



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 23, 2012

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Auditor of State David A. Vaudt today released an audit report on the City of Knoxville, Iowa.

The City's receipts totaled \$15,152,795 for the year ended June 30, 2011, a 33% increase over the prior year. The receipts included \$2,891,883 in property tax, \$320,902 from tax increment financing, \$3,228,441 from charges for service, \$1,013,676 from operating grants, contributions and restricted interest, \$1,564,534 from capital grants, contributions and restricted interest, \$691,182 from local option sales tax, \$22,310 from unrestricted interest on investments, \$5,419,032 from bond and note proceeds and \$835 from other general receipts. The significant increase in receipts is primarily due to general obligation refunding bond and storm sewer improvement note proceeds received during fiscal year 2011.

Disbursements for the year totaled \$13,265,337, a 5% decrease from the prior year, and included \$2,659,133 for capital projects, \$1,580,509 for public safety and \$1,246,308 for debt service. Also, disbursements for business type activities totaled \$4,279,455. The significant decrease in disbursements is due primarily to fewer sewer capital project disbursements during fiscal year 2011.

A copy of the audit report is available for review at the City of Knoxville's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1120-0597-B00F.pdf>.

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CITY OF KNOXVILLE

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

JUNE 30, 2011

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City of Knoxville

Officials

Donald Zoutte, Sr.	Mayor	Jan 2012
Elsie Kemp	Mayor Pro tem	Jan 2014
Carolyn Formanek	Council Member	Jan 2012
April Verwers	Council Member	Jan 2012
Bob Wims	Council Member	Jan 2012
Dave Roozeboom	Council Member	Jan 2014
Dick Schrad	City Manager	Retired April 2011
Harold Stewart	City Manager	Indefinite
Heather Ussery	City Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite

City of Knoxville



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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 Knoxville, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Knoxville's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Knoxville, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Knoxville as of June 30, 2011, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

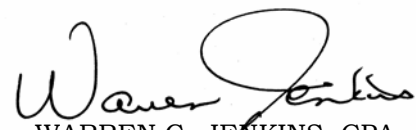
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Knoxville as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2011 on our consideration of the City of Knoxville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Knoxville's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the eight years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organization, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 12, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Knoxville provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 70%, or approximately \$4,515,000, from fiscal year 2010 to fiscal year 2011. The City issued \$3,640,000 of general obligation refunding bonds and \$710,000 of general obligation storm sewer improvement notes during fiscal year 2011. The refunding bonds were used to refund debt of \$980,000. Capital grants, contributions and restricted interest increased approximately \$504,000, operating grants, contributions and restricted interest decreased approximately \$99,000 and charges for service increased approximately \$109,000. Property tax increased approximately \$91,000 while tax increment financing decreased approximately \$214,000 and local option sales tax increased approximately \$16,000.
- Disbursements for governmental activities increased 19%, or approximately \$1,430,000, in fiscal year 2011 over fiscal year 2010. Capital projects function disbursements and payments to refunding bond agent increased approximately \$1,325,000 and \$980,000, respectively, while debt service, community and economic development and general government function disbursements decreased approximately \$728,000, \$47,000 and \$68,000, respectively.
- Receipts of the City's business type activities decreased 16%, or approximately \$791,000, primarily due to the approximately \$1,344,000 decrease in sewer revenue bond proceeds received during fiscal year 2011 compared to fiscal year 2010. Capital grants, contributions and restricted interest increased approximately \$609,000 due to the construction project at the airport and reimbursements from the Waterworks for its portion of sewer related projects.
- Disbursements for business type activities decreased 33%, or approximately \$2,140,000, due to the refunding of a prior year sewer revenue bond.
- The City's total cash basis net assets increased 29%, or approximately \$1,888,000, from June 30, 2010 to June 30, 2011. Of this amount, the net assets of the governmental activities increased approximately \$2,215,000 and the net assets of the business type activities decreased approximately \$327,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. 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 Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Statement of Activities and Net Assets 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 sanitary sewer system and municipal airport. These activities are financed primarily by user fees and related charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. 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 and the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for airport and sanitary sewer operations. The Sewer Fund is considered to be a major fund of the City. Internal Service Funds are an

accounting device used to accumulate and allocate costs internally among the City's various functions.

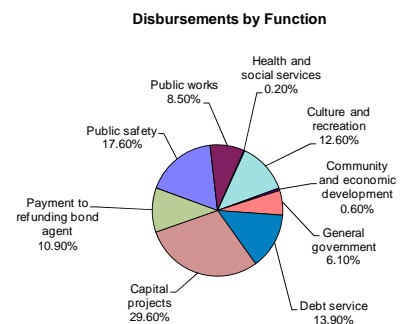
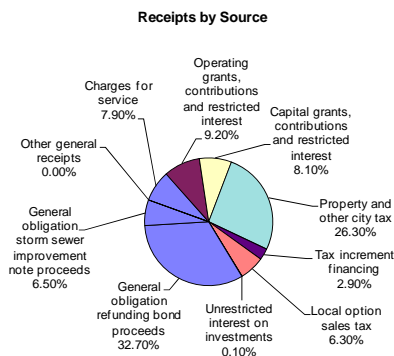
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$2.425 million to approximately \$4.640 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year Ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	870,252	761,130
Operating grants, contributions and restricted interest	1,007,676	1,106,804
Capital grants, contributions and restricted interest	893,639	389,774
General receipts:		
Property and other city tax	2,891,883	2,800,773
Tax increment financing	320,902	535,285
Local option sales tax	691,182	674,822
Unrestricted interest on investments	12,768	10,899
General obligation refunding bond proceeds	3,580,668	-
General obligation storm sewer improvement note proceeds	710,000	-
Other general receipts	835	185,343
Total receipts	<u>10,979,805</u>	<u>6,464,830</u>
Disbursements:		
Public safety	1,580,509	1,564,436
Public works	768,145	783,903
Health and social services	18,477	15,151
Culture and recreation	1,133,839	1,168,516
Community and economic development	55,290	102,266
General government	544,181	612,616
Debt service	1,246,308	1,974,144
Capital projects	2,659,133	1,334,631
Payment to refunding bond agent	980,000	-
Total disbursements	<u>8,985,882</u>	<u>7,555,663</u>
Excess (deficiency) of receipts over (under) disbursements	1,993,923	(1,090,833)
Transfers, net	220,696	250,078
Increase (decrease) in cash basis net assets	2,214,619	(840,755)
Cash basis net assets beginning of year	2,424,826	3,265,581
Cash basis net assets end of year	<u>4,639,445</u>	<u>2,424,826</u>



