



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Auditor of State

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Des Moines, Iowa 50319-0006  
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**NEWS RELEASE**

Contact: Ernest Ruben  
515/281-5834

FOR RELEASE

May 4, 2022

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

**FINANCIAL HIGHLIGHTS:**

The City's receipts totaled \$15,672,126 for the year ended June 30, 2021, a 13.9% increase over the prior year. Disbursements for the year ended June 30, 2021 totaled \$13,033,031, a 15.5% decrease from the prior year. The significant increase in receipts is due primarily to the City receiving grant proceeds for the airport. The significant decrease in disbursements is due primarily to the City's completion of the airport runway improvement project for which much of the work had been completed in the prior year.

**AUDIT FINDINGS:**

Sand reported twenty-one findings related to the receipt and disbursement of taxpayer funds. They are found on pages 58 through 71 of this report. The findings address issues such as a lack of segregation of duties, material errors in recording receipts, the lack of reconciliations of utility and rescue billings, collections and delinquent accounts, the lack of adequate support for credit card disbursements, disbursements exceeding budgeted amounts, questionable disbursements and errors in collection, recording and reporting tax increment financing activity. Sand provided the City with recommendations to address each of the findings.

Fourteen of the twenty-one 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>.

###

**CITY OF KNOXVILLE**

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

**JUNE 30, 2021**

**City of Knoxville**



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STATE OF IOWA**

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

Rob Sand  
Auditor of State

April 13, 2022

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, 2021. 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, appearing to read "Rob Sand".

Rob Sand  
Auditor of State

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**City of Knoxville**

**Officials**

<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
Heather Ussery	Interim 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, 2021, 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 cash basis financial position of the aggregate discretely presented component units of the City of Knoxville as of June 30, 2021, or the changes in cash basis financial position 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 above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville as of June 30, 2021, 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 five years ended June 30, 2020 (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. The supplementary information included in Schedules 1 through 3,

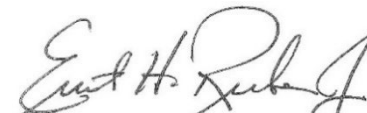
including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required 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 36 through 45, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 13, 2022 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.

  
Ernest H. Ruben, Jr., CPA  
Deputy Auditor of State

April 13, 2022

**City of Knoxville**

## **Basic Financial Statements**

City of Knoxville

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2021

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 2,789,906	1,055,026	270,527	-
Public works	743,502	-	1,172,114	-
Culture and recreation	1,295,394	311,290	80,178	-
Community and economic development	227,407	34,301	1,938	-
General government	556,553	10,051	35	-
Debt service	2,231,931	-	-	-
Capital projects	1,857,996	-	-	300,975
Nonprogram	40,226	-	-	-
Total governmental activities	9,742,915	1,410,668	1,524,792	300,975
Business type activities:				
Sewer	1,635,154	2,400,788	-	-
Airport	1,154,207	83,187	-	2,605,787
Storm water	500,755	292,656	-	-
Total business type activities	3,290,116	2,776,631	-	2,605,787
Total	\$ 13,033,031	4,187,299	1,524,792	2,906,762
<b>General Receipts and Transfers:</b>				
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				
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				
<b>Cash Basis Net Position</b>				
Restricted:				
Nonexpendable:				
Permanent fund				
Expendable:				
Streets				
Local option sales tax				
Debt service				
Capital projects and equipment				
Employee benefits				
Police retirement				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
(1,464,353)	-	(1,464,353)
428,612	-	428,612
(903,926)	-	(903,926)
(191,168)	-	(191,168)
(546,467)	-	(546,467)
(2,231,931)	-	(2,231,931)
(1,557,021)	-	(1,557,021)
(40,226)	-	(40,226)
(6,506,480)	-	(6,506,480)
-	765,634	765,634
-	1,534,767	1,534,767
-	(208,099)	(208,099)
-	2,092,302	2,092,302
(6,506,480)	2,092,302	(4,414,178)
3,004,461	-	3,004,461
1,178,845	-	1,178,845
639,317	-	639,317
1,329,780	-	1,329,780
70,146	-	70,146
104,184	-	104,184
614,213	-	614,213
19,564	14,520	34,084
78,243	-	78,243
(34,000)	34,000	-
7,004,753	48,520	7,053,273
498,273	2,140,822	2,639,095
8,767,127	2,615,593	11,382,720
\$ 9,265,400	4,756,415	14,021,815
\$ 293,974	-	293,974
1,380,959	-	1,380,959
1,288,480	-	1,288,480
312,030	775,440	1,087,470
2,342,085	668,610	3,010,695
306,483	-	306,483
421,300	-	421,300
248,428	-	248,428
2,671,661	3,312,365	5,984,026
\$ 9,265,400	4,756,415	14,021,815

