066,808</u>	<u>7,748,498</u>
<u>199,772</u>	<u>3,506,686</u>	<u>1,148,100</u>	<u>8,364,151</u>
-	-	286,646	286,646
-	-	-	434,042
199,772	-	-	845,350
-	3,506,686	-	3,506,686
-	-	241,465	241,465
-	-	413,337	413,337
-	-	206,652	948,706
-	-	-	1,687,919
<u>199,772</u>	<u>3,506,686</u>	<u>1,148,100</u>	<u>8,364,151</u>

City of Knoxville

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Governmental Funds

As of and for the year ended June 30, 2020

Total governmental funds cash balances (page 19) \$ 8,364,151

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

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

402,976

Cash basis net position of governmental activities (page 17) \$ 8,767,127

Change in cash balances (page 19) \$ 615,653

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

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

54,490

Change in cash basis net position of governmental activities (page 17) \$ 670,143

See notes to financial statements.

City of Knoxville

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

As of and for the year ended June 30, 2020

	Enterprise			Internal Service
	Sewer	Nonmajor	Total	Self Insurance
Operating receipts:				
Use of money and property	\$ 7,795	73,325	81,120	\$ -
Charges for service	2,414,372	290,605	2,704,977	215,120
Miscellaneous	16,300	-	16,300	-
Total operating receipts	<u>2,438,467</u>	<u>363,930</u>	<u>2,802,397</u>	<u>215,120</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	65,211
Public works	-	-	-	21,838
Culture and recreation	-	-	-	22,025
Community and economic development	-	-	-	1,866
General government	-	-	-	11,013
Nonprogram	-	-	-	43,936
Business type activities	896,390	113,067	1,009,457	-
Total operating disbursements	<u>896,390</u>	<u>113,067</u>	<u>1,009,457</u>	<u>165,889</u>
Excess of operating receipts over operating disbursements	<u>1,542,077</u>	<u>250,863</u>	<u>1,792,940</u>	<u>49,231</u>
Non-operating receipts (disbursements):				
Intergovernmental	39,215	309,167	348,382	-
Interest on investments	44,276	-	44,276	5,259
Capital outlay	(655,813)	(3,199,164)	(3,854,977)	-
Debt service	(697,362)	-	(697,362)	-
Miscellaneous	650	-	650	-
Net non-operating receipts (disbursements)	<u>(1,269,034)</u>	<u>(2,889,997)</u>	<u>(4,159,031)</u>	<u>5,259</u>
Excess (deficiency) of receipts over (under) disbursements	<u>273,043</u>	<u>(2,639,134)</u>	<u>(2,366,091)</u>	<u>54,490</u>
Transfers:				
Transfers in	-	74,000	74,000	-
Transfers out	(35,000)	-	(35,000)	-
Total transfers in (out)	<u>(35,000)</u>	<u>74,000</u>	<u>39,000</u>	<u>-</u>
Change in cash balances	238,043	(2,565,134)	(2,327,091)	54,490
Cash balances beginning of year	4,324,690	617,994	4,942,684	348,486
Cash balances end of year	<u>\$ 4,562,733</u>	<u>(1,947,140)</u>	<u>2,615,593</u>	<u>\$ 402,976</u>
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 777,040	-	777,040	\$ -
Capital outlay	688,610	-	688,610	-
Unrestricted	3,117,083	(1,947,140)	1,169,943	402,976
Total cash basis fund balances	<u>\$ 4,582,733</u>	<u>(1,947,140)</u>	<u>2,635,593</u>	<u>\$ 402,976</u>

See notes to financial statements.

City of Knoxville

Notes to Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies

The City of Knoxville is a political subdivision of the State of Iowa located in the Marion County. It was first incorporated in 1855 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer utilities and airport services for its citizens.

A. Reporting Entity

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

These financial statements present the City of Knoxville (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although their operational or financial relationship with the City is significant.

Excluded Component Units

The Knoxville Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

The Fire/Rescue Association of Knoxville, Iowa was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The Association's Board of Trustees shall be a minimum of three and not more than seven in number.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marion County Assessor's Conference Board, Marion County Emergency Management Commission, Marion County Joint 911 Service Board, Marion County/Warren County Drug Task Force, Marion County for Public Safety Dispatch and Communications Operation and Central Iowa Regional Transportation Planning Alliance.

Related Organization

The City Council Members are also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

B. Basis of Presentation

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax and related construction projects authorized by local option sales tax resolution.

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

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

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

The City reports the following major proprietary fund:

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

The City also reports the following proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Property Taxes and Governmental Cash Basis Fund Balances

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

Property tax receipts recognized in these funds become due and collectible in September and March of the current fiscal year with a 1^{1/2}% per month penalty for delinquent payments; is based on January 1, 2018 assessed property valuations; is for the tax accrual period July 1, 2019 through June 30, 2020 and reflects tax asking contained in the budget certified to the City Council in March 2019.

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2020, disbursements exceeded the amounts budgeted in the public works, culture and recreation, and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

At June 30, 2020, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,212,056. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

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

(3) Long-Term Debt

Bonds and Notes

A summary of changes in bonds and notes payable for the year ended June 30, 2020 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Governmental activities:					
General obligation bonds/notes	\$ 10,910,000	1,060,000	1,330,000	10,640,000	1,340,000
Business type activities:					
Sewer revenue notes	\$ 6,217,000	-	541,000	5,676,000	554,000

General Obligation Bonds

A summary of the City's June 30, 2020 general obligation bonds payable is as follows:

Year Ending June 30,	Corporate Purpose and Refunding Series 2010C			Corporate Purpose Series 2013A		
	Issued Sep 20, 2010			Issued Jun 19, 2013		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2021	2.80%	\$ 270,000	15,960	1.50%	\$ 345,000	17,870
2022	3.00	280,000	8,400	1.70	355,000	12,695
2023		-	-	1.85	360,000	6,660
2024		-	-		-	-
2025		-	-		-	-
2026-2030		-	-		-	-
2031-2035		-	-		-	-
2036-2037		-	-		-	-
Total		<u>\$ 550,000</u>	<u>24,360</u>		<u>\$ 1,060,000</u>	<u>37,225</u>

Year Ending June 30,	Corporate Purpose and Refunding Series 2016A			Corporate Purpose Series 2018		
	Issued Jun 1, 2016			Issued Mar 20, 2018		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2021	2.00%	\$ 220,000	38,000	2.39%	\$ 350,000	180,038
2022	2.00	225,000	33,600	2.43	360,000	169,537
2023	2.00	230,000	29,100	2.51	375,000	158,738
2024	2.00	235,000	24,500	2.58	375,000	147,487
2025	2.00	240,000	19,800	2.68	395,000	136,238
2026-2030	2.00	750,000	30,200	2.79-3.07	2,015,000	499,387
2031-2035		-	-	3.14-3.34	1,300,000	237,975
2036-2037		-	-	3.37-3.40	580,000	30,625
Total		<u>\$ 1,900,000</u>	<u>175,200</u>		<u>\$ 5,750,000</u>	<u>1,560,025</u>