The City's total receipts for governmental activities increased 70%, or approximately \$4,515,000. The total cost of all programs and services increased approximately \$1,430,000, or 19%, with no new programs added this year. The change in receipts is primarily attributable to an increase in general obligation refunding bond proceeds of approximately \$3,581,000 and general obligation storm sewer improvement note proceeds of \$710,000. The major change in disbursements was an increase in capital projects of approximately \$1,325,000 due to street improvement projects, a payment of \$980,000 to the refunding bond agent and a decrease in the debt service function of approximately \$728,000.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 2,358,189	2,399,269
Operating grants, contributions and restricted interest	6,000	44,514
Capital grants, contributions and restricted interest	670,895	62,226
General receipts:		
Unrestricted interest on investments	9,542	18,590
General obligation refunding note proceeds	36,400	-
Sewer revenue bond proceeds	1,091,964	2,436,140
Other general receipts	-	3,685
Total receipts	<u>4,172,990</u>	<u>4,964,424</u>
Disbursements:		
Sewer	3,750,833	6,306,447
Airport	528,622	112,709
Total disbursements	<u>4,279,455</u>	<u>6,419,156</u>
Deficiency of receipts under disbursements	(106,465)	(1,454,732)
Transfers, net	(220,696)	(250,078)
Decrease in cash basis net assets	(327,161)	(1,704,810)
Cash basis net assets beginning of year	<u>4,118,915</u>	<u>5,823,725</u>
Cash basis net assets end of year	<u>\$ 3,791,754</u>	<u>4,118,915</u>

The total business type activities cash balance decreased \$327,161 from the prior year to a year end balance of \$3,791,754. The decrease in the cash balance was due primarily to continued sewer construction projects and using proceeds received in the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$4,240,866, an increase of approximately \$1,936,000 over last year's total of \$2,304,479. 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 increased \$98,480 over the prior year to a year-end balance of \$401,480. Property tax receipts increased approximately \$101,000, partially due to a 2% increase in valuations and the reclassification of the Emergency Levy Fund from a Special Revenue Fund to the General Fund as a result of the implementation of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. Also, disbursements increased approximately \$102,000, with the general government function increasing approximately \$81,000 for roof repairs.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$88,450 to a year-end balance of \$91,729, due primarily to increased road use tax disbursements.

- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance decreased \$75,551 to a year-end balance of \$771,772. The decrease is due to the City moving \$100,000 to the Internal Service Fund for equipment replacement during fiscal year 2011 while this was not done in fiscal year 2010.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$24,425 to a year-end balance of \$282,178. Tax increment financing receipts decreased approximately \$214,000 and disbursements decreased \$832,246 due to the payment to Wal-Mart for the final cost on the project in the Wal-Mart tax increment financing urban renewal area during fiscal year 2010.
- The Debt Service Fund cash balance decreased \$123,906 to a year-end balance of \$250,702. Refunding bonds were issued to refund \$980,000 of bonds and debt service function disbursements increased \$104,410.
- The Capital Projects Fund cash balance increased \$2,010,811 to a year-end balance of \$1,714,447 as a result of general obligation bonds and storm sewer improvement note proceeds received. Disbursements increased \$1,247,488 due to construction costs during fiscal year 2011 for the Robinson street project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased \$116,445 to a year-end balance of \$3,572,354. Disbursements decreased \$2,597,369, primarily due to constructing improvements and extensions to the municipal sanitary sewer system and refunding debt done during fiscal year 2010. In addition, receipts decreased \$1,006,507 due to less sewer revenue bond proceeds received during the year. The current year proceeds were primarily from the State Revolving Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on June 6, 2011 and resulted in an increase in disbursements of \$2,824,662.

The City’s receipts were \$1,959,181 less than budgeted. This was primarily due to the City budgeting for the receipt of State Revolving Funds of \$1,091,964 as miscellaneous receipts when it is actually reported as other financing sources and anticipating receiving \$413,100 more in intergovernmental receipts. Approximately \$113,000 relating to the airport project was not actually requested and received until July 2011.

Total disbursements were \$4,109,044 less than budgeted. However, the City exceeded the budget for the public safety, public works, health and social services and general government functions for the year ended June 30, 2011. Actual disbursements were less than budgeted for the debt service, capital projects and business type activities functions by approximately \$1,307,000, \$774,000 and \$2,030,000, respectively.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$13,905,000 in bonds, notes and other long-term debt outstanding, compared to approximately \$11,072,000 last year. The chart below segregates the City’s debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation bonds	\$ 4,610,000	\$ 1,595,000
General obligation capital loan notes	1,820,000	2,210,000
Sewer revenue bonds	7,457,153	7,232,560
Capital lease purchase agreement	17,849	34,864
Total	\$ 13,905,002	\$ 11,072,424

Debt changed as a result of the issuance of \$3,640,000 of general obligation corporate purpose and refunding bonds for various construction projects and to refund \$980,000 of general obligation capital loan notes issued May 1, 2005 and the issuance of \$710,000 of general obligation storm sewer improvement notes.

