

CITY OF POLK CITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2021

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CITY OF POLK CITY

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------------------|------------------------------------|---------------------|
| Jason Morse | Mayor | January 1, 2022 |
| Mandy Vogel | Mayor Pro-Tem/Council Member | January 1, 2022 |
| Jeff Walters | Council Member | January 1, 2022 |
| David Dvorak | Council Member | January 1, 2024 |
| Ronald Anderson | Council Member | January 1, 2024 |
| Robert Sarchet | Council Member | January 1, 2024 |
| Chelsea Huisman | City Manager | Indefinite |
| Jenny Coffin | City Clerk | Indefinite |
| Brick Gentry, et al, P.C. | City Attorney | Indefinite |

City of Polk City



MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS
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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 and the aggregate remaining fund information of the City of Polk City, Iowa, as of and for the year ended June 30, 2021, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

Basis of Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements

for the financial reporting entity that 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 the cash basis balances of the aggregate discretely presented component units have not been determined.

Adverse Opinion on Aggregate Discretely Component Units

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion on Aggregate Discretely Presented Component Units” paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2021, or the changes in financial position for the year ended in conformity 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 Polk City 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 Polk City’s basic financial statements. We previously audited, in accordance with standards referred to in the third paragraph of this report. The financial statements for the year ended June 30, 2020 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursement. We expressed an adverse opinion on the aggregate discretely presented component units due to the omission of the legally separate component units. The financial statements for the five years ended June 30, 2019 (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 which were prepared on the basis of cash receipts and disbursements. An adverse opinion was expressed on the financial statements of the aggregate discretely presented component units due to the omission of the legally separate component units. The financial statements for the year ended June 30, 2014 (which are not presented herein) were audited by another auditor who expressed modified 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. An adverse opinion was expressed on the financial statements of the aggregate discretely presented component units due to the omission of the legally separate 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 financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedule 1 through 3 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. In our opinion, the

supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 13 and 40 through 48 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2021 on our consideration of the City of Polk City'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 Polk City's internal control over financial reporting and compliance.

Martens & Company, CPA, LLP

West Des Moines, Iowa
December 2, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Polk City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2021. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2021 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased approximately 49.7%, or approximately \$2,615,000 from fiscal year 2020. Note proceeds increased approximately \$1,822,000, from fiscal year 2020 to fiscal year 2021.
- Disbursements of the City's governmental activities increased approximately 95.5%, or approximately \$5,251,000, from fiscal year 2020 to fiscal year 2021. General government and capital projects increased approximately \$949,000 and \$3,562,000, respectively.
- The City's total cash basis net position decreased by 15.1% or approximately \$1,572,000, in fiscal year June 30, 2020 to June 30, 2021. Of this amount, the cash basis net position of the governmental activities decreased approximately \$2,313,000 and the cash basis net position of the business type activities increased approximately \$741,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds.

BASIS OF ACCOUNTING

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

Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, Sewer, Storm Water and Solid Waste Funds. The Water and Sewer Funds are considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, decreasing from approximately, \$8.702 million to approximately \$6.389 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)

| | Year ended June 30, | |
|---|---------------------|-----------------|
| | 2021 | 2020 |
| Receipts: | | |
| Program receipts: | | |
| Charges for services | \$ 889 | \$ 551 |
| Operating grants, contributions and restricted interest | 839 | 540 |
| Capital grants, contributions and restricted interest | 410 | 140 |
| General receipts: | | |
| Property tax | 2,895 | 2,450 |
| Tax increment financing | 337 | 428 |
| Hotel motel tax | - | 52 |
| Other city tax | 42 | 13 |
| Local option sales tax | 435 | 835 |
| Commercial/industrial tax replacement | 18 | 17 |
| Unrestricted interest on investments | 99 | 126 |
| Good faith deposit | - | 18 |
| Note proceeds | 1,822 | - |
| Sale of capital assets | 8 | - |
| Miscellaneous | 80 | 89 |
| Total receipts | <u>7,874</u> | <u>5,259</u> |
| Disbursements: | | |
| Public safety | 2,220 | 1,962 |
| Public works | 538 | 581 |
| Health and social services | 15 | - |
| Culture and recreation | 674 | 622 |
| Community and economic development | 549 | 282 |
| General government | 1,607 | 658 |
| Debt service | 532 | 341 |
| Capital projects | 4,612 | 1,050 |
| Total disbursements | <u>10,747</u> | <u>5,496</u> |
| Change in cash basis net position before transfers | (2,873) | (237) |
| Transfers, net | <u>560</u> | <u>560</u> |
| Change in cash basis net position | (2,313) | 323 |
| Cash basis net position beginning of year | <u>8,702</u> | <u>8,379</u> |
| Cash basis net position end of year | <u>\$ 6,389</u> | <u>\$ 8,702</u> |

The City's total receipts for governmental activities increased 49.7%, or approximately \$2,615,000 from fiscal year 2020. The total cost of all programs and services increased approximately \$5,251,000 or 95.5%. The increase in receipts was primarily the result of an increase in note proceeds. The increase in program costs was the result of an increase in general government and capital project costs in fiscal year 2021.

The City increased the property tax dollar request for fiscal year 2021. Property tax receipts increased by approximately \$445,000 in fiscal year 2021. Based on increases in total assessed valuation, and an increase in the levy

rate, property tax receipts are budgeted to increase an additional \$146,000 next year.

The cost of all governmental activities this year was approximately \$10.747 million compared to approximately \$5.496 million last year. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$8.609 million because some of the cost was paid by those directly benefited from the programs (approximately \$889,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$1.249,000). The City paid for the remaining “public benefit” portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City’s governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2021 from approximately \$1,231,000 to approximately \$2,138,000, due to increased charges for services and operating and capital grants, contributions and restricted interest in fiscal year 2021 compared to fiscal year 2020.

Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)

| | <u>Year ended June 30,</u> | |
|---|----------------------------|------------------------|
| | <u>2021</u> | <u>2020</u> |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 1,417 | \$ 1,076 |
| Sewer | 1,675 | 1,350 |
| Other | 291 | - |
| Operating grants, contributions and restricted interest | <u>68</u> | <u>64</u> |
| Total receipts | <u>3,451</u> | <u>2,490</u> |
| Disbursements: | | |
| Water | 1,135 | 899 |
| Sewer | 775 | 796 |
| Other | <u>240</u> | <u>-</u> |
| Total disbursements | <u>2,150</u> | <u>1,695</u> |
| Change in cash basis net position before transfers | 1,301 | 795 |
| Transfers, net | <u>(560)</u> | <u>(560)</u> |
| Change in cash basis net position | 741 | 235 |
| Cash basis net position beginning of year | <u>1,712</u> | <u>1,477</u> |
| Cash basis net position end of year | <u><u>\$ 2,453</u></u> | <u><u>\$ 1,712</u></u> |

Total business type activities receipts for the fiscal year were approximately \$3.451 million compared to approximately \$2.490 million last year. This increase was due primarily to an increase in charges for service receipts from fiscal year 2020. The cash balance increased approximately \$741,000 from the prior year due to an increase in receipts. Total disbursements for the fiscal year increased 26.84% to approximately \$2,150,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Polk City completed the year, its governmental funds reported a combined fund balance of \$6,389,240, a decrease of \$2,312,506 below last year’s total of \$8,701,746. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$436,504 from the prior year to \$3,875,402. The City is attempting to maintain the General Fund on status quo basis from year to year.
- The Special Revenue, Low-Moderate Income Fund cash balance decreased \$183,856 from the prior year to \$1,446,760. The monies in this fund can only be spent on low to moderate income activities. The City is currently reviewing options in order to spend the monies in this fund.
- The Capital Projects cash balance decreased by \$1,820,371 to \$525,336. The City's major capital project costs are paid from this fund. The balance in this fund consists of unspent bond monies, which will be used to reimburse the Des Moines Water Works for construction activities related to the increased water availability to the City of Polk City.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased by \$343,385 to \$1,218,138. This increase was due to an increase in user rates and an increase in demand.
- The Enterprise, Sewer Fund cash balance increased by \$346,732 to \$1,183,662. This increase was due to an increase in user rates and increase in demand.