Year Ending June 30,	Corporate Purpose Series 2020 Issued Jun 17, 2020			Sewer Improvement Note Series 2010D Issued Nov 18, 2010		
	Interest			Interest		
	Rates	Principal	Interest	Rates	Principal	Interest
2021	2.00%	\$ -	20,258	2.70%	\$ 155,000	10,936
2022	2.00	-	21,200	2.70	80,000	4,456
2023	2.00	100,000	21,200	2.70	85,000	2,296
2024	2.00	100,000	19,200		-	-
2025	2.00	100,000	17,200		-	-
2026-2030	2.00	530,000	55,300		-	-
2031-2035	2.00	230,000	6,900		-	-
2036-2037		-	-		-	-
Total		<u>\$ 1,060,000</u>	<u>161,258</u>		<u>\$ 320,000</u>	<u>17,688</u>

Year Ending June 30,	Total		
	Principal	Interest	Total
2021	\$ 1,340,000	283,062	1,623,062
2022	1,300,000	249,888	1,549,888
2023	1,150,000	217,994	1,367,994
2024	710,000	191,187	901,187
2025	735,000	173,238	908,238
2026-2030	3,295,000	584,887	3,879,887
2031-2035	1,530,000	244,875	1,774,875
2036-2037	580,000	30,625	610,625
Total	<u>\$ 10,640,000</u>	<u>1,975,756</u>	<u>12,615,756</u>

On September 20, 2010, the City issued \$3,640,000 of general obligation bonds with interest rates ranging from 1.70% to 3.00% per annum. The bonds were issued for street and sidewalk improvements, sanitary sewer improvements, storm sewer improvements, water system improvements, park improvements, cemetery improvements, and for refunding the 2005B and 2005C bonds. During the year ended June 30, 2020, the City paid \$255,000 of principal and \$22,718 of interest on the bonds.

On May 15, 2012, the City issued \$1,235,000 of general obligation bonds with interest rates ranging from 1.00% to 1.80% per annum. The bonds were issued for the purpose of refunding the callable 2005A bonds. During the year ended June 30, 2020, the City paid \$185,000 of principal and \$3,300 of interest on the bonds.

On June 19, 2013, the City issued \$3,360,000 of general obligation bonds with interest rates ranging from 0.50% to 1.85% per annum. The bonds were issued for street and sidewalk improvements, sanitary sewer improvements, storm sewer improvements, and water system improvements. During the year ended June 30, 2020, the City paid \$340,000 of principal and \$21,950 of interest on the bonds.

On June 1, 2016, the City issued \$2,715,000 of general obligation bonds with an interest rate of 2.00% per annum. The bonds were issued for paying the callable portion of the 2007A general obligation capital loan note, constructing street improvements, including incidental water, sanitary sewer, sidewalk and storm water drainage infrastructure. During the year ended June 30, 2020, the City paid \$215,000 of principal and \$42,300 of interest on the bonds.

On March 20, 2018, the City issued \$6,280,000 of general obligation bonds with interest rates ranging from 2.21% to 3.40% per annum. The bonds were issued for constructing street, sanitary sewer, water system, storm water drainage and sidewalk improvements; constructing runway and hangar improvements at the municipal airport; and equipping and improving existing municipal parks. During the year ended June 30, 2020, the City paid \$335,000 of principal and \$190,088 of interest on the bonds.

On June 17, 2020, the City issued \$1,060,000 of general obligation bonds with an interest rate of 2.00% per annum. The bonds were issued for street improvements, including the 2020 Highway 14 improvement project and the fiscal year 2021 pavement rehabilitation program. During the year ended June 30, 2020, the City did not make any principal or interest payments.

On November 18, 2010, the City issued \$710,000 of general obligation storm sewer improvement notes with an interest rate of 2.70% per annum. The notes were issued for the purpose of paying the costs of constructing storm sewer improvements. During the year ended June 30, 2020, the City did not make any principal payments and paid \$4,320 of interest on the notes.

Revenue Bonds

A summary of the City’s June 30, 2020 revenue bonds payable is as follows:

Year Ending June 30,	Series 2010A Sewer Issued Feb 16, 2010			Series 2015A Sewer Refunding Issued Apr 23, 2015		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2021	3.00%	\$ 135,000	52,410	1.80%	\$ 275,000	52,990
2022	3.00	139,000	48,360	2.00	290,000	48,040
2023	3.00	144,000	44,190	2.20	300,000	42,240
2024	3.00	148,000	39,870	2.40	310,000	35,640
2025	3.00	153,000	35,430	2.60	320,000	28,200
2026-2030	3.00	843,000	105,270	2.80-3.00	685,000	30,380
2031	3.00	185,000	5,550		-	-
Total		\$ 1,747,000	331,080		\$ 2,180,000	237,490

Sewer Wastewater Treatment Issued Jun 19, 2015			Total		
Interest Rates	Principal	Interest	Principal	Interest	Total
1.75%	\$ 144,000	30,608	\$ 554,000	136,008	690,008
1.75	147,000	28,087	576,000	124,487	700,487
1.75	149,000	25,515	593,000	111,945	704,945
1.75	152,000	22,908	610,000	98,418	708,418
1.75	156,000	20,247	629,000	83,877	712,877
1.75	826,000	59,238	2,354,000	194,888	2,548,888
	175,000	3,062	360,000	8,612	368,612
	\$ 1,749,000	189,665	\$ 5,676,000	758,235	6,434,235

On February 16, 2010, the City entered into a state revolving loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$2,216,056 of sewer revenue bonds with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal sanitary sewer system of the City. During the year ended June 30, 2020, the City paid principal of \$130,000 and interest of \$56,310 on the bonds. At June 30, 2020, the outstanding principal balance was \$1,747,000.

On April 23, 2015, the City entered into an agreement with Bankers Trust Company for the issuance of sewer revenue refunding bonds of up to \$3,180,000 with interest rates ranging from 0.90% to 3.00% per annum. The agreement also requires the City to annually pay a \$500 servicing fee. The bonds were issued pursuant to the provisions of Chapter 384 of the Code of Iowa to pay the cost of a cross over advance refunding of the City's sewer revenue bonds, series 2008, dated December 10, 2008. During the year ended, June 30, 2020, the City paid principal of \$270,000 and interest of \$57,310 on the bonds. At June 30, 2020, the outstanding principal balance was \$2,180,000.

