

POLK COUNTY, IOWA

Management's Discussion and Analysis For the Year Ended June 30, 2016

This section of Polk County's ("County") annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended June 30, 2016. Please read this section in conjunction with the transmittal letter at the front of this report and with the County's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The County's total net position increased by \$4.3 million (1%) to \$337.7 million which included a \$14.2 million (17%) increase in net position of governmental activities and a \$9.9 million (4%) decrease in net position of business-type activities.
- Net position of the County's governmental activities increased primarily due to a \$16.2 million increase in net investment in capital assets, a \$14.4 million decrease in pension related deferred inflows of resources over increases in other deferred inflows of resources and \$5.5 million decrease in balances of long-term debt. Net position of business-type activities decreased primarily due to the reduction of capital assets of \$5.1 million for the conveyance of Rock Creek Trunk Sewer Segments 1-5 to the Wastewater Reclamation Authority (WRA) and the increase in accumulated depreciation over capital acquisitions for Prairie Meadows and the Iowa Events Center.
- In the County's governmental activities, total revenues increased \$7.9 million (4%) primarily due to an increase in state tax credits and replacements against levied property taxes, property tax revenues and capital grants and contributions of \$4.8 million, \$4.3 million and \$3.2 million, respectively, over decreases in charges for services and operating grants and contributions. Total expenses increased \$8.1 million (4%) primarily due to an increase in public safety and legal services, roads and transportation and physical health and social services expenses of \$3.1 million, \$2.2 million and \$2 million respectively.
- In the County's business-type activities, total revenues decreased \$.9 million (2%) and total expenses increased \$9.5 million (23%). The decrease in revenues is primarily due to decreased reimbursements from a Hazard Mitigation grant for the Hamilton Drain Watershed improvement project. Expenses increased primarily due to increased event expenses at the Iowa Events Center and the \$4.9 million loss incurred on conveyance of sewer improvements to the WRA mentioned above.
- The County's actual expenditures were \$24.3 million below budget amounts. This is attributed to conservative estimated appropriations of large multi-year capital projects where actual construction expenditures lag the appropriated expenditure schedule and lower than anticipated expenditures on mental health services, utilities, health grants, risk management, and assistance to veterans.

OVERVIEW OF THE FINANCIAL STATEMENTS

The County's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of County finances, in a manner similar to private-sector business.

The government-wide financial statements of the County are divided into three categories:

- **Governmental Activities** – Most of the County's basic services are included here, such as public safety, legal services, physical health, social services, mental health, county environment, roads/transportation, and administration services. Property taxes and state and federal grants finance the majority of these activities.
- **Business-Type Activities** – The County charges fees to customers to help it cover the costs of certain services. The County's sanitary sewer, racetrack/casino, and events center are included here.

- **Component Units** – The County includes Polk County Health Services, Inc (“PCHS”) and the Iowa Events Center Hotel Corporation (“IEC Hotel Corp”) in its report. Although legally separate, these “component units” are included as the County is financially accountable for them.

The **Statement of Net Position** presents information on all of the County’s assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Polk County is improving or deteriorating.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. The County uses fund accounting to ensure and demonstrate compliance with legal requirements for financial transactions and reporting.

The County has three kinds of funds:

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

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

The County maintains four individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Mental Health Fund, Justice Center Capital Project Fund and Debt Service Fund which are considered to be major funds. Data from the other 16 governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget which includes its general, special revenue, debt service and capital projects funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget. For additional information see notes to required supplementary information.

- **Proprietary funds** – The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its air pollution control, convention/entertainment/arena, sanitary treatment, racetrack/casino, golf course/cabins, sewer/drainage district operations, community base case management and a tax and tags collection system. Internal service funds are accounting devices used to accumulate and allocate costs internally among the County’s various functions. The County uses internal service funds to account for health insurance and risk management. The County’s internal services primarily benefit governmental activities.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for Sanitary Treatment Works, Prairie Meadows Racetrack/Casino and Iowa Events Center which are considered to be major funds of the County. Data from the other six enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

- **Fiduciary funds** – The County is the agent, or *fiduciary*, for resources held for the benefit of parties outside the government. All of the County’s fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in assets and liabilities. These activities are excluded from the County’s government-wide financial statements because the County cannot use these assets to finance its operations. The County reports individual fund data for the agency funds within other supplementary information.