BUDGETARY HIGHLIGHTS

During the course of the year, the City amended its budget two times.

The City's receipts were \$959,842 more than budgeted. This was primarily due to the City receiving more charges for service receipts and intergovernmental receipts than anticipated.

The City's disbursements were \$1,118,781 less than the budget. Disbursements in the capital projects and business-type activities functions were \$401,939 and \$257,290 less than the amended budget. The City exceeded the amounts budgeted in the debt service function.

The original budget for 2021 was approved by the City Council on March 23, 2020, and later amended on October 26, 2020 and on May 10, 2021. The budget amendments were necessitated due to an increase in capital project costs and other costs.

DEBT ADMINISTRATION

At June 30, 2021, the City had \$5,300,691 in bonds and other long-term debt outstanding, compared to \$3,959,915 last year, as shown below.

| Outstanding Debt at Year-End (Expressed in Thousands) | | |
|--|--------------------|--------------------|
| | June 30 | |
| | 2021 | 2020 |
| General Obligation Capital Loan Notes | \$5,245,000 | \$3,897,500 |
| Capital Lease | <u>55,691</u> | <u>62,415</u> |
| | <u>\$5,300,691</u> | <u>\$3,959,915</u> |

Debt increased due to a new loan obligation.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,552,524 (including \$307,524 of development and rebate agreements) is significantly below its constitutional debt limit of \$25,725,600. Additional information about the City's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Polk City's elected and appointed officials and citizens will consider many factors when setting the fiscal year 2022 budget, tax rates, and fees charged for various City activities. A major consideration will be street upgrades and improving quality of life through the economic development, acquiring park land, and finding alternatives for outdoor recreation.

These factors all contributed when adopting the fiscal year 2022 budget. The total budgeted revenue for fiscal year 2022 is \$10,067,783. This revenue includes Governmental Activities and Business Type Activities, which includes the Water and Sewer departments. Budgeted expenditures for fiscal year 2022 is \$9,942,732. \$6,960,444 is budgeted for Governmental activity expenditures and \$2,982,288 is for Business Type expenditures. Steps implemented by the City, including the careful utilization of Local Option Sales Tax receipts, increasing certain fees, transferring costs across funds and reducing the costs of the delivery of services allowed the City to maintain positive fund balances for the fiscal year 2022 budget. The property tax rate of \$10.39272, for the fiscal year ending June 30, 2022, is unchanged from the fiscal year 2021 rate.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jenny Coffin, City Clerk/Treasurer of Polk City, 112 3rd Street, P.O. Box 426, Polk City, IA 50266 or email jcoffin@polkcityia.gov.

Basic Financial Statements

City of Polk City

CITY OF POLK CITY

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2021

| | | Program Receipts | | |
|------------------------------------|---------------------|------------------------|--|---|
| | | Charges for Service | Operating Grants Contributions and Restricted Interest | Capital Grants Contributions and Restricted Interest |
| | Disbursements | | | |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 2,220,445 | \$ 865,147 | \$ 72,132 | \$ - |
| Public works | 538,171 | - | 512,473 | - |
| Health and social services | 14,584 | - | - | - |
| Culture and recreation | 673,576 | 22,036 | 102,815 | - |
| Community and economic development | 548,619 | - | - | - |
| General government | 1,607,216 | 1,830 | 151,311 | - |
| Debt service | 531,979 | - | - | - |
| Capital projects | 4,612,097 | - | - | 410,421 |
| Total governmental activities | <u>10,746,687</u> | <u>889,013</u> | <u>838,731</u> | <u>410,421</u> |
| Business type activities: | | | | |
| Water | 1,135,296 | 1,416,672 | 62,009 | - |
| Sewer | 774,675 | 1,675,255 | 5,945 | - |
| Other | 240,298 | 291,069 | - | - |
| Total business type activities | <u>2,150,269</u> | <u>3,382,996</u> | <u>67,954</u> | <u>-</u> |
| Total | <u>\$12,896,956</u> | <u>\$4,272,009</u> | <u>\$906,685</u> | <u>\$ 410,421</u> |

General Receipts and Transfers:

Property and other city tax levied for:
 General purposes
 Debt service
 Tax increment financing
 Other city tax
 Local option sales tax
 Commercial/industrial tax replacement
 Unrestricted interest on investments
 Loan proceeds
 Miscellaneous
 Sale of capital assets
 Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position

Restricted:
 Expendable:
 Streets
 Urban renewal purposes
 Debt service
 Capital projects
 Customer meter deposits
 Other purposes
 Unrestricted

Total cash basis net position

See notes to financial statements.

| Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|--|-----------------------------|----------------|
| Governmental Activities | Business Type Activities | Total |
| \$ (1,283,166) | \$ - | \$ (1,283,166) |
| (25,698) | - | (25,698) |
| (14,584) | - | (14,584) |
| (548,725) | - | (548,725) |
| (548,619) | - | (548,619) |
| (1,454,075) | - | (1,454,075) |
| (531,979) | - | (531,979) |
| (4,201,676) | - | (4,201,676) |
| (8,608,522) | - | (8,608,522) |
| - | 343,385 | 343,385 |
| - | 906,525 | 906,525 |
| - | 50,771 | 50,771 |
| - | 1,300,681 | 1,300,681 |
| (8,608,522) | 1,300,681 | (7,307,841) |
| 2,369,410 | - | 2,369,410 |
| 525,859 | - | 525,859 |
| 336,969 | - | 336,969 |
| 41,826 | - | 41,826 |
| 434,664 | - | 434,664 |
| 18,321 | - | 18,321 |
| 99,338 | - | 99,338 |
| 1,821,512 | - | 1,821,512 |
| 80,599 | - | 80,599 |
| 7,725 | - | 7,725 |
| 559,793 | (559,793) | - |
| 6,296,016 | (559,793) | 5,736,223 |
| (2,312,506) | 740,888 | (1,571,618) |
| 8,701,746 | 1,711,683 | 10,413,429 |
| \$ 6,389,240 | \$2,452,571 | \$ 8,841,811 |
| \$ 238,899 | \$ - | \$ 238,899 |
| 263,089 | - | 263,089 |
| 24,194 | - | 24,194 |
| 525,336 | - | 525,336 |
| - | 41,192 | 41,192 |
| 1,462,320 | - | 1,462,320 |
| 3,875,402 | 2,411,379 | 6,286,781 |
| \$ 6,389,240 | \$2,452,571 | \$ 8,841,811 |