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 \$6,812,615 (including \$364,766 of development and rebate agreements) is below its constitutional debt limit of approximately \$16 million. Additional information about the City's long-term debt is presented in Notes 3, 4 and 16 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's fiscal year 2012 assessed value has increased approximately \$2.9 million over the fiscal year 2011 level, an increase of 1.6%. The City's General Fund receipts from property tax will increase slightly from the fiscal year 2011 level. As a result, there are new positions or services in the upcoming budget to replace current vacant positions.

The State Legislature threatens annually to repeal replacement funding to cities for monies and credits provided to taxpayers. Should this threat of elimination materialize, certain City services would likely be jeopardized. There is nothing the City can do to proactively place itself a safe distance from this threat.

Budgeted receipts are expected to be approximately \$1,171,000 less than actual fiscal year 2011 receipts due to less intergovernmental and miscellaneous receipts. The airport and neighborhood stabilization projects should be ending in fiscal year 2012, the City received reimbursement from the water utility for its share of costs, which are not anticipated in fiscal year 2012. Total budgeted disbursements are expected to be approximately \$329,000 less than actual fiscal year 2011 amounts.

The fiscal year 2012 levy is \$15.79450 per \$1,000 of taxable valuation, an increase of \$0.62 per \$1,000 of taxable valuation over that of fiscal year 2011. The City has reached its General Fund levy limit of \$8.10 per \$1,000 of taxable valuation and its Emergency Fund levy limit of \$0.27 per \$1,000 of taxable valuation. Special Revenue Fund levies have long been in place to support employee benefit costs.

These parameters were taken into account when adopting the budget for fiscal year 2012.

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 Harold Stewart, City Manager, 305 S. Third Street, Knoxville, IA 50138.

Basic Financial Statements

City of Knoxville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,580,509	479,828	87,641	-
Public works	768,145	1,722	706,968	41,085
Health and social services	18,477	13,578	1,041	-
Culture and recreation	1,133,839	315,991	52,044	-
Community and economic development	55,290	17,174	85,257	-
General government	544,181	41,959	74,725	-
Debt service	1,246,308	-	-	-
Capital projects	2,659,133	-	-	852,554
Total governmental activities	8,005,882	870,252	1,007,676	893,639
Business type activities:				
Sewer	3,750,833	2,307,260	6,000	399,863
Airport	528,622	50,929	-	271,032
Total business type activities	4,279,455	2,358,189	6,000	670,895
Total	\$ 12,285,337	3,228,441	1,013,676	1,564,534
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
General obligation refunding bond proceeds, net of underwriters discount of \$24,866 plus premium of \$1,934				
General obligation storm sewer improvement note proceeds				
Sewer revenue bond proceeds				
Payment to refunding bond agent				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Permanent funds				
Expendable:				
Streets				
Local option sales tax				
Urban renewal tax increment				
Debt service				
Capital projects				
Customer deposits				
Senior Citizen Center				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,013,040)	-	(1,013,040)
(18,370)	-	(18,370)
(3,858)	-	(3,858)
(765,804)	-	(765,804)
47,141	-	47,141
(427,497)	-	(427,497)
(1,246,308)	-	(1,246,308)
(1,806,579)	-	(1,806,579)
(5,234,315)	-	(5,234,315)
-	(1,037,710)	(1,037,710)
-	(206,661)	(206,661)
-	(1,244,371)	(1,244,371)
(5,234,315)	(1,244,371)	(6,478,686)
2,321,989	-	2,321,989
569,894	-	569,894
320,902	-	320,902
691,182	-	691,182
12,768	9,542	22,310
3,580,668	36,400	3,617,068
710,000	-	710,000
-	1,091,964	1,091,964
(980,000)	-	(980,000)
835	-	835
220,696	(220,696)	-
7,448,934	917,210	8,366,144
2,214,619	(327,161)	1,887,458
2,424,826	4,118,915	6,543,741
\$ 4,639,445	3,791,754	8,431,199
\$ 223,231	-	223,231
91,729	-	91,729
771,772	-	771,772
282,178	-	282,178
250,702	1,587,121	1,837,823
1,714,447	788,481	2,502,928
-	38,527	38,527
170,034	-	170,034
571,685	-	571,685
563,667	1,377,625	1,941,292
\$ 4,639,445	3,791,754	8,431,199

City of Knoxville

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

As of and for the year ended June 30, 2011

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 1,588,200	-	-	-
Tax increment financing	-	-	-	320,902
Other city tax	148,938	-	691,182	-
Licenses and permits	21,320	-	-	-
Use of money and property	59,652	-	-	4,239
Intergovernmental	94,156	702,448	-	-
Charges for service	745,648	-	-	-
Special assessments	7,433	-	-	-
Miscellaneous	105,654	4,520	-	-
Total receipts	2,771,001	706,968	691,182	325,141
Disbursements:				
Operating:				
Public safety	1,268,038	-	-	-
Public works	52,970	795,418	-	-
Health and social services	18,477	-	-	-
Culture and recreation	968,109	-	-	-
Community and economic development	36,659	-	-	-
General government	510,807	-	-	-
Debt service	-	-	-	276,959
Capital projects	-	-	766,733	-
Total disbursements	2,855,060	795,418	766,733	276,959
Excess (deficiency) of receipts over (under) disbursements	(84,059)	(88,450)	(75,551)	48,182
Other financing sources (uses):				
General obligation refunding bond proceeds, net of underwriters discount of \$24,866 plus premium of \$1,934	-	-	-	-
General obligation storm sewer improvement note proceeds	-	-	-	-
General obligation bonds refunded	-	-	-	-
Operating transfers in	221,239	-	-	-
Operating transfers out	(38,700)	-	-	(23,757)
Total other financing sources (uses)	182,539	-	-	(23,757)
Net change in cash balances	98,480	(88,450)	(75,551)	24,425
Cash balances beginning of year, as restated	303,000	180,179	847,323	257,753
Cash balances end of year	\$ 401,480	91,729	771,772	282,178
Cash Basis Fund Balances				
Nonspendable	\$ -	-	-	-
Restricted for:				
Senior Citizen Center	170,034	-	-	-
Debt service	-	-	-	-
Public streets	-	91,729	-	-
Other purposes	79,751	-	771,772	282,178
Unassigned	151,695	-	-	-
Total cash basis fund balances	\$ 401,480	91,729	771,772	282,178