On June 19, 2015, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of sewer revenue bonds of up to \$2,518,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing certain wastewater treatment facilities. During the year ended June 30, 2020, the City paid principal of \$141,000 and interest of \$33,075 on the bonds. At June 30, 2020, the outstanding principal balance was \$1,749,000.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$7,693,056 of sewer revenue bonds/notes issued in February 2010, April 2015 and June 2015. The bonds/notes are payable solely from sewer customer net receipts and are payable through 2031. For the year ended June 30, 2020, annual principal and interest payments on the bonds/notes required 45% of net receipts. The total principal and interest remaining to be paid on the bonds/notes is \$6,434,235. For the current year, principal and interest paid and total customer net receipts were \$687,695 and \$1,542,077.

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

- (a) The bonds/notes will only be redeemed from the future earnings of the enterprise activity and the bond/note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond/note sinking accounts within the Enterprise Funds for the purpose of making the bond/note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a sewer reserve until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying, at maturity, principal and interest on the bonds/notes when insufficient money shall be available in the sinking account.
- (d) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the average annual installments or principal and interest on the bonds/notes falling due in the same year.

Capital Lease Purchase Agreement

The City entered into a capital lease purchase agreement to lease a rescue vehicle. The following is a schedule of the future minimum lease payments, including interest at 3.4% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2020:

Year ending June 30,	Amount
2021	\$ 40,427
Less amount representing interest	<u>(1,329)</u>
Present value of net minimum lease payments	<u>\$ 39,098</u>

(4) Pension Plan

Iowa Public Employees Retirement Plan

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

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

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

Protection occupation members may retire at normal retirement age, which is generally age 55 and may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

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

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

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

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

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

In fiscal year 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.61% of covered payroll and the City contributed 9.91% of covered payroll, for a total rate of 16.52%.

The City's contributions to IPERS for the year ended June 30, 2020 totaled \$181,535.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2020, the City reported a liability of \$1,071,025 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 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, 2019, the City's proportion was 0.018496%, which was decrease of 0.000084% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$253,251, \$223,392 and \$279,390, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

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

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2020 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of 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 7.00%, 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 (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 2,194,815	1,071,025	128,767

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

Municipal Fire and Police Retirement System of Iowa (MFPRSI)

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

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

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

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

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

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

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

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

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

Contributions – Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2020.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa, the City's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 24.41% for the year ended June 30, 2020.

The City's contributions to MFPRSI for the year ended June 30, 2020 totaled \$191,108.

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

There were no state appropriations to MFPRSI during the year ended June 30, 2020.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2020, the City reported a liability of \$1,651,820 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 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, 2019, the City's proportion was 0.251830%, which was a decrease of 0.018879% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City's pension expense, deferred outflows of resources and deferred inflows totaled \$351,930, \$330,091 and \$121,913, respectively.

Actuarial Assumptions – The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation	3.00%.
Salary increases	3.75 to 15.11% including inflation.
Investment rate of return	7.50% net of investment expense including inflation.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2007 through June 30, 2017.

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

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

Asset Class	Long-Term Expected Real Rate of Return
Large cap	5.5%
Small cap	5.8
International large cap	7.3
Emerging markets	9.0
Emerging markets debt	6.3
Private non-core real estate	8.0
Master limited partnerships	9.0
Private equity	9.0
Core plus fixed income	3.3
Private core real estate	6.0
Tactical asset allocation	6.4

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed contributions will be made at 9.40% of covered payroll and the City’s contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, the MFPRSI’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on MFPRSI’s investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 2,689,452	1,651,820	792,457

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

(5) 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. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2020, the City contributed \$502,283 and plan members eligible for benefits contributed \$102,672 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	5
Active employees	<u>51</u>
Total	<u>56</u>

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused holiday and vacation hours for subsequent use or for payment upon termination, retirement or death. City employees may also accumulate a limited amount of earned but unused sick leave hours for payment of subsequent health benefit cost upon retirement. The City allows employees to accumulate compensatory time during the fiscal year in lieu of overtime pay. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned holiday, vacation, sick leave and compensatory time payable to employees at June 30, 2020, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Holiday	\$ 38,000
Vacation	150,000
Sick leave	6,000
Compensatory time	50,000
Total	<u>\$ 244,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2020.

(7) Interfund Loans

An advance of \$240,000 was made during fiscal year 2019 from General Fund to the Capital Projects Fund to provide funding for an urban renewal project. The loan will be repaid from tax increment financing receipts transferred from the Special Revenue, Urban Renewal Tax Increment Fund to the General Fund, as receipts become available.

An advance of \$240,000 was made during fiscal year 2020 from the General Fund to the Special Revenue, Urban Renewal Tax Increment Fund to provide funding for an urban renewal project. The loan will be repaid from tax increment financing receipts transferred from the Special Revenue, Urban Renewal Tax Increment Fund to the General Fund, as receipts become available.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2020 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise: Sewer	<u>\$ 35,000</u>
Debt Service	Special Revenue: Local Option Sales Tax	<u>361,950</u>
Capital Projects	General	240,000
	Special Revenue: Road Use Tax	139,685
	Local Option Sales Tax	<u>458,050</u>
		<u>837,735</u>
Enterprise - Airport	General	74,000
Total		<u>\$ 1,308,685</u>

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

(9) Healthcare Facilities Revenue Bonds

In August 2014, the City issued a total of \$6,527,480 of revenue bonds and \$2,122,520 of revenue refunding bonds for the Knoxville Community Hospital under the provisions of Chapter 419 of the Code of Iowa, of which \$7,559,406 is outstanding at June 30, 2020. The bonds and related interest are payable solely from the revenues of the Knoxville Community Hospital and Clinic and the bond principal and interest do not constitute liabilities of the City.

(10) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 779 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2020 were \$158,926.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2020, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation in the amount of \$1,000,000 and airport liability in the amount of \$2,000,000. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Construction Contracts

At June 30, 2020, the City had entered into construction contracts totaling approximately \$5,953,000 for various projects. At June 30, 2020, these projects will require future payments of approximately \$2,225,000 upon completion.

(12) Development and Rebate Agreements

The City has entered into five development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental property tax paid by the developers in exchange for infrastructure improvements, rehabilitation and development of commercial projects constructed by the developers as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for a period ranging from five to fifteen years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. Certain agreements include provisions for payment of interest.

During the year ended June 30, 2020, the City rebated \$189,486 of incremental property tax to the developers. The outstanding principal balance on these agreements at June 30, 2020 is \$1,045,660.

No bonds or notes were issued for these projects. To the extent there is insufficient incremental property tax available on any payment date to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date without accruing any further interest.

These agreements are not a general obligation of the City. However, the debt payments in the succeeding year on four agreements with annual appropriation clauses and all of the amount to be rebated for the remaining agreement are subject to the constitutional debt limitation of the City.

(13) 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 receipts to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

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

For the year ended June 30, 2020, \$79,040 of property tax was diverted from the City under the urban renewal and economic development agreements.