CITY OF POLK CITY

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

As of and for the year ended June 30, 2021

| | | <u>Special Revenue</u> | | |
|---|---------------------------|----------------------------|--------------------------|--------------------------|
| | General | Low- Moderate Income | Capital Projects | Nonmajor |
| Receipts: | | | | |
| Property tax | \$2,369,410 | \$ - | \$ - | \$ 525,859 |
| Tax increment financing | - | 57,815 | - | 336,969 |
| Other city tax | 476,490 | - | - | - |
| Licenses and permits | 403,944 | - | - | - |
| Uses of money and property | 185,184 | - | - | - |
| Intergovernmental | 203,679 | - | 191,065 | 511,546 |
| Charges for service | 485,070 | - | - | - |
| Miscellaneous | 77,250 | - | 219,356 | 1,514 |
| Total receipts | <u>4,201,027</u> | <u>57,815</u> | <u>410,421</u> | <u>1,375,888</u> |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 2,216,169 | - | - | 4,276 |
| Public works | 133,711 | - | - | 404,460 |
| Health and social services | 14,584 | - | - | - |
| Culture and recreation | 673,576 | - | - | - |
| Community and economic development | - | 214,119 | - | 334,500 |
| General government | 1,607,216 | - | - | - |
| Debt service | - | - | - | 531,979 |
| Capital projects | - | - | 4,612,097 | - |
| Total disbursements | <u>4,645,256</u> | <u>214,119</u> | <u>4,612,097</u> | <u>1,275,215</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>(444,229)</u> | <u>(156,304)</u> | <u>(4,201,676)</u> | <u>100,673</u> |
| Other financing sources (uses): | | | | |
| Sale of capital assets | 7,725 | - | - | - |
| Loan proceeds | - | - | 1,821,512 | - |
| Operating transfers in | - | - | 559,793 | 27,552 |
| Operating Transfers out | - | (27,552) | - | - |
| Total other financing sources (uses) | <u>7,725</u> | <u>(27,552)</u> | <u>2,381,305</u> | <u>27,552</u> |
| Change in cash balances | (436,504) | (183,856) | (1,820,371) | 128,225 |
| Cash balances beginning of year | <u>4,311,906</u> | <u>1,630,616</u> | <u>2,345,707</u> | <u>413,517</u> |
| Cash balances end of year | <u><u>\$3,875,402</u></u> | <u><u>\$1,446,760</u></u> | <u><u>\$ 525,336</u></u> | <u><u>\$ 541,742</u></u> |
| Cash Basis Fund Balances | | | | |
| Restricted for: | | | | |
| Streets | \$ - | \$ - | \$ - | \$ 238,899 |
| Urban renewal purposes | - | - | - | 263,089 |
| Debt service | - | - | - | 24,194 |
| Capital projects | - | - | 525,336 | - |
| Other purposes | - | 1,446,760 | - | 15,560 |
| Unassigned | <u>3,875,402</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total cash basis fund balances | <u><u>\$3,875,402</u></u> | <u><u>\$1,446,760</u></u> | <u><u>\$ 525,336</u></u> | <u><u>\$ 541,742</u></u> |

See notes to financial statements.

| Total |
|------------------|
| \$ 2,895,269 |
| 394,784 |
| 476,490 |
| 403,944 |
| 185,184 |
| 906,290 |
| 485,070 |
| 298,120 |
| <u>6,045,151</u> |

| |
|-------------------|
| 2,220,445 |
| 538,171 |
| 14,584 |
| 673,576 |
| 548,619 |
| 1,607,216 |
| 531,979 |
| <u>4,612,097</u> |
| <u>10,746,687</u> |

(4,701,536)

| |
|------------------|
| 7,725 |
| 1,821,512 |
| 587,345 |
| <u>(27,552)</u> |
| <u>2,389,030</u> |

(2,312,506)

8,701,746

\$ 6,389,240

| |
|---------------------|
| \$ 238,899 |
| 263,089 |
| 24,194 |
| 525,336 |
| 1,462,320 |
| <u>3,875,402</u> |
| <u>\$ 6,389,240</u> |

CITY OF POLK CITY

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

As of and for the year ended June 30, 2021

| | Enterprise | | | |
|--|-------------|-------------|-----------|-------------|
| | Water | Sewer | Nonmajor | Total |
| Operating receipts: | | | | |
| Charges for service | \$1,416,672 | \$1,675,255 | \$291,069 | \$3,382,996 |
| Miscellaneous | 62,009 | 5,945 | - | 67,954 |
| Total operating receipts | 1,478,681 | 1,681,200 | 291,069 | 3,450,950 |
| Operating disbursements: | | | | |
| Business type activities: | 1,062,504 | 774,675 | 240,298 | 2,077,477 |
| Total operating disbursements | 1,062,504 | 774,675 | 240,298 | 2,077,477 |
| Excess of operating receipts over operating disbursements | 416,177 | 906,525 | 50,771 | 1,373,473 |
| Non-operating receipts (disbursements): | | | | |
| Capital projects | (72,792) | - | - | (72,792) |
| Net non-operating receipts (disbursements) | (72,792) | - | - | (72,792) |
| Excess of receipts over disbursements | 343,385 | 906,525 | 50,771 | 1,300,681 |
| Transfers out | - | (559,793) | - | (559,793) |
| Change in cash balances | 343,385 | 346,732 | 50,771 | 740,888 |
| Cash balances beginning of year | 874,753 | 836,930 | - | 1,711,683 |
| Cash balances end of year | \$1,218,138 | \$1,183,662 | \$ 50,771 | \$2,452,571 |
| Cash Basis Fund Balances | | | | |
| Restricted for customer meter deposits | \$ 41,192 | \$ - | \$ - | \$ 41,192 |
| Unrestricted | 1,176,946 | 1,183,662 | 50,771 | 2,411,379 |
| Total cash basis fund balances | \$1,218,138 | \$1,183,662 | \$ 50,771 | \$2,452,571 |

See notes to financial statements.

CITY OF POLK CITY

Notes to Financial Statements

June 30, 2021

(1) Summary of Significant Accounting Policies

The City of Polk City (City) is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

These financial statements present the City (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 relationships with City are significant.

Excluded Component Units

The Polk City Firefighters Association was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Polk city Firefighters Association is to support the activities of the Polk City, Iowa fire department.

The Friends of the Polk City Community Library 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 purpose of the Polk City Community Library is to support the activities of the Polk City, Iowa library.

Pursuant to Chapter 501B of the Code of Iowa, the Polk City Police Officers Association (Police Association) is an unincorporated nonprofit association. The Police Association exists for the support of the City's Police Department. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Police Association meets the definition of a component unit which should be discretely presented. Based on these criteria, the Police Association is legally separate from the City but is intertwined with the City it is, in substance, the same as the City.

The above entities have not been audited and, accordingly, these component units have not been presented in the accompanying primary government audited financial statements.

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(1) Summary of Significant Accounting Policies - Continued

Jointly Governed Organizations

In 1998, the City joined with fifteen cities and counties to perpetuate the Des Moines Area Metropolitan Planning Organization (Organization) to plan and coordinate the transportation activities for the metropolitan area. The Organization's Board consists of a representative from the governing body of each member city. The members make contributions toward the budget of the Organization.