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
554,592	-	568,808	2,711,600
-	-	-	320,902
15,302	-	16,043	871,465
-	-	-	21,320
-	70	1,591	65,552
-	852,484	41,085	1,690,173
-	-	-	745,648
-	-	-	7,433
25	810	92,681	203,690
569,919	853,364	720,208	6,637,783
-	-	321,636	1,589,674
-	-	11,929	860,317
-	-	-	18,477
-	-	156,853	1,124,962
-	-	18,631	55,290
-	-	67,004	577,811
969,349	-	-	1,246,308
-	1,993,188	-	2,759,921
969,349	1,993,188	576,053	8,232,760
(399,430)	(1,139,824)	144,155	(1,594,977)
990,578	2,590,090	-	3,580,668
-	710,000	-	710,000
(980,000)	-	-	(980,000)
264,946	-	-	486,185
-	(149,455)	(53,577)	(265,489)
275,524	3,150,635	(53,577)	3,531,364
(123,906)	2,010,811	90,578	1,936,387
374,608	(296,364)	637,980	2,304,479
250,702	1,714,447	728,558	4,240,866
-	-	223,231	223,231
-	-	-	170,034
250,702	-	-	250,702
-	-	-	91,729
-	1,714,447	491,934	3,340,082
-	-	13,393	165,088
250,702	1,714,447	728,558	4,240,866

City of Knoxville

City of Knoxville

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

As of and for the year ended June 30, 2011

Total governmental funds cash balances (page 17) \$ 4,240,866

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

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health and property insurance and equipment and building replacement to individual funds. A portion of the assets of the Internal Service Funds is included in governmental activities in the Statement of Activities and Net Assets.

398,579

Cash basis net assets of governmental activities (page 15) \$ 4,639,445

Net change in cash balances (page 17) \$ 1,936,387

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

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health and property insurance and equipment and building replacement to individual funds. A portion of the assets of the Internal Service Funds is included in governmental activities in the Statement of Activities and Net Assets.

278,232

Change in cash basis net assets of governmental activities (page 15) \$ 2,214,619

See notes to financial statements.

Exhibit D

City of Knoxville

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

As of and for the year ended June 30, 2011

	Enterprise			Internal Service
	Sewer	Nonmajor Airport	Total	
Operating receipts:				
Charges for service	\$ 2,313,260	50,929	2,364,189	502,785
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	85,007
Culture and recreation	-	-	-	17,291
Community and economic development	-	-	-	14,501
General government	-	-	-	115,548
Business type activities	833,607	88,654	922,261	43,695
Total operating disbursements	833,607	88,654	922,261	276,042
Excess (deficiency) of operating receipts over (under) operating disbursements	1,479,653	(37,725)	1,441,928	226,743
Non-operating receipts (disbursements):				
Intergovernmental	-	271,032	271,032	-
Interest on investments	9,542	-	9,542	9,034
Miscellaneous, primarily capital project reimbursement from Knoxville Waterworks	399,863	-	399,863	-
Capital projects	(2,137,086)	(440,268)	(2,577,354)	-
Debt service	(737,385)	-	(737,385)	-
Revenue bond proceeds	1,091,964	-	1,091,964	-
General obligation refunding bond proceeds	36,400	-	36,400	-
Total non-operating receipts (disbursements)	(1,336,702)	(169,236)	(1,505,938)	9,034
Excess (deficiency) of receipts over (under) disbursements	142,951	(206,961)	(64,010)	235,777
Other financing sources (uses):				
Operating transfers in	-	38,700	38,700	-
Operating transfers out	(259,396)	-	(259,396)	-
Total other financing sources (uses)	(259,396)	38,700	(220,696)	-
Net change in cash balances	(116,445)	(168,261)	(284,706)	235,777
Cash balances beginning of year	3,688,799	(171,118)	3,517,681	721,581
Cash balances end of year	\$ 3,572,354	(339,379)	3,232,975	957,358
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 1,587,121	-	1,587,121	-
Sewer project construction	788,481	-	788,481	-
Customer deposits	38,527	-	38,527	-
Unrestricted	1,158,225	(339,379)	818,846	957,358
Total cash basis fund balances	\$ 3,572,354	(339,379)	3,232,975	957,358

See notes to financial statements.

City of Knoxville

Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds

As of and for the year ended June 30, 2011

Total enterprise funds cash balances (page 20) \$ 3,232,975

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health and property insurance and equipment and building replacement to individual funds. A portion of the assets of the Internal Service Funds is included in business type activities in the Statement of Activities and Net Assets.

558,779

Cash basis net assets of business type activities (page 15) \$ 3,791,754

Net change in cash balances (page 20) \$ (284,706)

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health and property insurance and equipment and building replacement to individual funds. A portion of the assets of the Internal Service Funds is included in business type activities in the Statement of Activities and Net Assets.

(42,455)

Change in cash basis net assets of business type activities (page 15) \$ (327,161)

See notes to financial statements.