City of Knoxville

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

As of and for the year ended June 30, 2021

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 1,843,293	-	-	-
Tax increment financing	-	-	-	639,317
Local option sales tax	-	-	1,329,780	-
Other city tax	110,017	-	-	-
Licenses and permits	649,988	-	-	-
Use of money and property	43,537	-	-	1,920
Intergovernmental	261,714	1,172,114	-	-
Charges for service	1,300,798	-	-	-
Special assessments	5,002	-	-	-
Miscellaneous	93,210	-	-	-
Total receipts	4,307,559	1,172,114	1,329,780	641,237
Disbursements:				
Operating:				
Public safety	2,133,384	-	-	-
Public works	30,074	564,472	-	-
Culture and recreation	1,066,159	-	-	-
Community and economic development	201,294	-	-	-
General government	485,599	-	-	-
Debt service	-	-	-	578,720
Capital projects	-	-	77,883	-
Total disbursements	3,916,510	564,472	77,883	578,720
Excess (deficiency) of receipts over (under) disbursements	391,049	607,642	1,251,897	62,517
Other financing sources (uses):				
Transfers in	280,000	481,893	-	-
Transfers out	(120,000)	(142,618)	(705,471)	(513,381)
Total other financing sources (uses)	160,000	339,275	(705,471)	(513,381)
Change in cash balances	551,049	946,917	546,426	(450,864)
Cash balances beginning of year	1,687,919	434,042	742,054	645,578
Cash balances end of year	\$ 2,238,968	1,380,959	1,288,480	194,714
<b>Cash Basis Fund Balances</b>				
Nonspendable	\$ -	-	-	-
Restricted for:				
Streets	-	1,380,959	-	-
Local option sales tax	-	-	1,288,480	-
Debt service	-	-	-	194,714
Capital outlay	-	-	-	-
Employee benefits	-	-	-	-
Police retirement	-	-	-	-
Other purposes	-	-	-	-
Unassigned	2,238,968	-	-	-
Total cash basis fund balances	\$ 2,238,968	1,380,959	1,288,480	194,714

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
1,154,669	-	1,097,663	4,095,625
-	-	-	639,317
-	-	-	1,329,780
24,176	-	23,634	157,827
-	-	-	649,988
-	855	1,531	47,843
28,540	152,889	26,393	1,641,650
-	-	-	1,300,798
-	-	-	5,002
-	160,561	102,588	356,359
1,207,385	314,305	1,251,809	10,224,189
-	-	666,815	2,800,199
-	-	152,308	746,854
-	-	232,751	1,298,910
-	-	26,377	227,671
-	-	72,473	558,072
1,653,211	-	-	2,231,931
-	1,780,113	-	1,857,996
1,653,211	1,780,113	1,150,724	9,721,633
(445,826)	(1,465,808)	101,085	502,556
363,370	783,100	21,000	1,929,363
-	(481,893)	-	(1,963,363)
363,370	301,207	21,000	(34,000)
(82,456)	(1,164,601)	122,085	468,556
199,772	3,506,686	1,148,100	8,364,151
117,316	2,342,085	1,270,185	8,832,707
-	-	293,974	293,974
-	-	-	1,380,959
-	-	-	1,288,480
117,316	-	-	312,030
-	2,342,085	-	2,342,085
-	-	306,483	306,483
-	-	421,300	421,300
-	-	248,428	248,428
-	-	-	2,238,968
117,316	2,342,085	1,270,185	8,832,707



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, 2021

**Total governmental funds cash balances (page 13)** \$ 8,832,707

***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 cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

432,693

**Cash basis net position of governmental activities (page 11)** \$ 9,265,400

**Change in cash balances (page 13)** \$ 468,556

***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.

29,717

**Change in cash basis net position of governmental activities (page 11)** \$ 498,273

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, 2021

	Enterprise				Internal Service
	Nonmajor			Total	Self Insurance
	Sewer	Airport	Storm Water		
Operating receipts:					
Use of money and property	\$ 3,897	77,187	-	81,084	\$ -
Charges for service	2,357,144	-	292,656	2,649,800	162,810
Miscellaneous	39,747	6,000	-	45,747	-
Total operating receipts	2,400,788	83,187	292,656	2,776,631	162,810
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	51,987
Public works	-	-	-	-	16,931
Culture and recreation	-	-	-	-	17,757
Community and economic development	-	-	-	-	1,328
General government	-	-	-	-	7,674
Nonprogram	-	-	-	-	40,226
Business type activities	851,902	112,525	36,467	1,000,894	-
Total operating disbursements	851,902	112,525	36,467	1,000,894	135,903
Excess (deficiency) of operating receipts over (under) operating disbursements	1,548,886	(29,338)	256,189	1,775,737	26,907
Non-operating receipts (disbursements):					
Intergovernmental	-	2,605,787	-	2,605,787	-
Interest on investments	14,520	-	-	14,520	2,810
Capital outlay	(104,742)	(1,041,682)	(464,288)	(1,610,712)	-
Debt service	(678,510)	-	-	(678,510)	-
Net non-operating receipts (disbursements)	(768,732)	1,564,105	(464,288)	331,085	2,810
Excess (deficiency) of receipts over (under) disbursements	780,154	1,534,767	(208,099)	2,106,822	29,717
Transfers:					
Transfers in	-	74,000	-	74,000	-
Transfers out	(40,000)	-	-	(40,000)	-
Total transfers in (out)	(40,000)	74,000	-	34,000	-
Change in cash balances	740,154	1,608,767	(208,099)	2,140,822	29,717
Cash balances beginning of year	4,562,733	(2,610,872)	663,732	2,615,593	402,976
Cash balances end of year	\$ 5,302,887	(1,002,105)	455,633	4,756,415	\$ 432,693
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Debt service	\$ 775,440	-	-	775,440	\$ -
Capital outlay	668,610	-	-	668,610	-
Unrestricted	3,858,837	(1,002,105)	455,633	3,312,365	432,693
Total cash basis fund balances	\$ 5,302,887	(1,002,105)	455,633	4,756,415	\$ 432,693

See notes to financial statements.