Notes to the Financial Statements – The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* which includes the OPEB funding schedule, proportionate share of net pension liability schedule, pension contribution schedule and the budgetary comparison schedule for the governmental funds. The combining statements referred to earlier in connection with nonmajor governmental, proprietary, internal service and fiduciary funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. The County’s *combined* net position increased \$4.3 million (1%) primarily due to an increase in governmental activities net investment in capital assets, a decrease in pension related deferred inflow of resources and decrease in balances of long-term debt.

Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 327,357,907	\$ 339,323,816	\$ 61,137,037	\$ 52,041,319	\$ 388,494,944	\$ 391,365,135
Capital assets, net	183,017,344	164,504,908	317,283,154	336,792,694	500,300,498	501,297,602
Total assets	<u>510,375,251</u>	<u>503,828,724</u>	<u>378,420,191</u>	<u>388,834,013</u>	<u>888,795,442</u>	<u>892,662,737</u>
Deferred outflows of resources	9,737,934	9,414,488	600,703	780,197	10,338,637	10,194,685
Long-term liabilities	237,063,160	242,643,166	127,964,131	128,817,808	365,027,291	371,460,974
Other liabilities	19,843,475	16,441,385	9,138,775	8,751,322	28,982,250	25,192,707
Total liabilities	<u>256,906,635</u>	<u>259,084,551</u>	<u>137,102,906</u>	<u>137,569,130</u>	<u>394,009,541</u>	<u>396,653,681</u>
Deferred inflows of resources	167,230,699	172,410,956	229,033	408,242	167,459,732	172,819,198
Net position						
Net investment in capital assets	95,782,354	79,649,467	210,891,115	227,920,658	306,673,469	307,570,125
Restricted	6,856,842	13,961,534	892,818	683,568	7,749,660	14,645,102
Unrestricted (deficit)	(6,663,345)	(11,863,296)	29,905,022	23,032,612	23,241,677	11,169,316
Total net position	<u>\$ 95,975,851</u>	<u>\$ 81,747,705</u>	<u>\$ 241,688,955</u>	<u>\$ 251,636,838</u>	<u>\$ 337,664,806</u>	<u>\$ 333,384,543</u>

Net position of the County's governmental activities increased \$14.2 million (17%) to \$96 million at June 30, 2016. This increase is primarily due to a \$12.9 million decrease in outstanding capital related debt. Approximately 100% of the net position is invested in capital assets (buildings, roads, bridges, etc). The net position of business-type activities decreased \$9.9 million (4%) to \$241.7 million at June 30, 2016. This decrease is primarily due to conveyance of the Rock Creek Trunk Sewer Segments 1-5 to the WRA and an increase in accumulated depreciation over capital acquisitions during the year. Approximately 87% of the net position is invested in capital assets (buildings, land, infrastructure, etc).