In 1969, the City, in conjunction with seventeen other cities, created the Metro Waste Authority (the Authority). The Authority Board consists of an elected representative of the governing body of each participating governmental jurisdiction. The purpose of this joint governmental body is to provide for the economical disposal of all solid waste produced or generated by the jurisdictions and private contractors.

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 for a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following Boards: Polk County Assessor's Conference Board, Joint/County Municipal Disaster Services and Emergency Planning Administration for Polk County, E911 Joint Service Board, Central Iowa Regional Drinking Water Commission, BRAVO, the Polk City Development Corporation and the Greater Des Moines Convention and Visitor's Bureau.

Joint Venture

The City also participates in the Des Moines Metropolitan Wastewater Reclamation Authority (WRA). The WRA, a joint venture, was developed as a result of an agreement between the City of Des Moines and surrounding municipalities. See Note 5.

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:

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.

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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, proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

The Special Revenue, Low-Moderate Income Fund is used to account for low to moderate income monies, and for the related monies spent on the low to moderate income program in the City.

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

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

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

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(1) Summary of Significant Accounting Policies - Continued

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 revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 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:

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 debt service function.

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(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 insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$4. 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) Public Service Agreement

The City has entered into a contract with Polk County for a joint public service agreement. During the year ended June 30, 2021, the City paid \$559,793 to Polk County in relation to this agreement. Based on the payment schedule, as of June 30, 2021, the City is expected to pay Polk County an additional \$11,170,597 through fiscal year 2042 for this agreement.

(4) Installment Contract

The City has entered into an installment contract with the Iowa Department of Transportation (DOT) for the construction of turn lanes on Highway 415. The agreement is for \$391,585. The agreement is non-interest bearing and calls for four annual installments of \$97,896 beginning in fiscal year 2019. The City made a payment of \$97,896 to the DOT in fiscal year 2021. Balance on the contract at June 30, 2021 was \$97,896.

(5) Joint Venture and Commitments

The city is a participating community in the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) joint venture. This joint venture provides primary and secondary treatment of sewer flows for the participating communities. The Amended and Restated Agreement for the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) was effective on July 1, 2004, with the second amended and restated agreement becoming effective on June 11, 2014. This agreement amended and restated the previous Integrated Community Area (I.C.A.) Agreement to provide continued operation, improvements and expansion. The WRA Agreement established the WRA as a separate legal entity with its own Board, creates an independent governance structure, establishes an independent bonding authority for the WRA and provides framework for additional communities to participate.

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(5) Joint Venture and Commitments - Continued

Annually, the WRA establishes an allocation to all participating communities based on operations, maintenance, debt service and reserve requirements. Allocation are based on wastewater reclamation facility flows and are adjusted prospectively for differences in budgeted flows and actual flows.

The City retains an ongoing financial responsibility to the WRA since it is obligated in some manner for the debts of the joint venture through annual allocation. Although the debt of the WRA is to be paid solely and only from WRA revenues, the participating communities in the joint venture cannot withdraw from the joint venture while any of the bonds issued during the time the communities were a participating community are still outstanding. The WRA Sewer Revenue Bonds Series 2013B and 2015E include provisions that place the WRA debt service requirements on the same parity and rank as other debts of the participating communities.

The WRA Sewer Revenue Bonds Series 2015E, and 2013 Bonds were issued for capital expansion. The WRA Agreement requires the debt service on these bonds to be allocated to the participating communities based on the WRA flows of the core communities and expansion communities of each calendar year. As of June 30, 2021, the Series 2015E and 2013B bonds had a balance of \$63,310,000 and the City of Polk City estimated future allocation based on the WRA flows is currently \$612,122 or 0.97%. The State Revolving Loans are to be paid by the participating communities based on the existing allocations under the prior I.C.A. agreement. As of June 30, 2021 the state revolving loans had a balance of \$346,698,902 and the City of Polk City's estimated future allocation based on the WRA flows is currently \$3,043,299 or 0.88%.

The WRA Agreement does not provide the determination of an equity interest for the participating communities. Withdrawing from the joint venture is a forfeit of all reversionary interest and no compensation will be paid. The City retains a reversionary interest percentage in the net position of the WRA redeemable only in the event the WRA is dissolved. Since there is no specific and measurable equity interest in the WRA agreement, no investment in the joint venture has been reported by the City. During the year ended June 30, 2021, the City paid the WRA \$353,141 for operations, maintenance, equipment replacements and debt service payments.

The WRA issues separate financial statements that may be obtained at 3000 Vandalia Road, Des Moines, Iowa 50317-1346.

(6) Bonds and Notes Payable

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

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> | <u>Due Within One Year</u> |
|-------------------------------|-------------------------------|--------------------|-------------------|----------------------------|--------------------------------|
| Government activities: | | | | | |
| General obligation notes | <u>\$3,880,000</u> | <u>\$1,750,000</u> | <u>\$ 385,000</u> | <u>\$5,245,000</u> | <u>\$ 495,000</u> |
| Governmental activities total | <u>\$3,880,000</u> | <u>\$1,750,000</u> | <u>\$ 385,000</u> | <u>\$5,245,000</u> | <u>\$ 495,000</u> |

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(6) Bonds and Notes Payable - Continued

General Obligation Notes

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

| Year Ending June 30, | Sewer Issued September 9, 2014 | | |
|----------------------------|-----------------------------------|-------------------|------------------|
| | Interest Rate | Principal | Interest |
| 2022 | 2.00% | \$ 110,000 | \$ 24,245 |
| 2023 | 2.20 | 115,000 | 22,045 |
| 2024 | 2.30 | 115,000 | 19,515 |
| 2025 | 2.40 | 120,000 | 16,870 |
| 2026 | 2.55 | 120,000 | 13,990 |
| 2027-2031 | 2.70-2.90 | 390,000 | 22,400 |
| 2032-2036 | - | - | - |
| 2037-2038 | - | - | - |
| Total | | <u>\$ 970,000</u> | <u>\$119,065</u> |

| Year Ending June 30, | Water Issued July 24, 2018 | | |
|----------------------------|-------------------------------|---------------------|-------------------|
| | Interest Rate | Principal | Interest |
| 2022 | 3.00% | \$ 120,000 | \$ 86,445 |
| 2023 | 3.00 | 120,000 | 82,845 |
| 2024 | 3.00 | 125,000 | 79,245 |
| 2025 | 3.00 | 130,000 | 75,495 |
| 2026 | 3.00 | 130,000 | 71,595 |
| 2027-2031 | 3.00-3.25 | 730,000 | 292,250 |
| 2032-2036 | 3.00-3.25 | 910,000 | 161,187 |
| 2037-2038 | 3.35 | <u>420,000</u> | <u>21,273</u> |
| Total | | <u>\$ 2,685,000</u> | <u>\$ 870,335</u> |

| Year Ending June 30, | Street Improvements Issued July 28, 2020 | | |
|----------------------------|---|---------------------|-------------------|
| | Interest Rate | Principal | Interest |
| 2022 | 2.00% | \$ 265,000 | \$ 31,800 |
| 2023 | 2.00 | 155,000 | 26,500 |
| 2024 | 2.00 | 160,000 | 23,400 |
| 2025 | 2.00 | 160,000 | 20,200 |
| 2026 | 2.00 | 165,000 | 17,000 |
| 2027-2031 | 2.00 | 685,000 | 34,600 |
| 2032-2036 | | - | - |
| 2037-2038 | | - | - |
| Total | | <u>\$ 1,590,000</u> | <u>\$ 153,500</u> |