City of Knoxville

Notes to Financial Statements

June 30, 2021

**(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 and storm water 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 funds:

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

The Enterprise, Airport Fund accounts for the operation and maintenance of the City's municipal airport.

The Enterprise, Storm Water Fund provides for the management, protection, control, regulation, use, and enhancement of stormwater systems and facilities throughout the City's stormwater utility district.

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 1½% per month penalty for delinquent payments; is based on January 1, 2019 assessed property valuations; is for the tax accrual period July 1, 2020 through June 30, 2021 and reflects tax asking contained in the budget certified to the City Council in March 2020.

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, 2021, disbursements exceeded the amounts budgeted in the culture and recreation, general government and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2021 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, 2021, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,212,262. 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) Bonds and Notes Payable**

A summary of changes in bonds and notes payable for the year ended June 30, 2021 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 10,640,000	-	1,340,000	9,300,000	1,300,000
Business type activities:					
Sewer revenue bonds	\$ 2,180,000	-	275,000	1,905,000	290,000
Sewer revenue bonds - Direct borrowings	3,496,000	-	279,000	3,217,000	286,000
Business-type activities total	\$ 5,676,000	-	554,000	5,122,000	576,000

General Obligation Bonds

A summary of the City's June 30, 2021 general obligation bonds payable is as follows:

Year	Corporate Purpose and Refunding Series 2010C			Corporate Purpose Series 2013A		
	Issued Sep 20, 2010			Issued Jun 19, 2013		
Ending June 30,	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2022	3.00%	\$ 280,000	8,400	1.70%	\$ 355,000	12,695
2023		-	-	1.85	360,000	6,660
2024		-	-		-	-
2025		-	-		-	-
2026		-	-		-	-
2027-2031		-	-		-	-
2032-2036		-	-		-	-
2037		-	-		-	-
Total		\$ 280,000	8,400		\$ 715,000	19,355

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
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	2.00	245,000	15,000	2.79	405,000	124,388
2027-2031	2.00	505,000	15,200	2.87-3.14	1,855,000	438,938
2032-2036		-	-	3.21-3.37	1,340,000	194,337
2037		-	-	3.40	295,000	10,325
<b>Total</b>		<b>\$ 1,680,000</b>	<b>137,200</b>		<b>\$ 5,400,000</b>	<b>1,379,988</b>

Year Ending June 30,	Corporate Purpose Series 2020			Sewer Improvement Note Series 2010D		
	Issued Jun 17, 2020			Issued Nov 18, 2010		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
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	2.00	100,000	15,200		-	-
2027-2031	2.00	545,000	44,700		-	-
2032-2036	2.00	115,000	2,300		-	-
2037		-	-		-	-
<b>Total</b>		<b>\$ 1,060,000</b>	<b>141,000</b>		<b>\$ 165,000</b>	<b>6,752</b>

Year Ending June 30,	Total		
	Principal	Interest	Total
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	750,000	154,588	904,588
2027-2031	2,905,000	498,838	3,403,838
2032-2036	1,455,000	196,637	1,651,637
2037	295,000	10,325	305,325
<b>Total</b>	<b>\$ 9,300,000</b>	<b>1,692,695</b>	<b>10,992,695</b>

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, 2021, the City paid \$270,000 of principal and \$15,960 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, 2021, the City paid \$345,000 of principal and \$17,870 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, 2021, the City paid \$220,000 of principal and \$38,000 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, 2021, the City paid \$350,000 of principal and \$180,038 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, 2021, the City did not make any principal payments and paid \$20,258 of interest on the bonds.

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, 2021, the City paid \$155,000 of principal and \$10,936 of interest on the notes.

### Revenue Bonds

A summary of the City's June 30, 2021 revenue bonds payable is as follows:

Year Ending June 30,	Series 2010A Sewer - Direct borrowing Issued Feb 16, 2010			Series 2015A Sewer Refunding Issued Apr 23, 2015		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2022	1.75%	\$ 139,000	28,210	2.00%	\$ 290,000	48,040
2023	1.75	144,000	25,778	2.20	300,000	42,240
2024	1.75	148,000	23,258	2.40	310,000	35,640
2025	1.75	153,000	20,668	2.60	320,000	28,200
2026	1.75	158,000	17,990	2.80	335,000	19,880
2027-2031	1.75	870,000	46,654	3.00	350,000	10,500
Total		<u>\$ 1,612,000</u>	<u>162,558</u>		<u>\$ 1,905,000</u>	<u>184,500</u>