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 31,703,278	\$ 33,181,456	\$ 42,794,554	\$ 43,112,288	\$ 74,497,832	\$ 76,293,744
Operating grants and contributions	21,941,825	26,488,420	2,592,193	5,505,719	24,534,018	31,994,139
Capital grants and contributions	6,129,377	2,919,497	1,644,344	128,250	7,773,721	3,047,747
General revenues:						
Property taxes	140,709,005	136,363,181	-	-	140,709,005	136,363,181
Other County taxes	5,735,911	5,705,541	-	-	5,735,911	5,705,541
Interest on property taxes	1,174,445	1,412,664	-	-	1,174,445	1,412,664
State replacements	12,873,398	8,034,434	-	-	12,873,398	8,034,434
Use of money and property	709,823	309,077	637,627	74,169	1,347,450	383,246
Miscellaneous	3,082,645	1,734,376	817,742	572,344	3,900,387	2,306,720
Total revenues	224,059,707	216,148,646	48,486,460	49,392,770	272,546,167	265,541,416
Expenses:						
Public safety and legal services	72,778,579	69,683,428	-	-	72,778,579	69,683,428
Physical health and social services	37,352,964	35,364,307	-	-	37,352,964	35,364,307
Mental health	25,906,010	28,533,670	-	-	25,906,010	28,533,670
County environment and education	14,719,318	13,510,577	-	-	14,719,318	13,510,577
Roads and transportation	21,057,936	18,860,843	-	-	21,057,936	18,860,843
Government services to residents	7,974,904	7,344,942	-	-	7,974,904	7,344,942
Administration	32,949,752	32,774,134	-	-	32,949,752	32,774,134
Interest on long-term debt	5,286,682	3,882,745	-	-	5,286,682	3,882,745
Air Quality	-	-	1,180,789	1,219,921	1,180,789	1,219,921
Sanitary Treatment Works	-	-	6,450,974	1,365,289	6,450,974	1,365,289
Prairie Meadows Racetrack/Casino	-	-	10,602,938	11,602,938	10,602,938	11,602,938
Conservation Enterprises	-	-	191,492	170,279	191,492	170,279
Hamilton Urban Drainage District	-	-	400,587	294,484	400,587	294,484
Iowa Events Center	-	-	29,382,506	25,689,294	29,382,506	25,689,294
Urban Sewer	-	-	88,586	94,523	88,586	94,523
Community Base Case Management	-	-	1,592,258	-	1,592,258	-
Iowa Tax & Tags	-	-	349,629	350,977	349,629	350,977
Total expenses	218,026,145	209,954,646	50,239,759	40,787,705	268,265,904	250,742,351
Excess (deficiency) before transfers	6,033,562	6,194,000	(1,753,299)	8,605,065	4,280,263	14,799,065
Transfers	8,194,584	7,429,240	(8,194,584)	(7,429,240)	-	-
Increase (decrease) in net position	14,228,146	13,623,240	(9,947,883)	1,175,825	4,280,263	14,799,065
Net position - beginning	81,747,705	68,124,465	251,636,838	250,461,013	333,384,543	318,585,478
Net position- ending	\$ 95,975,851	\$ 81,747,705	\$ 241,688,955	\$ 251,636,838	\$ 337,664,806	\$ 333,384,543

Statement of Activities - Changes in Net Position

The \$14.2 million increase in net position of governmental activities is primarily due to an increase in property tax revenues, state tax credits and replacements against levied property taxes, capital grants and contributions and miscellaneous revenue. The \$9.9 million decrease in net position of business-type activities was primarily due to the following:

- Decrease in gaming revenue due to change in terms of the lease contract with Prairie Meadows during the final four years of the agreement (additional information can be found in Note 17)
- \$4.9 million loss on conveyance of the Rock Creek Trunk Sewer Segments 1-5 to the WRA
- \$3.7 million increase in operating expenses of the Iowa Events Center

Governmental revenues increased 4% primarily from increased property tax collections, state tax credits and replacements against levied property taxes and capital grants and contributions over decreases in other revenues. The County's taxable valuations increased 1.8% and increased its General Supplemental levy rate by \$.14/\$1,000 of taxable valuation to fund anticipated operating costs for the Courthouse Master Plan. Additionally, the State provided property tax replacement dollars to make the County whole for commercial and industrial taxable valuation rollbacks that took effect July 1, 2014. The combined increase resulted in \$9.1 million of additional receipts. The \$3.2 million increase in capital grants and contributions is due to the contribution of new subdivision roadways to Polk County Secondary Roads System and work in progress of the Kempton Bridge/NW 66th Avenue reconstruction project that is being paid for with grant funds that are reported on the County's farm-to-market account administered by the Iowa Department of Transportation.

The fact that 63% of total governmental revenues are derived from property taxes illustrates the County's continued dependence on property taxes to finance its general functions. In addition, charges for services represents 14% and operating grants represents 10% of total governmental revenues.

Governmental activities expenses increased 4%, including a 12% increase in roads and transportation expense due to increased spending on roadway maintenance and a 9% increase in County environment and education expense due to increased spending on repairs and other minor projects. Additionally, debt service expense increased 36% due to payment of scheduled principal of a large debt issue that occurred at the end of the prior year.

The County's expenses cover a range of services, with the largest expenses relating to public safety and legal services (33%), physical health and social services (17%) and administration (15%).