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(6) Bonds and Notes Payable - Continued

| Year Ending June 30, | Total | | |
|----------------------------|---------------------|---------------------|---------------------|
| | Principal | Interest | Total |
| 2022 | \$ 495,000 | \$ 142,490 | \$ 637,490 |
| 2023 | 390,000 | 131,390 | 521,390 |
| 2024 | 400,000 | 122,160 | 522,160 |
| 2025 | 410,000 | 112,565 | 522,565 |
| 2026 | 415,000 | 102,585 | 517,585 |
| 2027-2031 | 1,805,000 | 349,250 | 2,154,250 |
| 2032-2036 | 910,000 | 161,187 | 1,071,187 |
| 2037-2038 | <u>420,000</u> | <u>21,273</u> | <u>441,273</u> |
| Total | \$ <u>5,245,000</u> | \$ <u>1,142,900</u> | \$ <u>6,387,900</u> |

On September 9, 2014, the City issued \$1,720,000 of general obligation capital loan notes with interest rates ranging from 0.50% to 2.90% per annum. The notes were issued to pay costs of the acquisition, construction, reconstruction, extension, improvement, and equipping of works and facilities useful for the collection treatment, and disposal of sewage and industrial waste in a sanitary manner, and for the collection and disposal of surface waters and streams, including acquisition of a reversionary interest in a portion of the assets of the Wastewater Reclamation Authority. During the year ended June 30, 2021, the City paid \$110,000 of principal and \$26,225 of interest on the notes.

On July 24, 2018, the City issued \$3,000,000 of general obligation capital loan notes with interest rates ranging from 2.00% to 3.35% per annum. The notes were issued to pay costs of acquisition, construction, reconstruction, improvement, repair, and equipping of waterworks, water mains, and extensions and real personal property, useful for providing potable water to residents. During the year ended June 30, 2021, the City paid \$115,000 of principal and \$89,895 of interest on the notes.

On July 28, 2020 the City issued \$1,750,000 of general obligation street improvements loan notes with interest rates of 2.00% per annum. The notes were issued to pay costs for constructing street and incidental sanitary sewer, water system and storm water drainage improvements; and acquiring and installing street lighting, signage and signalization. During the year ended June 30, 2021, the City paid \$160,000 of principal and \$29,458 of interest on the notes.

Capital Lease

The city is leasing a police vehicle under a capital lease. The balance of the lease is \$55,698 as of June 30, 2021. Monthly payments are \$1,588, including interest at 9.9 percent. The lease is collateralized by the police vehicle.

As of June 30, 2021, the present value of future minimum capital lease payments are as follows:

| | |
|---|-----------------|
| June 30, 2022 | \$19,056 |
| June 30, 2023 | 19,056 |
| June 30, 2024 | 19,056 |
| June 30, 2025 | <u>9,529</u> |
| Total minimum lease payments | 66,697 |
| Less amount representing interest | <u>11,007</u> |
| Present value of net minimum capital lease payments | <u>\$55,690</u> |

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(7) Private Facility Revenue Bonds

Revenue Bonds and Notes

The City has issued a total of \$7,000,000 of Healthcare Facilities Revenue Bond (Brio Project) Series 2017A and Healthcare Facilities Revenue Bond (Brio Project), Subordinate Series 2017D under the provisions of Chapter 419 of the Code of Iowa, of which \$6,025,833 is outstanding at June 30, 2021. The bonds and related interest are payable solely out of the revenues derived from the loan agreement and are not an obligation of the City.

(8) Pension Plan

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

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

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching 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 after reaching age 50 with 22 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 reductions is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(8) Pension Plan - Continued

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 of Polk 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 \$180,411.

Net Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2021, the City of Polk City reported a liability of \$861,565 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 0.0122647%, which was an increase of 0.001094% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021 the City of Polk City pension expense, deferred outflows of resources and deferred inflows of resources totaled \$219,604, \$298,588 and \$149,113, respectively.

There were no non-employer contributing entities to IPERS.

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

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(8) Pension Plan - Continued

| | |
|--|---|
| 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 Health 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%</u> | |

Discount Rate - The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City of Polk 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 7.0%, as well as what the City's proportionate share of the net pension liability

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(8) Pension Plan - Continued

would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate.

| | 1% Decrease <u>(6.0%)</u> | Discount Rate <u>(7.0%)</u> | 1% Increase <u>(8.0%)</u> |
|--|---------------------------------|-----------------------------------|---------------------------------|
| City of Polk City's proportionate share of the net pension liability | \$1,859,860 | \$861,565 | \$25,060 |

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

(9) Operating Lease Agreements

The City entered into various operating leases to lease police department equipment. These leases have been classified as operating leases and, accordingly, all rents are charged to expense as incurred.

The following is a schedule of future payments required under the operating leases which have an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2021:

| Year ending <u>June 30,</u> | |
|--------------------------------|------------------|
| 2022 | \$ 36,420 |
| 2023 | 38,420 |
| 2024 | <u>2,000</u> |
| | <u>\$ 76,840</u> |

During the fiscal year, total disbursements incurred in relation to these agreements were \$36,420.

(10) Other Post-Employment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug, dental and vision benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa 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 \$303,904 and plan members eligible for benefits contributed \$27,477 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 the City 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 participant must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of service. At June 30, 2021, the following employees were covered by the benefit terms:

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefit payments | 2 |
| Active employees | <u>20</u> |
| Total | <u>22</u> |

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(11) Termination Benefits

The City has entered into an agreement with the City Manager which formally identifies the financial obligations of the City to her in the event of an involuntarily employment termination without just cause. The severance agreement provides for a termination payment equal to six months of wages plus six months of medical insurance benefits. The compensation rate is based upon the compensation paid to the applicable employee at the time of termination.

(12) Compensated Absences

City employees accumulate a limited amount of earned but unused paid time off hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned termination payments payable to employees at June 30, 2021 is \$153,441. This liability has been computed based on rates of pay in effect at June 30, 2021.

The City's policy allows employees who had previously accrued unused sick leave, up to a maximum of 160 hours. To use the hourly rate of pay used for the payment of unused sick leave would be the hourly pay in effect at the date of retirement. Employees eligible are employees, who had accrued this benefit before the revision of the plan, retire from the City, and have unused sick leave hours on the date of retirement. Based on the rates of pay in effect at June 30, 2021, the unused sick leave maximum liability to the City is \$5,311 at June 30, 2021.

(13) Lease Income

The City is leasing antenna space on the water tower and City buildings to communication providers and to Polk County. The length of the lease terms vary from year to year to terms of five years with options to extend for additional years at the option of the tenants. The lease terms contain provisions of monthly or yearly rent amounts and increase in rents. The City received \$83,521 from tenants in fiscal year 2021 from the leases.