Year Ending June 30,	Sewer Wastewater Treatment - Direct borrowing			Total		
	Issued Jun 19, 2015					
	Interest Rates	Principal	Interest	Principal	Interest	Total
2022	1.75%	\$ 147,000	28,087	\$ 576,000	104,337	680,337
2023	1.75	149,000	25,515	593,000	93,533	686,533
2024	1.75	152,000	22,908	610,000	81,806	691,806
2025	1.75	156,000	20,247	629,000	69,115	698,115
2026	1.75	159,000	17,518	652,000	55,388	707,388
2027-2031	1.75	842,000	44,783	2,062,000	101,937	2,163,937
Total		\$ 1,605,000	159,058	\$ 5,122,000	506,116	5,628,116

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. Effective June 1, 2020, the City received an interest rate adjustment from 3.00% per annum to 1.75% per annum. 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, 2021, the City paid principal of \$135,000 and interest of \$30,573 on the bonds. At June 30, 2021, the outstanding principal balance was \$1,612,000.

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, 2021, the City paid principal of \$275,000 and interest of \$52,990 on the bonds. At June 30, 2021, the outstanding principal balance was \$1,905,000.

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, 2021, the City paid principal of \$144,000 and interest of \$30,608 on the bonds. At June 30, 2021, the outstanding principal balance was \$1,605,000.

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, 2021, annual principal and interest payments on the bonds/notes required 43% of net receipts. The total principal and interest remaining to be paid on the bonds/notes is \$5,744,228. For the current year, principal and interest paid and total customer net receipts were \$668,170 and \$1,548,886.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond 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 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 falling due in the same year.

#### **(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](http://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 2021, 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 6.41% of covered payroll and the City contributed 9.61% of covered payroll, for a total rate of 16.02%.

The City's contributions to IPERS for the year ended June 30, 2021 totaled \$201,692.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2021, the City reported a liability of \$1,296,691 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 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, 2020, the City's proportion was 0.018459%, which was decrease of 0.000037% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$251,684, \$328,411 and \$172,254, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2021 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 geometric 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%	4.43%
International equity	17.5	5.15
Global smart beta equity	6.0	4.87
Core plus fixed income	28.0	(0.29)
Public credit	4.0	2.29
Cash	1.0	(0.78)
Private equity	11.0	6.54
Private real assets	7.5	4.48
Private credit	3.0	3.11
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	\$ 2,417,490	1,296,691	357,251

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](http://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](http://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, 2021.

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 25.31% for the year ended June 30, 2021.

The City's contributions to MFPRSI for the year ended June 30, 2021 totaled \$200,405.

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, 2021.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2021, the City reported a liability of \$1,965,510 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 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, 2020, the City’s proportion was 0.246428%, which was a decrease of 0.005402% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City’s pension expense, deferred outflows of resources and deferred inflows totaled \$365,087, \$441,189 and \$62,332, respectively.

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	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, 2020 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	7.5%
Small cap	8.1
International large cap	7.2
Emerging markets	7.9
Global Infrastructure	7.5
Private non-core real estate	11.5
Private Credit	6.4
Private equity	10.8
Core plus fixed income	4.0
Private core real estate	7.2



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	\$ 3,014,711	1,965,510	1,096,439

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](http://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, 2021, the City contributed \$521,889 and plan members eligible for benefits contributed \$111,127 to the plan. At June 30, 2021, 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 and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug 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, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	3
Active employees	<u>51</u>
Total	<u>54</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, 2021, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Holiday	\$ 40,000
Vacation	201,000
Sick leave	4,000
Compensatory time	53,000
Total	<u>\$ 298,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2021.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2021 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 240,000
	Enterprise:	
	Sewer	40,000
		<u>280,000</u>
Special Revenue:		
Road Use Tax	Capital Projects	481,893
Special Revenue:		
Tennis Courts	General	14,000
Special Revenue:		
Auld Park Playground	General	7,000
Debt Service	Special Revenue:	
	Local Option Sales Tax	363,370
Capital Projects	General	25,000
	Special Revenue:	
	Urban Renewal Tax Increment	273,381
	Road Use Tax	142,618
	Local Option Sales Tax	342,101
		<u>783,100</u>
Enterprise:		
Airport	General	74,000
Total		<u>\$ 2,003,363</u>

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

**(8) 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 \$7,281,631 is outstanding at June 30, 2021. 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.

**(9) 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 785 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, 2021 were \$176,384.

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, 2021, 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.

**(10) Construction Contracts**

The City has entered into construction contracts totaling approximately \$3,578,000 for various projects. As of June 30, 2021, approximately \$2,141,000 has been paid on the contracts. The remaining approximately \$1,437,000 will be paid as work on the projects progresses.

**(11) 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, 2021, the City rebated \$551,617 of incremental property tax to the developers. The outstanding principal balance on these agreements at June 30, 2021 is \$660,038.

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.

**(12) 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, 2021, \$239,163 of property tax was diverted from the City under the urban renewal and economic development agreements.

### **(13) 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, 2021 was \$176,384.

### **(14) 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, its variants, 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.

### **(15) Deficit Balance**

The Enterprise, Airport Fund had a deficit balance of \$1,002,105 at June 30, 2021. 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.

### **(16) Prospective Accounting Change**

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2022. The revised requirements of this statement require reporting of certain potentially significant lease assets and liabilities that are not currently reported.