(14) Employee Health Insurance Plan

The Internal Service, Self-Insurance Fund was established to account for the partial self-funding of the City's health insurance benefit plan. The plan is funded by both employee and City contributions and is administered through a service agreement with Employee Benefit Systems. The agreement is subject to automatic renewal provisions. The City assumes liability for claims up to the individual stop loss limitation of \$5,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Internal Service, Self-Insurance Fund are recorded as disbursements from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Group Services from the Internal Service, Self-Insurance Fund. The amount contributed by the City for the year ended June 30, 2020 was \$158,145.

(15) COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the City of Knoxville, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the City of Knoxville. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the City of Knoxville's operations and finances.

(16) Deficit Balance

The Enterprise, Airport Fund had a deficit balance of \$2,610,872 at June 30, 2020. The deficit was the result of costs incurred prior to the availability of funds. The deficit will be eliminated through project reimbursements from a Federal Aviation Administration grant.

(17) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 84, Fiduciary Activities. This statement will be implemented for the fiscal year ending June 30, 2021. The revised requirements of this statement will enhance the consistency and comparability of fiduciary activity reporting by state and local governments by establishing specific criteria for identifying fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities.

City of Knoxville

Other Information

City of Knoxville
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2020

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 4,018,237	-	4,018,237
Tax increment financing	705,342	-	705,342
Other city tax	1,204,712	-	1,204,712
Licenses and permits	640,953	-	640,953
Use of money and property	68,400	125,396	193,796
Intergovernmental	1,280,395	348,382	1,628,777
Charges for service	1,097,187	2,704,977	3,802,164
Special assessments	2,216	-	2,216
Miscellaneous	380,515	16,950	397,465
Total receipts	9,397,957	3,195,705	12,593,662
Disbursements:			
Public safety	2,565,457	-	2,565,457
Public works	1,133,704	-	1,133,704
Culture and recreation	1,309,821	-	1,309,821
Community and economic development	232,486	-	232,486
General government	524,453	-	524,453
Debt service	1,814,891	-	1,814,891
Capital projects	2,269,249	-	2,269,249
Business type activities	-	5,561,796	5,561,796
Total disbursements	9,850,061	5,561,796	15,411,857
Excess (deficiency) of receipts over (under) disbursements	(452,104)	(2,366,091)	(2,818,195)
Other financing sources, net	1,067,757	39,000	1,106,757
Change in balances	615,653	(2,327,091)	(1,711,438)
Balances beginning of year	7,748,498	4,942,684	12,691,182
Balances end of year	\$ 8,364,151	2,615,593	10,979,744

See accompanying independent auditor's report.

<u>Budgeted Amounts</u>	<u>Final to</u>
<u>Original/Final</u>	<u>Variance</u>
4,015,869	2,368
711,475	(6,133)
1,667,041	(462,329)
37,800	603,153
151,284	42,512
4,552,265	(2,923,488)
3,564,011	238,153
7,000	(4,784)
258,200	139,265
<u>14,964,945</u>	<u>(2,371,283)</u>
2,553,785	(11,672)
866,643	(267,061)
1,247,710	(62,111)
251,377	18,891
505,738	(18,715)
2,408,001	593,110
3,920,200	1,650,951
6,844,795	1,282,999
<u>18,598,249</u>	<u>3,186,392</u>
(3,633,304)	815,109
<u>1,500,000</u>	<u>(393,243)</u>
(2,133,304)	421,866
<u>10,134,722</u>	<u>2,556,460</u>
<u>8,001,418</u>	<u>2,978,326</u>

City of Knoxville

City of Knoxville

Notes to Other Information – Budgetary Reporting

June 30, 2020

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the City had no budget amendments.

During the year ended June 30, 2020, disbursements exceeded the amounts budgeted in the public works, culture and recreation, and general government functions.

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

For the Last Six Years*
 (In Thousands)

Other Information

Iowa Public Employees' Retirement System

	2020	2019	2018	2017
City's proportion of the net pension liability	0.018496%	0.018580%	0.018198%	0.018715%
City's proportionate share of the net pension liability	\$ 1,071	1,176	1,212	1,178
City's covered payroll	\$ 1,885	1,790	1,652	1,563
City's proportionate share of the net pension liability as a percentage of its covered payroll	56.81%	65.70%	73.37%	75.37%
IPERS' net position as a percentage of the total percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%

Municipal Fire and Police Retirement System of Iowa

	2020	2019	2018	2017
City's proportion of the net pension liability	0.251830%	0.270709%	0.269520%	0.276902%
City's proportionate share of the net pension liability	\$ 1,652	1,612	1,581	1,731
City's covered payroll	\$ 762	787	764	750
City's proportionate share of the net pension liability as a percentage of its covered payroll	216.80%	204.83%	206.94%	230.80%
MFPRSI's net position as a percentage of the total percentage of the total pension liability	79.94%	81.07%	80.60%	78.20%

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

See accompanying independent auditor's report.

2016	2015
0.017227%	0.016296%
851	646
1,469	1457
57.93%	44.34%
85.91%	87.61%

2016	2015
0.255162%	0.254700%
1,199	923
668	647
179.49%	142.66%
83.04%	86.27%

City of Knoxville
Schedule of City Contributions

For the Last Ten Years
(In Thousands)

Other Information

Iowa Public Employees' Retirement System

	2020	2019	2018	2017
Statutorily required contribution	\$ 181	181	163	150
Contributions in relation to the statutorily required contribution	(181)	(181)	(163)	(150)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	\$ 1,880	1,885	1,790	1,652
Contributions as a percentage of covered payroll	9.63%	9.60%	9.11%	9.08%

Municipal Fire and Police Retirement System of Iowa

	2020	2019	2018	2017
Statutorily required contribution	\$ 198	198	202	198
Contributions in relation to the statutorily required contribution	(198)	(198)	(202)	(198)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	\$ 783	762	787	764
Contributions as a percentage of covered payroll	25.29%	25.98%	25.67%	25.92%

See accompanying independent auditor's report.

2016	2015	2014	2013	2012	2011
142	134	133	118	110	101
(142)	(134)	(133)	(118)	(110)	(101)
-	-	-	-	-	-

1,563	1,469	1,457	1,324	1,322	1,453
9.09%	9.12%	9.13%	8.91%	8.32%	6.95%

2016	2015	2014	2013	2012	2011
208	203	195	157	143	112
(208)	(203)	(195)	(157)	(143)	(112)
-	-	-	-	-	-

750	668	647	601	578	562
27.73%	30.39%	30.14%	26.12%	24.74%	19.93%

City of Knoxville

Notes to Other Information – Pension Liability

Year ended June 30, 2020

Iowa Public Employees' Retirement System

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

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

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

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

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

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

City of Knoxville

Notes to Other Information – Pension Liability

Year ended June 30, 2020

Municipal Fire and Police Retirement System

Changes of benefit terms: There were no significant changes of benefit terms.