City of Knoxville

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Knoxville is a political subdivision of the State of Iowa located in Marion County. It was first incorporated in 1853 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 sewer utilities and airport services for its citizens.

A. Reporting Entity

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

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

Excluded Component Units

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

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marion County Assessor's Conference Board, Marion County Emergency Management Commission, Marion County Joint E911 Service Board, Marion County/Warren County Drug Task Force and Central Iowa Regional Transportation Planning Alliance.

Related Organization

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

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets 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 Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds 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 and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

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

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

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

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

The City reports the following major proprietary fund:

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

The City also reports the following proprietary funds:

The Airport Fund accounts for the operation and maintenance of the City's airport system.

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

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets 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. Governmental Cash Basis Fund Balances:

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

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

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

Unassigned – All amounts not included in other classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 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.

At June 30, 2011, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,158,582 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, capital loan notes and sewer revenue bonds are as follows:

Year Ending June 30,	General Obligation							
	Bonds		Capital Loan Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 640,000	115,255	145,000	62,905	440,000	281,720	1,225,000	459,880
2013	440,000	105,615	155,000	57,696	450,000	268,385	1,045,000	431,696
2014	450,000	97,590	160,000	52,073	445,000	254,585	1,055,000	404,248
2015	465,000	88,740	155,000	46,226	460,000	240,073	1,080,000	375,039
2016	380,000	78,510	210,000	40,421	470,000	223,747	1,060,000	342,678
2017 - 2021	1,955,000	217,405	830,000	90,514	1,670,000	884,888	4,455,000	1,192,807
2022 - 2026	280,000	8,400	165,000	6,752	1,915,000	508,450	2,360,000	523,602
2027 - 2028	-	-	-	-	935,000	68,400	935,000	68,400
Total	\$ 4,610,000	711,515	1,820,000	356,587	6,785,000	2,730,248	13,215,000	3,798,350

Refunding Bonds

On September 20, 2010, the City issued \$3,640,000 of general obligation corporate purpose and refunding bonds, with interest rates ranging from 1.00% to 3.00% per annum, for a current refunding of the general obligation refunding capital loan notes series 2005C and 2005B issued May 1, 2005.

The refunding was undertaken to reduce total debt service payments over the next four years by \$43,666 and resulted in an economic gain of \$43,256.

Sewer Revenue Bonds

On February 16, 2010, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, Iowa N.A. for the issuance of \$2,756,000 of sewer revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Reinvestment Act of 2009 for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal sanitary sewer system of the City. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. An initiation fee of 1%, or \$27,560, of the authorized borrowing for the sewer revenue bonds was charged by the Iowa Finance Authority and withheld during the year ended June 30, 2010. At June 30, 2011, the City had drawn down \$672,153 of the authorized amount. A final repayment schedule has not yet been adopted. However, during the year ended June 30, 2011, the City paid \$13,241 of interest on these bonds.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$10,826,000 of sewer revenue bonds issued in November 2003, December 2008, February 2010 and March 2010. Proceeds from the bonds provided financing for the construction of improvements to the municipal sanitary sewer system of the City and refunded the City's outstanding Series 2002 sewer revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2028. Annual principal and interest payments on the bonds are expected to require less than 50% of net receipts. Excluding the principal and interest on revenue bonds issued in February 2010 which are not included since a repayment schedule has not been adopted, the total principal and interest remaining to be paid on the bonds is

\$9,515,248. For the current year, principal and interest paid and total customer net receipts were \$736,035 and \$1,479,653 respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a sewer revenue reserve account until a specific minimum balances has been accumulated. This account is restricted for the purpose of paying, at maturity, principal or interest on the bonds when insufficient money shall be available in the sinking account.
- (d) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the average annual installments of principal and interest on the bonds falling due in the same year.

Forgivable Loan

On February 16, 2010, the City also entered into a forgivable loan agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, Iowa N.A. for the issuance of \$1,170,000 of sewer revenue bonds. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Reinvestment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal sanitary sewer system of the City. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements, are not met and the loan is not forgiven, the City will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2011, the City had drawn down \$1,170,000 of the authorized amount. Since the loan is considered forgivable, it is not included on the Schedule of Indebtedness.

(4) Capital Lease Purchase Agreement

The City entered into a capital lease purchase agreement to lease a rescue vehicle. The following is a schedule of the future minimum lease payments, including interest at 4.8% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2011:

Year Ending June 30,	Amount
2012	\$ 18,723
Less amount representing interest	(874)
Present value of net minimum lease payments	\$ 17,849

Payments under the capital lease purchase agreement totaled \$18,724 during the year ended June 30, 2011.

(5) Pension and Retirement Benefits

Iowa Public Employees Retirement System

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$100,520, \$91,320 and \$90,606, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, West Des Moines, Iowa 50263.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 19.9% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2011, 2010 and 2009 were \$112,321, \$97,137 and \$102,635, respectively, which met the required contribution for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 47 active and 5 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$483 for single coverage and \$1,271 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$300,936 and plan members eligible for benefits contributed \$39,769 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused holiday and vacation hours for subsequent use or for payment upon termination, retirement or death. City employees may also accumulate a limited amount of earned but unused sick leave hours for payment of subsequent health benefit costs upon retirement. The City also allows employees to accumulate compensatory time during the fiscal year in lieu of overtime pay. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned holiday, vacation, sick leave and compensatory time payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Holiday	\$ 15,000
Vacation	100,000
Sick leave	51,000
Compensatory time	<u>22,000</u>
Total	<u>\$ 188,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits - Health	\$ 53,577
	Capital Projects	149,455
	Enterprise:	
	Sewer	18,207
		<u>221,239</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	23,757
	Enterprise:	
	Sewer	241,189
		<u>264,946</u>
Enterprise:		
Airport	General	<u>38,700</u>
Total		<u>\$ 524,885</u>

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

(9) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 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 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 due and payable in the current 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 to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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 and reinsurance premiums, all of which are due and payable in the current 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 risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$119,474.