## **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, 2021

	Governmental Funds Actual	Proprietary Funds Actual	Total
<b>Receipts:</b>			
Property tax	\$ 4,095,625	-	4,095,625
Tax increment financing	639,317	-	639,317
Other city tax	1,487,607	-	1,487,607
Licenses and permits	649,988	-	649,988
Use of money and property	47,843	95,604	143,447
Intergovernmental	1,641,650	2,605,787	4,247,437
Charges for service	1,300,798	2,649,800	3,950,598
Special assessments	5,002	-	5,002
Miscellaneous	356,359	45,747	402,106
Total receipts	<u>10,224,189</u>	<u>5,396,938</u>	<u>15,621,127</u>
<b>Disbursements:</b>			
Public safety	2,800,199	-	2,800,199
Public works	746,854	-	746,854
Culture and recreation	1,298,910	-	1,298,910
Community and economic development	227,671	-	227,671
General government	558,072	-	558,072
Debt service	2,231,931	-	2,231,931
Capital projects	1,857,996	-	1,857,996
Business type activities	-	3,290,116	3,290,116
Total disbursements	<u>9,721,633</u>	<u>3,290,116</u>	<u>13,011,749</u>
Excess (deficiency) of receipts over (under) disbursements	502,556	2,106,822	2,609,378
Other financing sources, net	(34,000)	34,000	-
Change in balances	468,556	2,140,822	2,609,378
Balances beginning of year	<u>8,364,151</u>	<u>2,615,593</u>	<u>10,979,744</u>
Balances end of year	<u>\$ 8,832,707</u>	<u>4,756,415</u>	<u>13,589,122</u>

See accompanying independent auditor's report.

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<u>Budgeted Amounts</u>	Final to
<u>Original/Final</u>	Variance
4,063,993	31,632
688,475	(49,158)
1,687,813	(200,206)
38,400	611,588
154,911	(11,464)
2,846,822	1,400,615
4,084,846	(134,248)
7,000	(1,998)
224,850	177,256
<u>13,797,110</u>	<u>1,824,017</u>
2,896,706	96,507
855,707	108,853
1,292,087	(6,823)
236,680	9,009
542,958	(15,114)
1,973,959	(257,972)
3,191,000	1,333,004
5,504,671	2,214,555
<u>16,493,768</u>	<u>3,482,019</u>
(2,696,658)	5,306,036
1,500,000	(1,500,000)
(1,196,658)	3,806,036
12,393,391	(1,413,647)
<u>11,196,733</u>	<u>2,392,389</u>



**City of Knoxville**

City of Knoxville

Notes to Other Information – Budgetary Reporting

June 30, 2021

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, 2021, disbursements exceeded the amounts budgeted in the culture and recreation, general government and debt service functions.

City of Knoxville

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

For the Last Seven Years\*  
(In Thousands)

Other Information

Iowa Public Employees' Retirement System

	2021	2020	2019	2018
City's proportion of the net pension liability	0.018459%	0.018496%	0.018580%	0.018198%
City's proportionate share of the net pension liability	\$ 1,297	1,071	1,176	1,212
City's covered payroll	\$ 1,880	1,885	1,790	1,652
City's proportionate share of the net pension liability as a percentage of its covered payroll	68.99%	56.81%	65.70%	73.37%
IPERS' net position as a percentage of the total percentage of the total pension liability	82.90%	85.45%	83.62%	82.21%

Municipal Fire and Police Retirement System of Iowa

	2021	2020	2019	2018
City's proportion of the net pension liability	0.246428%	0.251830%	0.270709%	0.269520%
City's proportionate share of the net pension liability	\$ 1,966	1,652	1,612	1,581
City's covered payroll	\$ 783	762	787	764
City's proportionate share of the net pension liability as a percentage of its covered payroll	251.09%	216.80%	204.83%	206.94%
MFPRSI's net position as a percentage of the total percentage of the total pension liability	76.47%	79.94%	81.07%	80.60%

\* 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.

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2017	2016	2015
0.018715%	0.017227%	0.016296%
1,178	851	646
1,563	1,469	1457
75.37%	57.93%	44.34%
81.82%	85.91%	87.61%

2017	2016	2015
0.276902%	0.255162%	0.254700%
1,731	1,199	923
750	668	647
230.80%	179.49%	142.66%
78.20%	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

	2021	2020	2019	2018
Statutorily required contribution	\$ 202	181	181	163
Contributions in relation to the statutorily required contribution	(202)	(181)	(181)	(163)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	\$ 2,125	1,880	1,885	1,790
Contributions as a percentage of covered payroll	9.51%	9.63%	9.60%	9.11%

Municipal Fire and Police Retirement System of Iowa

	2021	2020	2019	2018
Statutorily required contribution	\$ 200	198	198	202
Contributions in relation to the statutorily required contribution	(200)	(198)	(198)	(202)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	\$ 792	783	762	787
Contributions as a percentage of covered payroll	25.25%	25.29%	25.98%	25.67%

See accompanying independent auditor's report.