Changes of assumptions:

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

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

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

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

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

City of Knoxville

Supplementary Information

City of Knoxville

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

As of and for the year ended June 30, 2020

	Special				
	Employee Benefits	Police Retirement	Urban Revitalization	Revolving Loan	Police Trust
Receipts:					
Property tax	\$ 810,970	223,283	-	-	-
Other city tax	20,819	5,639	-	-	-
Use of money and property	776	1,373	-	-	256
Intergovernmental	28,397	-	-	-	-
Miscellaneous	-	-	-	-	1,180
Total receipts	860,962	230,295	-	-	1,436
Disbursements:					
Operating:					
Public safety	367,532	191,108	-	-	9,933
Public works	142,940	-	-	-	-
Culture and recreation	210,658	-	-	-	-
Community and economic development	25,914	-	-	-	-
General government	78,700	-	-	-	-
Total disbursements	825,744	191,108	-	-	9,933
Excess (deficiency) of receipts over (under) disbursements	35,218	39,187	-	-	(8,497)
Change in cash balances	35,218	39,187	-	-	(8,497)
Cash balances beginning of year	206,247	374,150	3,906	115,745	20,011
Cash balances end of year	\$ 241,465	413,337	3,906	115,745	11,514
Cash Basis Fund Balances					
Nonspendable					
Cemetery perpetual care	\$ -	-	-	-	-
Restricted for:					
Employee benefits	241,465	-	-	-	-
Police retirement	-	413,337	-	-	-
Other purposes	-	-	3,906	115,745	11,514
Total cash basis fund balances	\$ 241,465	413,337	3,906	115,745	11,514

See accompanying independent auditor's report.

Revenue					Permanent	
Fire Rescue Donations	Library Gifts/ Memorials	Auld Park Playground Trust	I-Jobs	Cemetery Perpetual Care		Total
-	-	-	-	-	-	1,034,253
-	-	-	-	-	-	26,458
182	115	-	-	93	-	2,795
-	-	29	-	-	-	28,426
2,633	8,675	-	-	5,991	-	18,479
2,815	8,790	29	-	6,084	-	1,110,411
-	-	-	-	-	-	568,573
-	-	-	-	-	-	142,940
-	2,334	-	-	-	-	212,992
-	-	-	-	-	-	25,914
-	-	-	-	-	-	78,700
-	2,334	-	-	-	-	1,029,119
2,815	6,456	29	-	6,084	-	81,292
2,815	6,456	29	-	6,084	-	81,292
11,745	17,046	34,305	3,091	280,562	-	1,066,808
14,560	23,502	34,334	3,091	286,646	-	1,148,100
-	-	-	-	286,646	-	286,646
-	-	-	-	-	-	241,465
-	-	-	-	-	-	413,337
14,560	23,502	34,334	3,091	-	-	206,652
14,560	23,502	34,334	3,091	286,646	-	1,148,100

City of Knoxville

City of Knoxville

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

As of and for the year ended June 30, 2020

	Enterprise		
	Storm Water	Airport	Total
Operating receipts:			
Use of money and property	\$ -	73,325	73,325
Charges for service	290,605	-	290,605
Total operating receipts	290,605	73,325	363,930
Operating disbursements:			
Business type activities	2,413	110,654	113,067
Excess (deficiency) of operating receipts over (under) operating disbursements	288,192	(37,329)	250,863
Non-operating receipts (disbursements):			
Federal Aviation Administration grant	-	309,167	309,167
Capital outlay	(209,801)	(2,989,363)	(3,199,164)
Net non-operating receipts (disbursements)	(209,801)	(2,680,196)	(2,889,997)
Excess (deficiency) of receipts over (under) disbursements	78,391	(2,717,525)	(2,639,134)
Transfers:			
Transfers in	-	74,000	74,000
Change in cash balances	78,391	(2,643,525)	(2,565,134)
Cash balances beginning of year	585,341	32,653	617,994
Cash balances end of year	\$ 663,732	(2,610,872)	(1,947,140)
Cash Basis Fund Balances			
Unrestricted	\$ 663,732	(2,610,872)	(1,947,140)

See notes to financial statements.

City of Knoxville
Schedule of Indebtedness
Year ended June 30, 2020

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Corporate purpose and refunding series 2010C	Sep 20, 2010	1.70-3.00%	\$ 3,640,000
Refunding series 2012A	May 15, 2012	1.00-1.80	1,235,000
Corporate purpose series 2013A	Jun 19, 2013	0.50-1.85	3,360,000
Corporate purpose and refunding series 2016A	Jun 1, 2016	2.00	2,715,000
Corporate purpose series 2018	Mar 20, 2018	2.21-3.40	6,280,000
Sewer improvement series 2010D	Nov 18, 2010	2.70	710,000
Corporate purpose series 2020A	Jun 17, 2020	2.00	1,060,000
Total			
Revenue bonds:			
Sewer series 2010A	*Feb 16, 2010	3.00%	\$ 2,216,056
Sewer refunding series 2015A	Apr 23, 2015	0.90-3.00	3,180,000
Sewer wasterwater treatment	*Jun 19, 2015	1.75	2,297,000
Total			
Capital lease:			
Ambulance	Jun 16, 2016	3.40%	\$ 186,110

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
805,000	-	255,000	550,000	22,718
185,000	-	185,000	-	3,300
1,400,000	-	340,000	1,060,000	21,950
2,115,000	-	215,000	1,900,000	42,300
6,085,000	-	335,000	5,750,000	190,088
320,000	-	-	320,000	4,320
-	1,060,000	-	1,060,000	-
\$ 10,910,000	1,060,000	1,330,000	10,640,000	284,675
1,877,000	-	130,000	1,747,000	56,310
2,450,000	-	270,000	2,180,000	57,310
1,890,000	-	141,000	1,749,000	33,075
6,217,000	-	541,000	5,676,000	146,695
76,911	-	37,812	39,098	2,615

City of Knoxville
 Bond and Note Maturities
 June 30, 2020

<u>General Obligation</u>							
Year Ending June 30,	<u>Corporate Purpose and Refunding</u>		<u>Series 2013A Corporate Purpose</u>		<u>Series 2016A Corporate Purpose and Refunding</u>		
	<u>Issued Sep 20, 2010</u>		<u>Issued Jun 19, 2013</u>		<u>Issued Jun 1, 2016</u>		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2021	2.80%	\$ 270,000	1.50%	\$ 345,000	2.00%	\$ 220,000	
2022	3.00	280,000	1.70	355,000	2.00	225,000	
2023		-	1.85	360,000	2.00	230,000	
2024		-		-	2.00	235,000	
2025		-		-	2.00	240,000	
2026		-		-	2.00	245,000	
2027		-		-	2.00	250,000	
2028		-		-	2.00	255,000	
2029		-		-		-	
2030		-		-		-	
2031		-		-		-	
2032		-		-		-	
2033		-		-		-	
2034		-		-		-	
2035		-		-		-	
2036		-		-		-	
2037		-		-		-	
Total		<u>\$ 550,000</u>		<u>\$ 1,060,000</u>		<u>\$ 1,900,000</u>	