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation, employee blanket bond and aviation liability in the amount of \$1,000,000, \$100,000 and \$2,000,000, respectively. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Balances

At June 30, 2011, the Enterprise, Airport and the Special Revenue, K-9 Unit Program Funds had deficit balances of \$339,379 and \$4,556, respectively. The City is reviewing alternatives to eliminate these deficits.

(11) Construction Commitments

The City has entered into construction contracts totaling \$7,011,715. As of June 30, 2011, costs of \$4,187,978 had been paid on the contracts. The remaining \$2,823,737 will be paid as work on these projects progresses.

(12) Interfund Receivable/Payable

In prior years, the General Fund loaned the Special Revenue, Urban Renewal Tax Increment Fund \$85,251 to pay principal and interest due on general obligation bonds prior to the collection of tax increment financing receipts. The loan is to be repaid, without interest, as tax increment financing receipts are collected. During the year ended June 30, 2011, no payments were made. The remaining \$68,801 will be repaid as receipts are collected.

(13) Economic Development Loan

On February 2, 2000, the City loaned \$25,000 to the Knoxville Chamber of Commerce to assist in funding a local business expansion. The interest free loan is to be repaid over five years. During the year ended June 30, 2011, \$3,000 was received on the loan. The loan balance at June 30, 2011 was \$12,000.

(14) Community Economic Betterment Account Loans

On December 16, 2004, the City was awarded a \$200,000 Community Economic Betterment Account loan on behalf of Ultimate Truck Body from the Iowa Department of Economic Development (IDED). The loan consists of a \$50,000 conventional interest free loan and a \$150,000 forgivable loan. Repayment of the conventional loan is to be made in 48 equal monthly payments of \$1,042, with the first payment due on August 1, 2006. Payments are made directly to IDED by Ultimate Truck Body. The conventional loan was paid during the year ended June 30, 2011. At the project completion date, if the business has fulfilled at least 50% of its job creation/retention requirement, \$3,409 will be forgiven for each new job created/retained for at least ninety days past the project completion date. Any balance will be amortized over a two year period in equal monthly payments, with 6% per annum interest. All criteria have been met for the forgiveness of the forgivable loan.

On June 19, 2008, the City was awarded a \$90,000 Community Economic Betterment Account loan on behalf of Five Star Industries, Inc. from the Iowa Department of Economic Development (IDED). The loan consists of a \$45,000 conventional interest free loan and a \$45,000 forgivable loan. Repayment of the conventional loan is to be made in 60 equal monthly payments of \$750, with the first payment due on June 1, 2009. Payments are made directly to IDED by Five Star Industries, Inc. The balance outstanding on the conventional loan at June 30, 2011 was \$27,000. At the project completion date, if the business has fulfilled at least 50% of its job creation/retention requirement, a pro rata percentage will be forgiven for each new FTE job created/retained at the time the repayment amount is calculated. Any balance will be amortized over a two year period in equal monthly payments, with 6% per annum interest.

On March 20, 2008, the City was awarded a \$216,000 Community Economic Betterment Account loan on behalf of Verista Imaging, Inc. (Verista) from the Iowa Department of Economic Development (IDED). The loan consists of a \$108,000 conventional interest free loan and a \$108,000 forgivable loan. Repayment of the conventional loan is to be made in 60 equal monthly payments of \$1,800, with the first payment due on July 1, 2008. The balance outstanding on the conventional loan at June 30, 2011 was \$108,000. At the project completion date, if the business has fulfilled 50% or more of its job obligations (58 FTE's), a pro rata percentage will be forgiven for each new FTE job created/retained at the time the repayment amount is calculated. Any balance will be amortized over a two year period at 6% per annum interest with equal monthly payments. During the year ended June 30, 2010, Verista Inc. filed for bankruptcy and the local bank foreclosed on the building occupied by Verista. Verista and IDED are in negotiations to settle this debt.

Additionally, the Chamber of Commerce and Verista entered into an agreement under which the City loaned Verista \$100,800. This was funded through the City's revolving loan fund, which is a partnership between the City and the Chamber of Commerce. Repayment of the interest free loan is to be made in 36 equal monthly installments of \$2,800, with the first payment made on July 1, 2008. After Verista filed for bankruptcy on February 25, 2010, the Chamber of Commerce entered into a settlement agreement with Verista under which the remaining balance as of June 30, 2009 of \$92,400 was to be repaid in ten monthly payments of \$9,240. The remaining balance of \$64,680 was paid during the year ended June 30, 2011.

(15) Iowa Department of Economic Development

On April 1, 2009, the City entered into a contract with the Iowa Department of Economic Development (IDED) for the Neighborhood Stabilization Program. The award amount of \$973,903 is for the purposes of benefiting low, moderate and middle income individuals for the redevelopment of abandoned and foreclosed homes and residential properties and the stabilization and revitalization of neighborhoods. On July 15, 2010, the award was reduced to \$779,542. As of June 30, 2011, the City has disbursed \$742,233 for the above purposes and has received \$746,498 funds from the award.

(16) Development and Rebate Agreements

In prior years, the City entered into three development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental property tax paid by the developers in exchange for infrastructure improvements, rehabilitation and development of commercial projects constructed by the developers as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for a period ranging from ten to twenty years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The total amount to be rebated under the development and rebate agreements is not to exceed amounts ranging from \$85,931 to \$2,387,811. Certain agreements include provisions for payment of interest.

During the year ended June 30, 2011, the City rebated \$276,417 of incremental property tax to the developers, consisting of \$146,718 for principal and \$129,699 for interest. The outstanding principal balance on these agreements at June 30, 2011 is \$2,005,433, which includes \$1,907,024 subject to annual appropriation.