(14) Related Party Transactions

The City had business transactions between the City and City officials totaling \$371,994 during the year ended June 30, 2021.

(15) Interfund Transfers

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

| Transfer to | Transfer from | Amount |
|-------------------------|---------------------|-------------------|
| Special Revenue: | Special Revenue: | |
| Tax increment financing | Low moderate income | \$ <u>27,552</u> |
| Capital Projects | Enterprise: | |
| | Sewer | <u>559,793</u> |
| | Total | \$ <u>587,345</u> |

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(15) Interfund Transfers - Continued

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

(16) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 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 casual 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 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 \$58,659.

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. At June 30, 2021, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(16) Risk Management - Continued

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 for each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee. 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.

(17) Development Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction or improvement of buildings and infrastructure. Each payment represents the incremental property tax received by the City with respect to the incremental value of the property, reduced by the minimum amount required by Section 403.22 of the Code of Iowa. The low and moderate set aside amount shall be retained by the City for the purpose of providing assistance to low and moderate income families. The remaining total to be paid by the City to the developers under the agreements is approximately \$3,440,000.

The City rebated \$334,500 to the developers during fiscal year 2021. The outstanding balance of the agreements at June 30, 2021 with fixed dollar commitments was \$307,524. The outstanding balance agreements at June 30, 2021 subject to annual appropriation was approximately \$3,133,000.

(18) Tax Abatements

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

City Tax Abatements

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

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(18) Tax Abatements - Continued

by the City as part of these agreements.

For the year ended June 30, 2021, the City abated \$94,522 property tax under the urban renewal and economic development agreements.

Tax Abatements of Other Entities

Property tax revenues of the City were reduced by the following amounts for the year ended June 30, 2021 under agreements entered into by the following entity:

| Entity | Tax Abatement Program | Amount of Tax Abated |
|--|--|-------------------------|
| Polk County Tax increment financing | Urban renewal and economic development projects | \$ 77,517 |

(19) Commitments

The City has entered into contracts for various construction projects. These projects primarily consist of street repair and street construction. Total amount remaining to be paid on these contracts were approximately \$434,000 as of June 30, 2021. These construction costs will be paid by the City as work on the projects progresses.

In March 2018, the City and the Des Moines Waterworks (DMWW) entered into a 28-E agreement. This 28-agreement is for water system improvements due to the increased demand for water by the City from DMWW. The City and DMWW will share these costs, with the total project cost of approximately \$3,833,000. The City's share is approximately \$2,419,000, with the balance of the costs paid for by the DMWW. The City's portion of this cost will be paid for from proceeds received from the issuance of general obligation capital loan notes. As of June 30, 2021, the City of Polk City share of approximately \$398,000 remains to be paid on this project. This amount will be paid by the City as work on the project progresses. It is anticipated the costs for this project will be paid for from existing cash reserves.

The Waterworks agreed to a forty year purchase agreement with Des Moines Waterworks in 2005. As part of this forty year agreement, the Waterworks agreed to purchase no more than the purchase capacity as noted in the agreement.

(20) COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to business 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 Polk City remains uncertain.

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

CITY OF POLK CITY

Notes to Financial Statements - Continued

June 30, 2021

(21) Subsequent Events

The City has evaluated all subsequent events through December 2, 2021, the date the financial statements were available to be issued.

In August 2021, the City issued \$2,930,000 of General Obligation Corporate Purpose Bonds and Refunding Bonds.

(22) Prospective accounting change

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

City of Polk City

Other Information

CITY OF POLK CITY

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 |
|--|---------------------------------|--------------------------------|--------------|
| Receipts: | | | |
| Property tax | \$ 2,895,269 | \$ - | \$ 2,895,269 |
| Tax increment financing | 394,784 | - | 394,784 |
| Other City tax | 476,490 | - | 476,490 |
| Licenses and permits | 403,944 | - | 403,944 |
| Uses of money and property | 185,184 | - | 185,184 |
| Intergovernmental | 906,290 | - | 906,290 |
| Charges for service | 485,070 | 3,382,996 | 3,868,066 |
| Miscellaneous | 298,120 | 67,954 | 366,074 |
| Total receipts | 6,045,151 | 3,450,950 | 9,496,101 |
| Disbursements: | | | |
| Public safety | 2,220,445 | - | 2,220,445 |
| Public works | 538,171 | - | 538,171 |
| Health and social services | 14,584 | - | 14,584 |
| Culture and recreation | 673,576 | - | 673,576 |
| Community and economic development | 548,619 | - | 548,619 |
| General government | 1,607,216 | - | 1,607,216 |
| Debt service | 531,979 | - | 531,979 |
| Capital projects | 4,612,097 | - | 4,612,097 |
| Business type activities | - | 2,150,269 | 2,150,269 |
| Total disbursements | 10,746,687 | 2,150,269 | 12,896,956 |
| Excess (deficiency) of receipts over (under) disbursements | (4,701,536) | 1,300,681 | (3,400,855) |
| Other financing sources (uses), net | 2,389,030 | (559,793) | 1,829,237 |
| Excess (deficiency) of receipts over (under) disbursements and other financing uses | (2,312,506) | 740,888 | (1,571,618) |
| Balances beginning of year | 8,701,746 | 1,711,683 | 10,413,429 |
| Balances end of year | \$ 6,389,240 | \$2,452,571 | \$ 8,841,811 |

See accompanying independent auditor's report.

| <u>Budgeted Amounts</u> | | Final to Actual Variance Positive (Negative) |
|-------------------------|---------------------|--|
| <u>Original</u> | <u>Final</u> | |
| \$2,846,655 | \$ 2,846,655 | \$ 48,614 |
| 335,461 | 335,461 | 59,323 |
| 704,782 | 822,687 | (346,197) |
| 249,925 | 310,925 | 93,019 |
| 215,400 | 215,400 | (30,216) |
| 508,732 | 539,732 | 366,568 |
| 3,166,389 | 3,433,819 | 434,247 |
| 31,580 | 31,580 | 334,494 |
| 8,058,924 | 8,536,259 | 959,842 |
| 1,981,487 | 2,322,987 | 102,542 |
| 624,772 | 624,772 | 86,601 |
| 15,000 | 17,000 | 2,416 |
| 809,498 | 847,998 | 174,422 |
| 371,461 | 581,461 | 32,842 |
| 753,659 | 1,671,564 | 64,348 |
| 528,360 | 528,360 | (3,619) |
| 1,259,793 | 5,014,036 | 401,939 |
| 2,140,129 | 2,407,559 | 257,290 |
| 8,484,159 | 14,015,737 | 1,118,781 |
| (425,235) | (5,479,478) | 2,078,623 |
| - | 2,107,780 | (278,543) |
| (425,235) | (3,371,698) | 1,800,080 |
| 8,665,089 | 8,665,089 | 1,748,340 |
| <u>\$8,239,854</u> | <u>\$ 5,293,391</u> | <u>\$3,548,420</u> |

CITY OF POLK CITY

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, Permanent Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$5,531,578. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2021, disbursements exceeded the amounts budgeted in the debt service fund.