<u>Revenue Bonds</u>					
Year Ending June 30,	<u>Series 2010A Sewer</u>			<u>Series 2015A Sewer Refunding</u>	
	<u>Issued Feb 16, 2010</u>			<u>Issued Apr 23, 2015</u>	
	Interest Rates	Amount	Interest Rates	Amount	
2021	3.00%	\$ 135,000	1.80%	\$ 275,000	
2022	3.00	139,000	2.00	290,000	
2023	3.00	144,000	2.20	300,000	
2024	3.00	148,000	2.40	310,000	
2025	3.00	153,000	2.60	320,000	
2026	3.00	158,000	2.80	335,000	
2027	3.00	163,000	3.00	350,000	
2028	3.00	168,000		-	
2029	3.00	174,000		-	
2030	3.00	180,000		-	
2031	3.00	185,000		-	
Total		<u>\$ 1,747,000</u>		<u>\$ 2,180,000</u>	

See accompanying independent auditor's report.

<u>Bonds</u>				<u>General Obligation Notes</u>			
<u>Series 2018</u>		<u>Series 2020</u>		<u>Series 2010D</u>			
<u>Corporate Purpose</u>		<u>Corporate Purpose</u>		<u>Sewer Improvement Note</u>			
<u>Issued Mar 20, 2018</u>		<u>Issued June 17, 2020</u>		<u>Issued Nov 18, 2010</u>			
Interest		Interest		Interest			
Rates	Amount	Rates	Amount	Rates	Amount	Total	
2.39%	\$ 350,000	2.00%	\$ -	2.70%	\$ 155,000	1,340,000	
2.43	360,000	2.00	-	2.70	80,000	1,300,000	
2.51	375,000	2.00	100,000	2.70	85,000	1,150,000	
2.58	375,000	2.00	100,000	-	-	710,000	
2.68	395,000	2.00	100,000	-	-	735,000	
2.79	405,000	2.00	100,000	-	-	750,000	
2.87	410,000	2.00	105,000	-	-	765,000	
2.94	425,000	2.00	105,000	-	-	785,000	
3.01	385,000	2.00	110,000	-	-	495,000	
3.07	390,000	2.00	110,000	-	-	500,000	
3.14	245,000	2.00	115,000	-	-	360,000	
3.21	250,000	2.00	115,000	-	-	365,000	
3.27	260,000	-	-	-	-	260,000	
3.31	270,000	-	-	-	-	270,000	
3.34	275,000	-	-	-	-	275,000	
3.37	285,000	-	-	-	-	285,000	
3.40	295,000	-	-	-	-	295,000	
	<u>\$ 5,750,000</u>		<u>\$ 1,060,000</u>		<u>\$ 320,000</u>	<u>10,640,000</u>	

<u>Sewer</u>		
<u>Wastewater Treatment</u>		
<u>Issued Jun 19, 2015</u>		
Interest		
Rates	Amount	Total
1.75%	\$ 144,000	554,000
1.75	147,000	576,000
1.75	149,000	593,000
1.75	152,000	610,000
1.75	156,000	629,000
1.75	159,000	652,000
1.75	162,000	675,000
1.75	165,000	333,000
1.75	168,000	342,000
1.75	172,000	352,000
1.75	175,000	360,000
	<u>\$ 1,749,000</u>	<u>5,676,000</u>

City of Knoxville

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2020	2019	2018	2017
Receipts:				
Property tax	\$ 4,018,237	3,725,933	3,278,739	3,244,449
Tax increment financing	705,342	554,290	605,296	571,856
Local option sales tax	1,036,803	976,998	881,054	965,912
Other city tax	167,909	154,071	165,729	171,605
Licenses and permits	640,953	724,703	669,066	653,541
Use of money and property	68,400	78,138	56,769	41,068
Intergovernmental	1,280,395	1,747,137	1,818,141	1,107,919
Charges for service	1,097,187	1,053,792	926,035	870,382
Special assessments	2,216	22,676	4,136	5,451
Miscellaneous	380,515	491,587	528,048	705,729
Total	\$ 9,397,957	9,529,325	8,933,013	8,337,912
Disbursements:				
Operating:				
Public safety	\$ 2,565,457	2,342,047	2,263,598	2,135,749
Public works	1,133,704	1,072,731	1,790,243	847,096
Health and social services	-	-	-	-
Culture and recreation	1,309,821	1,221,450	1,282,690	1,144,213
Community and economic development	232,486	234,584	250,107	245,541
General government	524,453	473,045	446,103	465,034
Debt service	1,814,891	2,025,268	1,934,567	1,685,972
Capital projects	2,269,249	5,744,964	1,439,095	1,736,599
Total	\$ 9,850,061	13,114,089	9,406,403	8,260,204

See accompanying independent auditor's report.

2016	2015	2014	2013	2012	2011
3,163,894	2,952,466	2,908,791	2,822,795	2,875,400	2,711,600
516,947	531,120	354,277	242,252	318,340	320,902
857,197	852,184	753,295	672,951	692,840	691,182
179,984	832,504	823,177	547,177	76,987	180,283
661,710	84,821	29,897	20,168	42,818	21,320
35,683	36,753	50,721	5,753	3,884	65,552
1,196,943	951,196	825,512	999,335	939,941	1,690,173
964,298	969,587	872,637	909,812	873,937	745,648
6,279	7,497	7,693	6,247	2,756	7,433
245,553	370,466	267,730	286,362	206,141	203,690
7,828,488	7,588,594	6,893,730	6,512,852	6,033,044	6,637,783
2,351,445	2,274,531	1,839,305	1,744,882	1,587,150	1,589,674
1,190,738	748,405	776,841	787,203	984,298	860,317
-	-	-	-	-	18,477
1,153,498	1,095,737	1,070,274	1,032,710	1,045,852	1,124,962
588,485	351,878	193,813	222,805	214,944	55,290
544,330	523,097	458,176	506,108	556,329	577,811
1,510,074	1,558,643	1,511,847	878,514	1,376,919	1,246,308
1,544,971	1,425,184	2,282,626	1,579,394	1,632,554	2,759,921
8,883,541	7,977,475	8,132,882	6,751,616	7,398,046	8,232,760

City of Knoxville

City of Knoxville
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2020

Grantor/Program	CFDA Number	Pass-through Entity Identifying Number	Program Expenditures
Direct:			
U.S. Department of Transportation: Airport Improvement Program	20.106	3-19-0051-016-2019	<u>\$ 2,369,884</u>
Indirect:			
Federal Emergency Management Agency: COVID-19 - Disaster Grants - Public Assistance, Presidentially Declared Disasters: COVID-19 Cost Recovery	97.036	70-0702-0-1-453	<u>18,740</u>
Iowa Department of Public Safety - Governor's Traffic Safety Bureau:			
State and Community Highway Safety Grant	20.600	19-405d-MGOT Task 23-00-00	1,867
State and Community Highway Safety Grant	20.600	20-405-M60T-00-00	<u>985</u>
			<u>2,852</u>
Total indirect			<u>21,592</u>
Total			<u>\$ 2,391,476</u>

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of City of Knoxville under programs of the federal government for the year ended June 30, 2020. 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, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Knoxville, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Knoxville.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate – The City of Knoxville has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.