Governmental Activities Revenues for the County's governmental activities increased \$7.9 million (4%), while expenses increased \$8.1 million (4%). Key elements of these changes include the following:

- \$4.3 million (3%) increase in property tax revenue due to a 1.8% increase in taxable valuations and an increase of \$.14/\$1,000 of taxable valuation in the General Supplemental levy rate to fund anticipated operating costs of the Courthouse Master Plan.
- \$4.8 million (60%) increase in state tax credits and replacements against levied property taxes arising mainly from new legislation that rolled back taxable valuations on commercial and industrial properties to 95% of assessed valuations, and then reimbursed local governments for the tax revenues lost due to the rollback.
- \$3.1 million (4%) increase in public safety expense primarily due to increased service costs and utilization.
- \$2.2 million (12%) increase in roads and transportation expense primarily due to increased spending on roadway maintenance.
- \$2 million (6%) increase in physical health and social services expense primarily due to increased adult services and general welfare assistance.
- \$1.4 million (36%) increase in interest on long-term debt primarily due to issuance of a large bond at the end of the prior fiscal year.

Business-type Activities Revenues for the County's business-type activities decreased \$.9 million (2%) and expenses increased \$9.5 million (23%). Key elements of these changes include the following:

- Charges for services decreased \$.3 million primarily due to \$1.3 million decrease in gaming receipts from Prairie Meadows Racetrack/Casino over increases in service charges and concession sales of \$.4 million and \$.6 million at the Iowa Events Center.
- The net decrease of \$1.4 million between the operating grants and contributions decrease of \$2.9 million and capital grants and contributions increase of \$1.5 million is primarily due to a change in classification of Hazard Mitigation Grant reimbursements for the Hamilton Drain Watershed project.
- Use of money and property increased \$.6 million primarily due to repayments of interest recorded in the Sanitary Treatment Works fund on notes receivable from the City of Ankeny and City of Polk City.
- Iowa Events Center expenses increased \$3.7 million primarily due to increased direct event expense, cost of goods sold for concessions and other services/charges as a result of increased events.
- Sanitary Treatment Works expenses increased \$5.1 million primarily due to the \$4.9 million loss on conveyance of the Rock Creek Trunk Sewer Segments 1-5 to the WRA.
- A new enterprise fund called Community Base Case Management was created during the year which added an additional \$1.6 million in expenses
- Prairie Meadows Racetrack/Casino expenses decreased \$1 million due to a \$1 million one time contribution to demolish the YMCA in the prior year.
- Other enterprise funds expenses stayed relatively constant.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental Funds

As the County completed the current fiscal year, its governmental funds reported a *combined fund* balance of \$126.7 million at June 30, 2016, which is \$23.5 million less than the prior year. Key elements of these changes include the following:

- The General Fund increased \$4.9 million primarily due to the result of a \$4.3 million increase in property tax revenue due to a 1.8% increase in taxable valuations and a \$.14 increase in the General Supplemental levy rate to fund anticipated operating costs of the Courthouse Master Plan.
- The Mental Health Special Revenue Fund decreased \$5.2 million primarily due to reclassification of service fees to a new Community Base Case Management Enterprise Fund and reduced state funding.
- The Justice Center Capital Projects Fund decreased \$12.1 million primarily due to increased spending on the Justice Center project.
- The Debt Service Fund decreased \$1.9 million primarily due to scheduled principal and interest payments which included a large bond issue that occurred at the end of the prior fiscal year.

Proprietary Funds

Sanitary Treatment Works net position decreased \$4.4 million primarily due to the \$5.1 million conveyance of Rock Creek Trunk Sewer Segments 1-5 to the WRA which resulted in a \$4.9 million loss.

Prairie Meadows Racetrack/Casino net position decreased \$1.2 million primarily due to a \$1.3 million decrease in gaming receipts.

Iowa Events Center net position decreased \$5.7 million primarily due to a \$7 million decrease in transfers from Prairie Meadows Racetrack/Casino. Transfers were used to pay off the 2007B general obligation bonds in FY14/15 which had an outstanding balance of \$7.6 million.