City of Polk City

CITY OF POLK CITY

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

Iowa Public Employees' Retirement System For the Last Seven Years* (In Thousands)

Other Information

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| City's proportion of the net pension liability | 0.0122647% | 0.0111703% | 0.011836% | 0.011043% | 0.011811% |
| City's proportionate share of the net pension liability | \$ 862 | \$ 647 | \$ 749 | \$ 736 | \$ 743 |
| City's covered payroll | \$ 1,661 | \$ 1,609 | \$ 1,450 | \$ 1,346 | \$ 1,355 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 51.90% | 40.21% | 51.66% | 54.68% | 54.83% |
| IPERS' net position as a percentage of the total pension liability | 82.90% | 85.45% | 83.62% | 82.21% | 81.82% |

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

See accompanying independent auditor's report.

| <u>2016</u> | <u>2015</u> |
|-------------|-------------|
| 0.100480% | 0.07573% |
| \$ 518 | \$ 300 |
| \$ 1,349 | \$ 1,155 |
| 38.40% | 25.97% |
| 85.19% | 87.61% |

CITY OF POLK CITY

Schedule of City's Contributions

Iowa Public Employees' Retirement System For the Last 10 Fiscal Years (In Thousands)

Other Information

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|--------------|--------------|--------------|--------------|
| Statutorily required contribution | \$ 172 | \$ 161 | \$ 157 | \$ 135 |
| Contributions in relation to the statutorily required contribution | <u>(172)</u> | <u>(161)</u> | <u>(157)</u> | <u>(135)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City of Polk City's covered payroll | \$ 1,812 | \$ 1,661 | \$ 1,609 | \$ 1,450 |
| Contributions as a percentage of covered payroll | 9.52% | 9.63% | 9.76% | 9.31% |

* - City's covered employee payroll information was not readily available. Therefore, contributions as a percentage of covered employee could not be calculated.

See accompanying independent auditor's report.

| <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--------------|--------------|--------------|--------------|--------------|-------------|
| \$ 125 | \$ 126 | \$ 127 | \$ 109 | \$ 101 | \$ 82 |
| <u>(125)</u> | <u>(126)</u> | <u>(127)</u> | <u>(109)</u> | <u>(101)</u> | <u>(82)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 1,346 | \$ 1,355 | \$ 1,349 | \$ 1,155 | \$ 1,083 | * |
| 9.29% | 9.30% | 9.41% | 9.44% | 9.33% | * |

CITY OF POLK CITY

Notes to Other Information - Pension Liability

Year ended June 30, 2021

Changes of benefit terms:

There are significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of 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.

Supplementary Information

CITY OF POLK CITY

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

As of and for the year ended June 30, 2021

| | Special Revenue | | | |
|---|-----------------|----------------------|-------------------------------|---------------------|
| | Road Use Tax | Polk City Library | Tax Increment Financing | Asset Forfeiture |
| Receipts: | | | | |
| Property tax | \$ - | \$ - | \$ - | \$ - |
| Tax increment financing | - | - | 336,969 | - |
| Intergovernmental | 511,546 | - | - | - |
| Miscellaneous | (122) | - | - | 1,636 |
| Total receipts | 511,424 | - | 336,969 | 1,636 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | - | - | - | 4,276 |
| Public works | 404,460 | - | - | - |
| Community and economic development | - | - | 334,500 | - |
| Debt service | - | - | - | - |
| Total disbursements | 404,460 | - | 334,500 | 4,276 |
| Excess (deficiency) of receipts over (under) disbursements | - | - | 2,469 | (2,640) |
| Other financing sources (uses): | - | - | 27,552 | - |
| Transfers in | - | - | - | - |
| Total other financing sources (uses) | - | - | 27,552 | - |
| Change in cash balances | 106,964 | - | 30,021 | (2,640) |
| Cash balances beginning of year | 131,935 | 13,874 | 233,068 | 4,326 |
| Cash balances end of year | \$238,899 | \$ 13,874 | \$263,089 | \$ 1,686 |
| Cash Basis Fund Balances | | | | |
| Restricted for | | | | |
| Streets | \$238,899 | \$ - | \$ - | \$ - |
| Urban renewal purposes | - | - | 263,089 | - |
| Debt service | - | - | - | - |
| Other purpose | - | 13,874 | - | 1,686 |
| Total cash basis fund balances | \$238,899 | \$ 13,874 | \$263,089 | \$ 1,686 |

See accompanying independent auditor's reports.

| <u>Special Revenue</u> | |
|-------------------------|-------------------|
| <u>Debt Service</u> | <u>Total</u> |
| \$ 525,859 | \$ 525,859 |
| - | 336,969 |
| - | 511,546 |
| - | 1,514 |
| <u>525,859</u> | <u>1,375,888</u> |
| - | 4,276 |
| - | 404,460 |
| - | 334,500 |
| <u>531,979</u> | <u>531,979</u> |
| <u>537,979</u> | <u>1,275,215</u> |
| (6,120) | 100,673 |
| - | <u>27,552</u> |
| - | <u>27,552</u> |
| (6,120) | 128,225 |
| <u>30,314</u> | <u>413,517</u> |
| <u>\$ 24,194</u> | <u>\$ 541,742</u> |
| \$ - | \$ 238,899 |
| - | 263,089 |
| 24,194 | 24,194 |
| - | <u>15,560</u> |
| <u>\$ 24,194</u> | <u>\$ 541,742</u> |

CITY OF POLK CITY

Schedule of Cash Receipts, Disbursements and Changes in Cash Balance
Nonmajor Proprietary Funds

Year ended June 30, 2021

| | Enterprise | | |
|---------------------------------------|----------------|----------------|-----------|
| | Storm Water | Solid Waste | Total |
| Operating receipts: | | | |
| Charges for services | \$21,304 | \$269,765 | \$291,069 |
| Total operating receipts | 21,304 | 269,765 | 291,069 |
| Operating Disbursements: | | | |
| Business type activities | - | 240,298 | 240,298 |
| | - | 240,298 | 240,298 |
| Excess of receipts over disbursements | 21,304 | 29,467 | 50,771 |
| Net change in cash balances | 21,304 | 29,467 | 50,771 |
| Cash balances end of year | \$21,304 | \$29,467 | \$50,771 |
| Cash Basis Fund Balances | | | |
| Unrestricted | \$21,304 | \$29,467 | \$50,771 |
| Total cash fund balances | \$21,304 | \$29,467 | \$50,771 |

See accompanying independent auditor's report.