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2017	2016	2015	2014	2013	2012
150	142	134	133	118	110
(150)	(142)	(134)	(133)	(118)	(110)
-	-	-	-	-	-
1,652	1,563	1,469	1,457	1,324	1,322
9.08%	9.09%	9.12%	9.13%	8.91%	8.32%

2017	2016	2015	2014	2013	2012
198	208	203	195	157	143
(198)	(208)	(203)	(195)	(157)	(143)
-	-	-	-	-	-
764	750	668	647	601	578
25.92%	27.73%	30.39%	30.14%	26.12%	24.74%

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City of Knoxville

Notes to Other Information – Pension Liability

Year ended June 30, 2021

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, 2021

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 Annuitant Table with males set-forward zero years, females set-forward two years and disabled individuals set-forward three years (male only rates), with generational projection of future mortality improvement with 50% of Scale BB beginning in 2017.

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

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

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

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



**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, 2021

					Special	
	Employee Benefits	Police Retirement	Urban Renewal	Revolving Loan	Police K-9	Police Trust
Receipts:						
Property tax	\$ 893,256	204,407	-	-	-	-
Other city tax	20,404	3,230	-	-	-	-
Use of money and property	414	732	-	-	-	136
Intergovernmental	26,369	-	-	-	-	-
Miscellaneous	-	-	-	-	46,922	2,973
Total receipts	940,443	208,369	-	-	46,922	3,109
Disbursements:						
Operating:						
Public safety	409,589	200,406	-	-	42,652	12,558
Public works	152,308	-	-	-	-	-
Culture and recreation	214,678	-	-	-	-	-
Community and economic development	26,377	-	-	-	-	-
General government	72,473	-	-	-	-	-
Total disbursements	875,425	200,406	-	-	42,652	12,558
Excess (deficiency) of receipts over (under) disbursements	65,018	7,963	-	-	4,270	(9,449)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Change in cash balances	65,018	7,963	-	-	4,270	(9,449)
Cash balances beginning of year	241,465	413,337	3,906	115,745	-	11,514
Cash balances end of year	\$ 306,483	421,300	3,906	115,745	4,270	2,065
<b>Cash Basis Fund Balances</b>						
Nonspendable						
Cemetery perpetual care	\$ -	-	-	-	-	-
Restricted for:						
Employee benefits	306,483	-	-	-	-	-
Police retirement	-	421,300	-	-	-	-
Other purposes	-	-	3,906	115,745	4,270	2,065
Total cash basis fund balances	\$ 306,483	421,300	3,906	115,745	4,270	2,065

See accompanying independent auditor's report.

Revenue							Permanent	
Fire Rescue Donations	Library Gifts/ Memorials	East Village Park	Auld Park Playground	Tennis Couts	I-Jobs	Cemetery Perpetual Care	Total	
-	-	-	-	-	-	-	1,097,663	
-	-	-	-	-	-	-	23,634	
97	74	-	-	-	-	78	1,531	
-	-	-	24	-	-	-	26,393	
11,583	8,860	25,000	-	-	-	7,250	102,588	
11,680	8,934	25,000	24	-	-	7,328	1,251,809	
1,610	-	-	-	-	-	-	666,815	
-	-	-	-	-	-	-	152,308	
-	1,423	-	16,650	-	-	-	232,751	
-	-	-	-	-	-	-	26,377	
-	-	-	-	-	-	-	72,473	
1,610	1,423	-	16,650	-	-	-	1,150,724	
10,070	7,511	25,000	(16,626)	-	-	7,328	101,085	
-	-	-	7,000	14,000	-	-	21,000	
10,070	7,511	25,000	(9,626)	14,000	-	7,328	122,085	
14,560	23,502	-	34,334	-	3,091	286,646	1,148,100	
24,630	31,013	25,000	24,708	14,000	3,091	293,974	1,270,185	
-	-	-	-	-	-	293,974	293,974	
-	-	-	-	-	-	-	306,483	
-	-	-	-	-	-	-	421,300	
24,630	31,013	25,000	24,708	14,000	3,091	-	248,428	
24,630	31,013	25,000	24,708	14,000	3,091	293,974	1,270,185	

City of Knoxville

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

For the Last Ten Years

	2021	2020	2019	2018
<b>Receipts:</b>				
Property tax	\$ 4,095,625	4,018,237	3,725,933	3,278,739
Tax increment financing	639,317	705,342	554,290	605,296
Local option sales tax	1,329,780	1,036,803	976,998	881,054
Other city tax	157,827	167,909	154,071	165,729
Licenses and permits	649,988	640,953	724,703	669,066
Use of money and property	47,843	68,400	78,138	56,769
Intergovernmental	1,641,650	1,280,395	1,747,137	1,818,141
Charges for service	1,300,798	1,097,187	1,053,792	926,035
Special assessments	5,002	2,216	22,676	4,136
Miscellaneous	356,359	380,515	491,587	528,048
<b>Total</b>	<b>\$ 10,224,189</b>	<b>9,397,957</b>	<b>9,529,325</b>	<b>8,933,013</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 2,800,199	2,565,457	2,342,047	2,263,598
Public works	746,854	1,133,704	1,072,731	1,790,243
Culture and recreation	1,298,910	1,309,821	1,221,450	1,282,690
Community and economic development	227,671	232,486	234,584	250,107
General government	558,072	524,453	473,045	446,103
Debt service	2,231,931	1,814,891	2,025,268	1,934,567
Capital projects	1,857,996	2,269,249	5,744,964	1,439,095
<b>Total</b>	<b>\$ 9,721,633</b>	<b>9,850,061</b>	<b>13,114,089</b>	<b>9,406,403</b>

See accompanying independent auditor's report.