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

These agreements are not a general obligation of the City. However, the debt payment in the succeeding year on one agreement with an annual appropriation clause and all of the amounts to be rebated for the remaining agreements are subject to the constitutional debt limitation of the City.

(17) Employee Health Insurance Plan

The City established the Internal Service, Self Insurance Fund to account for the partial self funding of the City's health insurance benefit plan. The plan is funded by City contributions and is administered by Group Services, Inc. The City assumes liability for claims between \$250 and \$2,500 for single coverage and \$500 and \$5,000 for family coverage. Claims in excess of the deductible are insured through the purchase of insurance.

Payments to the Internal Service, Self Insurance Fund are recorded as disbursements by the operating funds. Payments to Group Services, Inc. for service fees and medical claims for the year ended June 30, 2011 were \$93,844.

(18) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>General</u>	<u>Special Revenue, Emergency Levy</u>
Balances June 30, 2010, as previously reported	\$ 302,970	30
Change in fund type classification per implementation of GASB Statement No. 54	<u>30</u>	<u>(30)</u>
Balances July 1, 2010, as restated	<u>\$ 303,000</u>	<u>-</u>

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total
Receipts:				
Property tax	\$ 2,711,600	-	-	2,711,600
Tax increment financing	320,902	-	-	320,902
Other city tax	871,465	-	-	871,465
Licenses and permits	21,320	-	-	21,320
Use of money and property	65,552	18,576	9,034	75,094
Intergovernmental	1,690,173	271,032	-	1,961,205
Charges for service	745,648	2,866,974	502,785	3,109,837
Special assessments	7,433	-	-	7,433
Miscellaneous	203,690	399,863	-	603,553
Total receipts	<u>6,637,783</u>	<u>3,556,445</u>	<u>511,819</u>	<u>9,682,409</u>
Disbursements:				
Public safety	1,589,674	85,007	85,007	1,589,674
Public works	860,317	-	-	860,317
Health and social services	18,477	-	-	18,477
Culture and recreation	1,124,962	17,291	17,291	1,124,962
Community and economic development	55,290	14,501	14,501	55,290
General government	577,811	115,548	115,548	577,811
Debt service	1,246,308	-	-	1,246,308
Capital projects	2,759,921	-	-	2,759,921
Business type activities	-	4,280,695	43,695	4,237,000
Total disbursements	<u>8,232,760</u>	<u>4,513,042</u>	<u>276,042</u>	<u>12,469,760</u>
Excess (deficiency) of receipts over (under) disbursements	(1,594,977)	(956,597)	235,777	(2,787,351)
Other financing sources, net	<u>3,531,364</u>	<u>907,668</u>	<u>-</u>	<u>4,439,032</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,936,387	(48,929)	235,777	1,651,681
Balances beginning of year	<u>2,304,479</u>	<u>4,239,262</u>	<u>721,581</u>	<u>5,822,160</u>
Balances end of year	<u>\$ 4,240,866</u>	<u>4,190,333</u>	<u>957,358</u>	<u>7,473,841</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Total Variance
Original	Final	
2,679,837	2,679,837	31,763
518,550	518,550	(197,648)
836,879	683,000	188,465
43,475	43,475	(22,155)
113,274	113,274	(38,180)
2,083,954	2,374,305	(413,100)
3,315,053	3,054,763	55,074
10,700	10,700	(3,267)
337,987	2,163,686	(1,560,133)
<u>9,939,709</u>	<u>11,641,590</u>	<u>(1,959,181)</u>
1,449,834	1,516,250	(73,424)
961,345	846,552	(13,765)
-	-	(18,477)
1,085,066	1,140,266	15,304
241,833	250,644	195,354
370,557	471,357	(106,454)
1,226,281	2,552,820	1,306,512
2,192,879	3,533,833	773,912
6,226,347	6,267,082	2,030,082
<u>13,754,142</u>	<u>16,578,804</u>	<u>4,109,044</u>
(3,814,433)	(4,937,214)	2,149,863
<u>2,300,000</u>	<u>4,327,068</u>	<u>111,964</u>
(1,514,433)	(610,146)	2,261,827
6,897,700	6,371,521	(549,361)
<u>5,383,267</u>	<u>5,761,375</u>	<u>1,712,466</u>

City of Knoxville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased disbursements by \$2,824,662. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services and general government functions.

Other Supplementary Information

City of Knoxville

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

As of and for the year ended June 30, 2011

	Employee Benefits - Health	Police Retirement	Urban Revitalization	Revolving Loan	Self- Supported Municipal Improvement District
Receipts:					
Property tax	\$ 426,002	125,600	-	-	17,206
Other city tax	12,390	3,653	-	-	-
Use of money and property	110	261	-	-	-
Intergovernmental	-	-	-	-	-
Miscellaneous	-	-	-	64,680	-
Total receipts	438,502	129,514	-	64,680	17,206
Disbursements:					
Operating:					
Public safety	184,558	112,321	-	-	-
Public works	11,929	-	-	-	-
Culture and recreation	129,868	-	-	-	-
Community and economic development	-	-	-	1,611	17,020
General government	67,004	-	-	-	-
Total disbursements	393,359	112,321	-	1,611	17,020
Excess (deficiency) of receipts over (under) disbursements	45,143	17,193	-	63,069	186
Operating transfers out	(53,577)	-	-	-	-
Net change in cash balances	(8,434)	17,193	-	63,069	186
Cash balances beginning of year, as restated	42,660	194,674	3,906	52,676	-
Cash balances end of year	\$ 34,226	211,867	3,906	115,745	186
Cash Basis Fund Balances					
Nonspendable:					
Cemetery Perpetual Care	\$ -	-	-	-	-
Reaver Trust	-	-	-	-	-
Restricted for other purposes	34,226	211,867	3,906	115,745	186
Unassigned	-	-	-	-	-
Total cash basis fund balances	\$ 34,226	211,867	3,906	115,745	186

See accompanying independent auditor's report.