City of Polk City

CITY OF POLK CITY

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

For the Last Ten Years

| | Years ended June 30, | | | | |
|------------------------------------|----------------------|--------------------|--------------------|--------------------|--------------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| Receipts: | | | | | |
| Property tax | \$ 2,895,269 | \$2,450,439 | \$2,238,899 | \$1,556,028 | \$1,477,784 |
| Tax increment financing | 394,784 | 448,090 | 342,325 | 303,269 | 205,236 |
| Other city tax | 476,490 | 899,995 | 1,799,474 | 2,272,506 | 3,071,048 |
| Licenses and permits | 403,944 | 196,088 | 249,119 | 175,342 | 271,845 |
| Use of money and property | 185,184 | 222,178 | 225,876 | 146,243 | 139,939 |
| Intergovernmental | 906,290 | 538,213 | 512,753 | 476,657 | 471,738 |
| Charges for service | 485,070 | 354,808 | 282,075 | 338,127 | 287,139 |
| Miscellaneous | 298,120 | 131,868 | 41,371 | 134,335 | 62,259 |
| Total | <u>\$ 6,045,151</u> | <u>\$5,241,679</u> | <u>\$5,691,892</u> | <u>\$5,402,507</u> | <u>\$5,986,988</u> |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public safety | \$ 2,220,445 | \$1,961,617 | \$1,943,932 | \$1,660,443 | \$1,653,802 |
| Public works | 538,171 | 580,809 | 633,879 | 830,278 | 501,618 |
| Health and social services | 14,584 | - | 4,433 | 246 | 3,628 |
| Culture and recreation | 673,576 | 621,853 | 802,481 | 649,961 | 567,132 |
| Community and economic development | 548,619 | 282,348 | 233,569 | 187,103 | 158,023 |
| General government | 1,607,216 | 658,273 | 1,119,597 | 959,635 | 930,321 |
| Debt service | 531,979 | 340,880 | 305,627 | 136,215 | 137,160 |
| Capital projects | 4,612,097 | 1,050,297 | 1,753,813 | 1,629,055 | 945,265 |
| Total | <u>\$10,746,687</u> | <u>\$5,496,077</u> | <u>\$6,797,331</u> | <u>\$6,502,936</u> | <u>\$4,896,949</u> |

See accompanying independent auditor's report.

| 2016 | 2015 | 2014 | 2013 | 2012 |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$1,287,288 | \$ 975,259 | \$ 956,228 | \$ 900,682 | \$ 865,408 |
| 366,633 | 601,154 | 363,211 | 351,706 | 211,612 |
| 3,659,183 | 2,555,860 | 2,562,061 | 2,688,640 | 2,496,426 |
| 175,502 | 155,958 | 139,514 | 6,751 | 4,212 |
| 115,731 | 72,102 | 111,349 | 123,139 | 115,074 |
| 460,675 | 426,405 | 395,682 | 369,847 | 375,210 |
| 320,755 | 375,777 | 492,289 | 522,178 | 373,447 |
| 51,771 | 94,838 | 35,193 | 9,835 | 80,546 |
| <u>\$6,437,538</u> | <u>\$5,257,353</u> | <u>\$5,055,527</u> | <u>\$4,972,778</u> | <u>\$4,521,935</u> |

| | | | | |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$1,443,585 | \$1,400,298 | \$1,419,542 | \$ 1,381,726 | \$1,209,217 |
| 622,858 | 539,584 | 436,576 | 465,306 | 388,778 |
| 111 | 2,719 | 2,692 | - | 2,569 |
| 501,713 | 487,125 | 400,294 | 362,769 | 363,820 |
| 487,007 | 393,685 | 84,548 | 85,706 | 329,877 |
| 849,250 | 826,949 | 600,573 | 690,176 | 553,114 |
| 137,395 | 150,042 | - | - | - |
| 1,450,384 | 951,724 | 1,644,495 | 943,558 | 1,863,968 |
| <u>\$5,492,303</u> | <u>\$4,752,126</u> | <u>\$4,588,720</u> | <u>\$3,929,241</u> | <u>\$4,711,343</u> |

City of Polk City



MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS
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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 and the aggregate remaining fund information of the City of Polk City, 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 December 2, 2021. Our report expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the Polk City Firefighters Association, the Friends of the Polk City Public Library and the Polk City Police Officers Association.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting as a basis for designing audit procedures that are 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 Polk City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as items I-A-21 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

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.

City of Polk City's Responses to the Findings

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

Purpose of this Report

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

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

Martens & Company, CPA, LLP

West Des Moines, Iowa
December 2, 2021

CITY OF POLK CITY

Schedule of Findings

Year ended June 30, 2021

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-21 Segregation of Duties

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

Condition - Generally, one or two individuals have control over each of the following areas for the City:

- (1) Cash - preparing bank account reconciliations, cash receipt and disbursement functions and handling and recording cash. There is not independent review of the bank reconciliations.
- (2) Receipts - collecting, depositing, recording and posting. The initial listing is not reviewed by an independent person.
- (3) Disbursements - purchasing, check preparation, signing, recording and posting.
- (4) Payroll - recordkeeping, preparation and distribution.

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 - The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff.

Response - The City continuously looking at ways to improve their processes. We have made many changes on segregation of duties and believe we may have a system that would detect errors or misappropriations.

Conclusion - Response accepted.

CITY OF POLK CITY

Schedule of Findings - Continued

Year ended June 30, 2021

Part I: Findings Related to the Financial Statements - Continued:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-21 Certified Budget - Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the debt service. 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.

II-B-21 Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

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

II-D-21 Business Transactions - Business transaction between the City and City officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction/ Description</u> | <u>Amount</u> |
|--|-------------------------------------|---------------|
| Jeff Walters, Council Member | Engineering related services | \$371,994 |
| Employee of Snyder & Associates | | |

In accordance with Chapter 362.5(3)(i) of the Code of Iowa, the transactions with Snyder & Associates do not appear to represent a conflict of interest since the Council Member does not own stock in Snyder & Associates.

II-E-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.

II-F-21 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF POLK CITY

Schedule of Findings - Continued

Year ended June 30, 2021

Part II: Other Findings Related to Required Statutory Reporting - Continued:

II-G-21 Deposit and Investments - No instances of non-compliance with the deposit and investment provision of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-21 Financial Condition - The Special Revenue, Low-Moderate Income (LMI) Fund had a fund balance of \$1,446,760 at June 30, 2021. Total expenditures from this fund in fiscal year were \$214,119.

Recommendation - The City should ensure the balance in the Special Revenue, Low-Moderate Income Fund is reasonable and reflects funds as proscribed by agreements.

Response - We will review the Special Revenue, Low Moderate Income Fund for reasonableness. We are exploring our options to spend these Special Revenue funds.

Conclusion - Response acknowledged.

II-I-21 Tax Increment Financing - Chapter 403.19(6)(b) of the Code of Iowa required the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

In relation of the City's prior TIF certifications it was reported that an incorrect total rebate amount was certified to the county auditor. This resulted in the City getting overpaid in a prior year for tax increment property tax collections to the developers and special revenue fund because of an incorrect tax levy rate that has not yet been corrected.

Recommendation - The City should consult with TIF legal counsel to determine the disposition of these matters.

Response - The City has correctly calculated the 2021 payments but recognizes it still needs to correct the 2020 amounts and will address this with the TIF certification due next year.

Conclusion - Response acknowledged.

II-J-21 Annual Urban Renewal Report - The Annual Urban Renewal Report was approved and was initially certified to the Iowa Department of Management on or before December 1. However, we noted that the year-end cash balance outstanding TIF obligations as reported on the Levy Authority Summary page do not agree to the City's records.

Recommendation - The City should ensure the year-end cash balance outstanding TIF obligations reported on the Annual Urban Renewal Report agree to the City's records.

Response - We have made this correction to the reporting of the Annual Urban Renewal Report.

Conclusion - Response acknowledged.

CITY OF POLK CITY

Schedule of Findings - Continued

Year ended June 30, 2021

Part II: Other Findings Related to Required Statutory Reporting - Continued:

| | |
|---------|--|
| II-K-21 | <u>Restricted Donor Activity</u> - No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa. |
|---------|--|