Nonmajor enterprise fund Hamilton Urban Drainage District net position increased \$1.2 million primarily due to \$1.5 million in reimbursements from a Hazard Mitigation Grant for the Hamilton Drain Watershed project. The other nonmajor enterprise funds remained relatively constant.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental and business-type activities as of June 30, 2016, amount to \$500.3 million (net of accumulated depreciation). These capital assets include land, buildings, improvements other than buildings, leasehold improvements, infrastructure, equipment, vehicles, intangibles and construction in progress. Polk County's capital assets remained relatively constant with a decrease of \$1 million. The primary reason for the decrease is due to the conveyance of Rock Creek Trunk Sewer Segments 1-5 improvements to the WRA.

Major capital asset events for the year ended June 30, 2016, are as follows:

- Construction of the Justice Center - \$13 million
- Conveyance of Rock Creek Trunk Sewer Segments 1-5 to the WRA - \$5.1 million
- NW 66th Ave/Kempton Bridge reconstruction - \$4.2 million
- Polk County Water & Land Legacy land acquisitions and improvements - \$3.6 million
- Purchase of new scoreboard at the Iowa Events Center - \$1.4 million
- Completion of the Hamilton Drain Watershed improvements - \$1.2 million

Capital assets for the governmental and business-type activities at June 30, 2016 are as follows:

Capital Assets

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 19,199,474	\$ 18,946,077	\$ 18,215,559	\$ 18,215,559	\$ 37,415,033	\$ 37,161,636
Intangibles - permanent easements	-	-	3,322,580	2,748,825	3,322,580	2,748,825
Buildings	149,647,445	149,647,445	323,523,891	323,488,464	473,171,336	473,135,909
Improvements other than buildings	4,940,671	4,645,510	8,725,298	8,725,298	13,665,969	13,370,808
Leasehold improvements	-	-	113,145,115	113,145,115	113,145,115	113,145,115
Infrastructure	110,561,605	107,407,251	33,021,110	34,986,451	143,582,715	142,393,702
Equipment	15,353,096	13,907,762	3,514,146	1,423,114	18,867,242	15,330,876
Vehicles	9,359,622	9,128,227	236,456	236,456	9,596,078	9,364,683
Intangibles - computer software	6,455,002	6,297,006	-	-	6,455,002	6,297,006
Construction in progress	32,164,344	10,852,773	138,807	4,041,067	32,303,151	14,893,840
Total	<u>347,681,259</u>	<u>320,832,051</u>	<u>503,842,962</u>	<u>507,010,349</u>	<u>851,524,221</u>	<u>827,842,400</u>
Less: accumulated depreciation	<u>(164,663,915)</u>	<u>(156,327,143)</u>	<u>(186,559,808)</u>	<u>(170,217,655)</u>	<u>(351,223,723)</u>	<u>(326,544,798)</u>
Total	<u>\$ 183,017,344</u>	<u>\$ 164,504,908</u>	<u>\$ 317,283,154</u>	<u>\$ 336,792,694</u>	<u>\$ 500,300,498</u>	<u>\$ 501,297,602</u>

Additional information on Polk County's capital assets can be found in Note 6 in the notes to the financial statements.

The County's FY 16/17 capital budget includes spending an estimated \$7.7 million for improvements to the Justice Center, \$1.5 million for the Polk County Historic Courthouse, \$11.8 million for the criminal court annex, \$12.5 million for Polk County Water & Land Legacy projects, \$3.5 million for a new senior center, and \$2.2 million for capital improvement projects at various County facilities. Capital outlays for proprietary funds will include \$.5 million for improvements to the Iowa Events Center and \$.4 million for 2016 Sanitary Sewer Projects.

Long-Term Debt

At June 30, 2016, the County had \$298 million in bonds and notes outstanding, a decrease of \$18.6 million compared to FY 14/15. The change in debt is due to paying down principal on existing bonds, as offset by the issuance of new bonds for the Iowa Events Center. See Note 8 in the notes to the financial statements for more information.