2017	2016	2015	2014	2013	2012
3,244,449	3,163,894	2,952,466	2,908,791	2,822,795	2,875,400
571,856	516,947	531,120	354,277	242,252	318,340
965,912	857,197	852,184	753,295	672,951	692,840
171,605	179,984	832,504	823,177	547,177	76,987
653,541	661,710	84,821	29,897	20,168	42,818
41,068	35,683	36,753	50,721	5,753	3,884
1,107,919	1,196,943	951,196	825,512	999,335	939,941
870,382	964,298	969,587	872,637	909,812	873,937
5,451	6,279	7,497	7,693	6,247	2,756
705,729	245,553	370,466	267,730	286,362	206,141
8,337,912	7,828,488	7,588,594	6,893,730	6,512,852	6,033,044
2,135,749	2,351,445	2,274,531	1,839,305	1,744,882	1,587,150
847,096	1,190,738	748,405	776,841	787,203	984,298
1,144,213	1,153,498	1,095,737	1,070,274	1,032,710	1,045,852
245,541	588,485	351,878	193,813	222,805	214,944
465,034	544,330	523,097	458,176	506,108	556,329
1,685,972	1,510,074	1,558,643	1,511,847	878,514	1,376,919
1,736,599	1,544,971	1,425,184	2,282,626	1,579,394	1,632,554
8,260,204	8,883,541	7,977,475	8,132,882	6,751,616	7,398,046

**City of Knoxville**

City of Knoxville  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2021

Grantor/Program	Assistance Listing Number	Pass-through Entity Identifying Number	Program Expenditures
Direct:			
U.S. Department of Transportation: Airport Improvement Program	20.106	3-19-0051-016-2019	\$ 875,096
Indirect:			
U.S. Department of Transportation: Iowa Department of Transportation: Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	TAP-U-4040(611)-81-63	231,228
Federal Emergency Management Agency: COVID-19 - Disaster Grants - Public Assistance, Presidentially Declared Disasters: COVID-19 Cost Recovery	97.036	70-0702-0-1-453	210,588
Iowa Department of Public Safety - Governor's Traffic Safety Bureau: State and Community Highway Safety Grant State and Community Highway Safety Grant	20.600 20.600	405D-M6OT, Task 17-00-00 405D-M6OT, Task 15-00-00	6,343 6,263 12,606
Total indirect			454,422
Total			\$ 1,329,518

**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, 2021. 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, 2021, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 13, 2022. 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 as a basis for designing 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 and Questioned Costs we identified certain 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 (F) 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 (G) and (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 financial statements. 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, 2021 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.

  
Ernest H. Ruben, Jr., CPA  
Deputy Auditor of State

April 13, 2022



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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, 2021. 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, 2021.


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.

  
Ernest H. Ruben, Jr., CPA  
Deputy Auditor of State

April 13, 2022

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

**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, 2021

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-21 Segregation of Duties  
(2021-001)

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

Recommendation – 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, 2021

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-21 Independent Reviews  
(2021-002)

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, certificates of deposit, IPAIT balances and reconciling items included on the reconciliations nor evidence the reviews are completed timely.

Payroll – There is no independent review of pay rates or payroll tax rates entered on the City's payroll system.

Compensated Absences – There is no evidence of independent review of compensated absence accruals.

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

Effect – Lack of independent reviews of financial transactions, reconciliations and reports 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 and compensated absences reviews should include evidence the balances and reconciling items were verified by the independent reviewer.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

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

Conclusion – Response accepted.

II-C-21 Service Organizations  
(2021-003)

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 and ensure receipts remitted to the City are complete.

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 delinquent accounts 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 delinquent accounts for sewer fees received from the Waterworks.

The City should request or prepare a reconciliation of rescue billings, collections and delinquent accounts for rescue fees. The reconciliation should be reviewed by an independent person and the review should be evidenced by the signature or initials of the reviewer and the date of the review.

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.



City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

II-D-21 Financial Reporting  
(2021-004)

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.

Condition – Two receipts totaling \$216,133 were posted in error to miscellaneous receipts rather than the intergovernmental receipts. One receipt was for \$63,244 from the Treasurer of State and the other receipt was for \$152,889 from the Department of Transportation. The City also recorded \$31,655 of road use tax incorrectly as street reimbursements. In addition, two receipts totaling \$25,539 for federal grants were incorrectly recorded as fire reimbursements and rescue services.

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 evidence of the 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-21 Square Payment System  
(2021-005)

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 application.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

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.

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.

Conclusion – Response accepted.

II-F-21 Records of Account  
(2021-006)

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling the Recreation Centers bank and book balances with those of the City.

Condition – The Recreation Center maintained a checking account separate from the City Clerk's records. The transactions are reported to the City monthly and balances periodically transferred into the City's checking account. However, the balance of the checking account of \$106,282 at the end of the fiscal year was not included in the City's records.