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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information and the discretely presented component units of the City of Knoxville, Iowa, as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 24, 2021. Our report expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Knoxville'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 which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

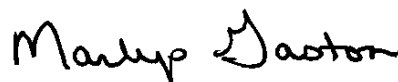
The City of Knoxville's Responses to the Findings

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

Purpose of this Report

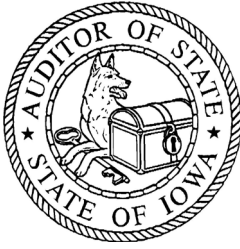
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance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

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



Marlys K. Gaston, CPA
Deputy Auditor of State

February 24, 2021



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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:

Report on Compliance for Each Major Federal Program

We have audited the City of Knoxville, Iowa'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 on the City of Knoxville's major federal program for the year ended June 30, 2020. The City of Knoxville's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with 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 Knoxville's major federal program 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 noncompliance 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 Knoxville's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the City of Knoxville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

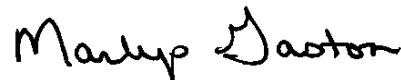
Report on Internal Control Over Compliance

The management of the City of Knoxville 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 Knoxville's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Knoxville'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 a 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 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.



Marlys K. Gaston, CPA
Deputy Auditor of State

February 24, 2021

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

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

- (a) Unmodified opinions were issued on the financial statements prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was CFDA Number 20.106 – Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Knoxville did not qualify as a low-risk auditee.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-20 Segregation of Duties

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

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

- (1) Cash – handling petty cash and reconciling.
- (2) Investments – recording, custody and record-keeping.
- (3) Long-term debt – recording and reconciling, including compensated absences.
- (4) Disbursements – preparing disbursements, check signing, recording and reconciling.
- (5) Payroll – preparing and recording payroll, control of undistributed warrants and maintaining personnel files.
- (6) Receipts – opening mail, collecting receipts and recording receipts with independent reconciliation of recorded receipts to the deposit.
- (7) Journal entries – independent review of non-recurring entries.

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

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

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

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

Response – The City strives for segregation of duties when possible. With a limited staff this can be difficult at times but having a separate review process of items listed above helps to have multiple individuals reviewing the same items to deter those issues.

Conclusion – Response accepted.

II-B-20 Independent Reviews

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

Condition

- Bank reconciliations – While an independent person initials the bank reconciliations to indicate review, there is no evidence the independent reviewer verified the accuracy of the bank balances and reconciling items included on the reconciliations.
- Payroll – There is no independent review of pay rates or payroll tax rates entered on the City's payroll system.

Cause – City policies do not require these independent reviews, including evidence of the reviews.

Effect – Lack of independent reviews of financial transactions, reconciliations and report when adequate segregation of duties cannot be achieved increases the risk the City will not prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should utilize current personnel, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review. The bank reconciliation review should include evidence the bank balances and reconciling items were verified by the independent reviewer.

Response – The City manager will review the bank balances and reconciliations and sign off on them. In addition, an independent person will start reviewing the pay rates and payroll tax rates entered on the City's payroll system for accuracy.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

II-C-20 Service Organizations

Criteria – An effective internal control system provides for internal controls related to reconciling the service organizations billings, collections and receivables to ensure the accuracy of sewer and rescue collections and receivables.

Condition – The Knoxville Municipal Waterworks provides billing and collection services for the City's sewer fees. The sewer receipts are remitted to the City. The Waterworks provides a reconciliation of billings, collections and receivable balances to the City, but the City does not review the reconciliation.

The City contracts with an outside company to bill and collect rescue receipts. The rescue receipts are remitted to the City. A reconciliation of billings, collections and receivable balances is not prepared. The City does not perform procedures to ensure the accuracy and completeness of the rescue receipts remitted to the City.

Cause – Policies have not been established and procedures have not been implemented to reconcile or verify the reconciliations of sewer and rescue billings, collections and receivables.

Effect – This condition could result in unrecorded or misstated sewer and rescue receipts and receivables.

Recommendation – The City should perform an independent review of the reconciliation of billings, collections and receivable balances for sewer fees received from the Waterworks.

The City should request or prepare a reconciliation of rescue billings, collections and receivable balances for rescue fees.

Response – City staff has worked with the Knoxville Municipal Waterworks to generate daily and monthly reports that will be reviewed by City staff for reconciliation purposes.

City staff will discuss the need for a reconciliation with the rescue department.

Conclusion – Response acknowledged. City staff should request or prepare a reconciliation of rescue billings, collections and receivable balances for rescue fees.

II-D-20 Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

Condition – CATD grant receipts of \$102,010 were posted in error to the miscellaneous receipt source rather than the intergovernmental receipt source. The City also recorded \$17,257 of hotel/motel tax incorrectly as local option sales tax.

Cause – City policies do not require, and procedures have not been established to require receipts received to be compared to the accounting records by an independent person.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions and material adjustments to the City's financial statements were necessary.

Recommendation – The City should implement procedures to ensure intergovernmental receipts and other reimbursements are properly recorded in the City's financial statements. The City's receipts should be compared to the accounting records by an independent person and the evidence of review should be documented.

Response – These were receipts that by mistake were recorded in incorrect accounts. This is partially due to new staffing and learning the different accounting. Staff will continue to work towards ensuring these mistakes don't happen in the future.

Conclusion – Response accepted.

II-E-20 Square Payment System

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

Condition – The City uses a Square Payments Processing System at City Hall and the Police Department in order to process credit card payments. Use of Square presents significant risks as it allows users to change the bank account assigned to the device at any time, through the Square Dashboard. Users can also transfer money from the Square account to a Cash App. Cash App is a mobile payment service developed by Square, Inc., allowing users to transfer money to one another using a mobile phone app.

Payments collected through the City's Square Payment Processing System are not reconciled to deposit and accounting records and are not reviewed by an independent person for accuracy nor completeness.

Cause – City policies do not require, and procedures have not been established to require receipts received per the Square Dashboard to be compared to the deposit and accounting records by an independent person.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

Effect – Anyone with access to the Square account would have the ability to change the bank account assigned to the device and would have the ability to transfer funds. In addition, without review, the City could find that reimbursements from the Square System are not to the agreed upon terms nor for the required amount.

Recommendation – The City should implement a policy and written procedures for usage of these types of electronic payment systems. A reconciliation of the Square Payment System's daily activity on the Square Dashboard to the deposit detail and accounting records should be performed. In addition, someone independent from the collection process should be reviewing the Square Dashboard and the reconciliations. This review should be documented by the signature or initials of the independent reviewer and the date of the review.