Four large outstanding obligations pertain to the Iowa Events Center Enterprise Fund. Projects consist of construction of a new arena and exhibit hall along with a newly renovated Veteran Memorial Community Choice Credit Union Convention Center. During FY 15/16, principal repayments of \$10.2 million were made and an additional \$10.8 million of bonds was issued, resulting in an outstanding Iowa Events Center obligation of \$94.6 million.

During FY 16/17, Polk County plans to issue approximately \$11 million in additional general obligation debt to refund a portion of the Iowa Events Center bonds. This refunding will free up gaming revenues to be used as part of the financing for construction of an Iowa Events Center convention hotel.

Polk County is well below the statutory debt capacity limitation. The debt capacity is controlled by the constitutional debt limit which is an amount equal to 5% of the actual value of taxable property within the County limits. The County's unused legal debt capacity was \$1.2 billion as of June 30, 2016.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total		Percentage Change
	2016	2015	2016	2015	2016	2015	2015-2016
G.O. bonds	\$ 168,758,562	\$ 185,801,079	\$ 100,409,970	\$ 100,774,185	\$ 269,168,532	\$ 286,575,264	-6%
Notes payable	2,068,000	2,450,000	26,357,000	27,130,825	28,425,000	29,580,825	-4%
Total	\$ 170,826,562	\$ 188,251,079	\$ 126,766,970	\$ 127,905,010	\$ 297,593,532	\$ 316,156,089	-6%

Additional information on Polk County's outstanding debt can be found in Note 8 in the notes to the financial statements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Board of Supervisors amended the County budget twice to reflect a variety of actions taken since certifying the original budget. Adjustments included such items as re-appropriating special project funds, grant awards, position changes and amendments based on revised expenditure and revenue estimates. Additionally, because unexpended appropriations do not carry forward from year to year, the County was required to amend the budget to fulfill commitments from the previous year.

Even with these adjustments, actual expenditures were \$24.3 million below final budget amounts. Significant variances include:

- General operational expenditures were \$5.8 million less than budget due to lower than anticipated expenditures for social services staff and programs, mental health services, utilities, health grants, risk management, and assistance to veterans.
- Mental health expenditures were \$2.1 million less than budget due to reduced utilization of community-based services and reclassification of case management expense to a Community Base Case Management Enterprise Fund.
- Courts Master Plan capitals were \$8.3 million less than budget. The budget is a conservative estimate to ensure sufficient appropriation is available to carry out any potential or planned capital improvements. The actual construction expenditures lag the appropriated expenditure schedule.

- Conservation water and land projects were \$5.8 million less than budget due to timing of land acquisitions and conservation projects that will be completed in the upcoming fiscal year rather than the year ending June 30, 2016.
- Capital project expenditures were \$1 million less than budget due to capital projects being carried over to the succeeding fiscal year. This primarily includes a secondary roads bridge project.
- Community and economic development grant expenditures were \$0.9 million less than budget. The variance is primarily due to a large grant reserve being set aside for this purpose, but fewer than anticipated grants actually being awarded.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The financial condition of Polk County government remains strong. Healthy reserves, continued revenue from Prairie Meadows, and significant growth in property valuations have allowed Polk County to maintain services despite a prolonged downturn in interest earnings.

For FY 16/17, certified taxable valuations increased 6.2%, resulting in a budgeted increase of \$8.9 million in net current property tax revenue and state tax replacements. Per State property tax reform, commercial and industrial taxable valuations were rolled back to 90% of assessed valuation, with the State pledging to replace funding lost due to the rollback. For FY 16/17, the County estimates state replacement funding of \$6.2 million.

Polk County’s budget for FY 16/17 indicates General fund balances will decrease \$6.3 million due to planned balance utilization. Balances are projected to exceed the County policy that sets ending fund balances at a goal of 20% - 25% of expenditures. Therefore, the County plans to spend down balances by paying cash for several capital projects and transferring additional reserve to the Courthouse capitals fund to cover construction contingencies or reduce future borrowings. Additionally, the County will retain its \$8 million contingency reserve.

CONTACTING THE COUNTY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County’s finances and to demonstrate the County’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Polk County Auditor’s Office, 111 Court Avenue, Suite 315, Des Moines, IA 50309, telephone (515) 286-3419 or e-mail at JoEllen.Bigelow@polkcountyiowa.gov.