Cause – Procedures have not been designed and implemented to ensure appropriate accounting records are maintained, reconciled and recorded.

Effect – Inadequate records can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." The year-end balance of the separate checking account maintained by the Recreation Center should be included in the City records.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Response – The City will transfer any remaining balance in the Recreation Center checking account by June 30 each year and will ensure that amount is included in the City records.

Conclusion – Response accepted.

II-G-21 Electronic Data Processing Systems  
(2021-007)

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 a 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.

II-H-21 Credit Cards  
(2021-008)

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 polices addressing proper asset use and proper supporting documentation.

Condition – The City has credit cards for use by various employees while on City business. While the City has a formal credit card policy, supporting documentation was not available to support credit card charges for two of six credit card disbursements tested. Additionally, late fees were paid on two of six 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.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

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.

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, 2021

**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, 2021

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-21 Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the culture and recreation, general government and debt service 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 – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-B-21 Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Eric How	Retirement gift for police department employee	\$ 516
Eric How	Retirement gift for police department employee	116
Crystal Central	Retirement plaque for police department employee	160
WalMart	Candy for fitness class	15

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedure, including the requirement of proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

IV-C-21 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

IV-D-21 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
KNIA KRLS Inc, owned by father-in-law of City Council Member, Megan Suhr	Advertising	\$ 189

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-21 Restricted Donor Activity – Per Chapter 68B of the Code of Iowa, City officials are prohibited from receiving or soliciting gifts from a restricted donor. A restricted donor is a "party to any one or any combination of sales, purchases, leases or contract to, from, or with the agency in which the donee holds office or is employed." A free clothing sample of pants, shirt, and vest carrier, at an estimated value of \$250, was received by an employee in the police department for testing and evaluation purposes. These items were requested when looking for uniform vendors.

Recommendation – The City should ensure there is no restricted donor activity to be in compliance with Chapter 68B of the Code of Iowa.

Response – The City official who accepted the free clothing sample was unaware that it was a prohibited action and has since attempted to return it to the vendor.

Conclusion – Response accepted.

IV-F-21 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.

IV-G-21 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-H-21 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.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

IV-I-21 Revenue Bonds/Notes – No instances of non-compliance with the revenue bond/note resolutions were noted.

Conclusion – Response accepted.

IV-J-21 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 \$1,251,660, revenues were overstated by \$240,000 and expenditures were understated by \$34,034.

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

Response – These items will be corrected on next year's report.

Conclusion – Response accepted.

IV-K-21 Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects.

Over the past several years the City has certified two different internal loans of \$240,000 each and one internal loan totaling \$210,000, although the internal loan transfer was never made, for a grand total of \$690,000 to the County Auditor. While the City has approved an amendment to the urban renewal area for the Veteran's Administration Hospital redevelopment project the City has not entered into contracts for the project and there have been no expenditures on the project.

In addition, the City paid \$5,000 for professional services out of the Special Revenue, Tax Increment Financing Fund and transferred approximately \$63,381 from the Special Revenue, Tax Increment Financing Fund to the Capital Projects Fund. These amounts do not represent debt and are therefore not an appropriate use of TIF funds.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including whether the TIF receipts in excess of TIF indebtedness should be returned to the County Treasurer as required by Chapter 24.21 of the Code of Iowa.

Response – The City hired a tax law firm to guide the TIF projects and were working off advice received from them. The City will consult with them and the Department of Management concerning this finding to determine the proper course of action.

Conclusion – Response accepted.



City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

IV-L-21 Tax Abatement Notifications – 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. These rebate agreements assist in certain urban renewal projects for which the City has agreed to rebate incremental property tax paid by the developers in exchange for infrastructure improvements, rehabilitation and development of commercial projects. The City provides tax abatement notification letters to other governments of the total amount of the effect of the rebate on each government. The amount of qualifying payments made in FY21 were overstated by \$209,909 on the tax abatement notification letters sent to affected governments.

Recommendation – The City should ensure tax abatement notification letters are accurate.

Response – Closer attention will be paid to ensure that the amount of qualifying payments stated on the GASB 77 letters reflect the correct amount for the Fiscal Year.

Conclusion – Response accepted.

IV-M-21 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.

Response – This will be something the staff will work on this fiscal year and will report in the future.

Conclusion – Response accepted.

IV-N-21 Financial Condition – The Enterprise, Airport Fund had a deficit balance of \$1,002,105 at June 30, 2021.

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 and a separate state grant upon completion.

Conclusion – Response accepted.

IV-O-21 Sales Tax – Instances of sales tax being paid by the City was noted during disbursement 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

Schedule of Findings and Questioned Costs

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IV-P-21 Transfers – Rule 545-2.5 of the Iowa Administrative Code requires transfers between funds be passed by resolution and include a clear statement of the reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred. During fiscal year 2021, the City made transfers that were not passed by resolution.

Recommendation – The City should comply with the Iowa Administrative Code and approve transfers by a resolution which includes the required information.

Response – We will ensure a resolution has been passed before making any transfers in the future.

Conclusion – Response accepted.

City of Knoxville

Staff

This audit was performed by:

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