Response – A monthly reconciliation has been started and we will start having an independent person review and sign off on the reconciliation.

II-F-20 Electronic Data Processing Systems

Criteria – Properly designed policies and procedures pertaining to control activities over the City's computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and helps ensure the effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have a written disaster recovery plan.

Cause – Management has not required a complete written disaster recovery plan addressing financial continuity, storage of plan and copies of user documentation and policy and procedures manuals to be kept off site and documentation of whether the plan has been adequately tested.

Effect – Lack of a formal disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop written disaster recovery plan.

Response – The City has requested and received an example disaster recovery plan and will work towards implementing one within the next year.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

II-G-20 Credit Cards

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

Condition - The City has credit cards for use by various employees while on City business. The City has adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. However, supporting documentation was not available to support credit card charges for 4 of 6 credit card disbursements tested.

Cause – City staff are not consistently following the credit card policy.

Effect – Unauthorized use of credit cards could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – The City should establish procedures to ensure compliance with the approved credit card policy and ensure all credit card purchases are properly supported with a vendor receipt. The policy should be modified to include repercussions for non-compliance, including the employee losing the privilege of using the card.

Response – Management has discussed this matter with the accounts payable staff to ensure proper documentation is required for all credit card statements.

Conclusion – Response accepted.

II-H-20 Disbursements

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

Condition – Supporting documentation for 20 of the 32 disbursements selected for testing was not effectively cancelled.

Cause – Policies and procedures were not established to ensure supporting documentation is effectively cancelled.

Effect – Lack of sufficient cancellation of supporting documentation upon payment could result in unintentional and/or intentional duplicate payment of those invoices.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

Recommendation – Procedures should be established and followed to ensure supporting documentation is effectively cancelled by City Council.

Response – The City will look into instituting a policy for cancellation of invoices to prevent resubmission.

Conclusion – Response acknowledged. The City should establish procedures to ensure supporting documentation is effectively cancelled by City Council.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

No material weaknesses in internal control over the major program were noted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-20 Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public works, culture and recreation, and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – Staff were aware two of the functions were going to be close due to a couple of large projects going on towards the end of the fiscal year. In the future, staff will be more cautious about this.

Conclusion – Response accepted.

IV-B-20 Questionable Disbursements – No disbursements we believe may not meet the requirement of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-20 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-20 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
KNIA KRLS Inc, owned by father-in-law of City Council Member, Megan Suhr	Advertising	\$ 359

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member’s father-in-law do not appear to represent a conflict of interest since total transactions were less than \$6,000 during the fiscal year.

IV-E-20 Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

IV-F-20 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

IV-G-20 City Council Meeting Minutes – The minutes record of four meetings reviewed were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The minutes record should be signed to authenticate the actions taken, as required.

Response – Staff will follow the Code of Iowa signing requirements for the future.

Conclusion – Response accepted.

IV-H-20 Deposits and Investments – Except as noted below, no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

Chapter 12C.9 of the Code of Iowa requires the City to invest “funds being accumulated for payment of principal and interest...” and use the interest earned to pay the principal or interest of the indebtedness as it comes due. Interest is not credited to the Special Revenue, Tax Increment Financing Fund, as required.

Recommendation – The City should ensure interest is credited to the proper funds in accordance with Chapter 12C.9 of the Code of Iowa.

Response – The City will start documenting on their spreadsheet the TIF Fund interest that was not previously recorded.

Conclusion – Response accepted.

IV-I-20 Revenue Bonds/Notes – No instances of non-compliance with the revenue bond/note resolutions were noted.

IV-J-20 Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1.

However, the amount reported as TIF debt outstanding was understated by \$1,521,275.

Recommendation – The City should ensure the amounts reported in the Annual Urban Renewal Report are accurate.

Response – Staff was not aware of this discrepancy and will correct for future reporting.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

IV-K-20 Tax Increment Financing Fund – Chapters 403.19(10)(b) and 403.22 of the Code of Iowa provide moneys in the Special Revenue, Urban Renewal Tax Increment Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide allowable LMI assistance.

During the years ended June 30, 2020 and June 30, 2019, the City approved an interfund loan from the General Fund to cover the project costs of planning and undertaking demolition, environmental remediation, site preparation and redevelopment of the former Veterans Administration Hospital Campus. These project costs should be accounted for in the Capital Projects Fund; however, the City transferred \$240,000 from the General Fund to the Special Revenue, Urban Renewal Tax Increment Fund rather than to the Capital Projects Fund.

Recommendation – To comply with Chapter 403 of the Code of Iowa, the interfund proceeds should be credited to a Capital Project Fund and project costs paid from that fund. The City’s financial statements were subsequently adjusted to properly reflect the interfund loan proceeds in the Capital Projects Fund.

Response – City staff were following the ordinance created as to where to transfer the funds. City staff weren’t aware a new project fund needed to be created as there hadn’t been any disbursements from the account to date. The staff created a Capital Project Fund and moved the interfund loan proceeds after approval by the City Council.

Conclusion – Response accepted.

IV-L-20 Interfund TIF Loan – In accordance with an approved resolution dated November 19, 2018 establishing an interfund loan of \$240,000 between the General Fund and the Special Revenue, Urban Renewal Tax Increment Fund, the loan was to be repaid on June 1, 2020. The loan was not repaid during fiscal year 2020.

Recommendation – The City should approve a transfer to repay the \$240,000 interfund loan in accordance with the resolution.

Response – Staff that normally handles this was out and current staff were unaware of the repayment schedule. The interfund loan has been repaid during fiscal year 2021.

Conclusion – Response accepted.

IV-M-20 Unclaimed Property – Chapters 556.8 and 556.11 of the Code of Iowa require each City to report and remit obligations, including checks, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State, as required.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

Response – Current staff was not aware of needing to file unclaimed property. This will be something the staff will work on this fiscal year and will report in the future.

Conclusion – Response accepted.

IV-N-20 Financial Condition – The Enterprise, Airport Fund had a deficit balance of \$2,610,872 at June 30, 2020.

Recommendation – The City should investigate alternatives to eliminate this deficit and return the Airport Fund to a sound financial condition.

Response – The Airport Fund is continually reviewed and had a deficit balance due to airport improvements which will be repaid by a Federal Aviation Administration grant upon completion.

Conclusion – Response accepted.

IV-O-20 Sales Tax – Instances of sales tax being paid by the City and coded to shipping and handling was noted during credit card testing.

Recommendation – The City should establish procedures to ensure sales tax is not being charged on purchases.

Response – Management has discussed this matter with accounts payable staff to ensure the City is not paying sales tax.

Conclusion – Response accepted.

City of Knoxville

Staff

This audit was performed by:

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Bianca M. Cleary, Staff Auditor
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