Special Revenue							Permanent			
Police Department Trust	Rescue Donations	Library Gifts/Memorials	Recreation Donations	Auld Park Playground Trust	K-9 Unit Program	I-Jobs	Cemetery Perpetual Care	Reaver Trust	Total	
-	-	-	-	-	-	-	-	-	568,808	
-	-	-	-	-	-	-	-	-	16,043	
80	89	203	-	52	-	-	796	-	1,591	
-	-	-	-	-	-	41,085	-	-	41,085	
13,451	2,257	7,351	-	100	46	-	4,796	-	92,681	
13,531	2,346	7,554	-	152	46	41,085	5,592	-	720,208	
8,403	14,847	-	-	-	1,507	-	-	-	321,636	
-	-	-	-	-	-	-	-	-	11,929	
-	-	25,220	-	1,765	-	-	-	-	156,853	
-	-	-	-	-	-	-	-	-	18,631	
-	-	-	-	-	-	-	-	-	67,004	
8,403	14,847	25,220	-	1,765	1,507	-	-	-	576,053	
5,128	(12,501)	(17,666)	-	(1,613)	(1,461)	41,085	5,592	-	144,155	
-	-	-	-	-	-	-	-	-	(53,577)	
5,128	(12,501)	(17,666)	-	(1,613)	(1,461)	41,085	5,592	-	90,578	
36,285	41,273	31,733	4,832	35,442	(3,095)	(37,994)	235,088	500	637,980	
41,413	28,772	14,067	4,832	33,829	(4,556)	3,091	240,680	500	728,558	
-	-	-	-	-	-	-	222,731	-	222,731	
-	-	-	-	-	-	-	-	500	500	
41,413	28,772	14,067	4,832	33,829	-	3,091	-	-	491,934	
-	-	-	-	-	(4,556)	-	17,949	-	13,393	
41,413	28,772	14,067	4,832	33,829	(4,556)	3,091	240,680	500	728,558	

City of Knoxville

City of Knoxville

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Internal Service Funds

As of and for the year ended June 30, 2011

	Equipment Replacement	Building Replacement	Self Insurance	Self Insured Property Insurance	Total
Operating receipts:					
Charges for service	\$ 287,587	20,000	191,498	3,700	502,785
Operating disbursements:					
Governmental activities:					
Public safety	85,007	-	-	-	85,007
Public works	17,291	-	-	-	17,291
Culture and recreation	14,501	-	-	-	14,501
General government	7,891	-	107,657	-	115,548
Business type activities:					
Sewer	40,308	-	-	3,387	43,695
Total operating disbursements	164,998	-	107,657	3,387	276,042
Excess of operating receipts over operating disbursements	122,589	20,000	83,841	313	226,743
Non-operating receipts:					
Interest on investments	7,234	32	1,768	-	9,034
Net change in cash balances	129,823	20,032	85,609	313	235,777
Cash balances beginning of year	504,788	30,138	186,655	-	721,581
Cash balances end of year	\$ 634,611	50,170	272,264	313	957,358
Cash Basis Fund Balances					
Unrestricted	\$ 634,611	50,170	272,264	313	957,358

See accompanying independent auditor's report.

City of Knoxville
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential corporate purpose	Jan 15, 2005	2.25 - 4.30%	\$ 2,200,000
Corporate purpose and refunding	Sep 20, 2010	1.00 - 3.00	3,640,000
Total			
General obligation capital loan notes:			
General corporate purpose	May 1, 2005	2.70 - 3.90%	\$ 700,000
Refunding	May 1, 2005	3.10 - 3.50	1,525,000
Refunding	Sep 19, 2007	3.70 - 4.05	1,765,000
Sewer improvement	Nov 18, 2010	2.70	710,000
Total			
Revenue bonds:			
Sewer refunding	Nov 17, 2003	1.50 - 4.00%	\$ 995,000
Sewer	Dec 10, 2008	4.50 - 4.85	5,370,000
Sewer	Feb 16, 2010 *	3.00	2,756,000
Sewer refunding	Mar 18, 2010	2.00-3.00	1,705,000
Total			
Capital lease purchase agreement:			
Rescue vehicle	Aug 24, 2004	4.80%	\$ 108,737

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
1,595,000	-	130,000	1,465,000	61,485
-	3,640,000	495,000	3,145,000	43,886
\$ 1,595,000	3,640,000	625,000	4,610,000	105,371
460,000	-	460,000	-	5,164
520,000	-	520,000	-	5,414
1,230,000	-	120,000	1,110,000	48,260
-	710,000	-	710,000	10,302
\$ 2,210,000	- 710,000	1,100,000	1,820,000	69,140
330,000	-	105,000	225,000	12,615
5,170,000	-	100,000	5,070,000	239,798
27,560	644,593	-	672,153	13,241
1,705,000	-	215,000	1,490,000	50,381
\$ 7,232,560	644,593	420,000	7,457,153	316,035
34,864	-	17,015	17,849	1,709

City of Knoxville
Bond and Note Maturities
June 30, 2011

Year Ending June 30,	General Obligation Bonds					Total
	Essential Corporate Purpose		Corporate Purpose and Refunding			
	Issued Jan 15, 2005		Issued Sept 20, 2010			
	Interest Rates	Amount	Interest Rates	Amount		
2012	3.40%	\$ 135,000	1.00%	\$ 505,000	640,000	
2013	3.50	145,000	1.00	295,000	440,000	
2014	3.70	150,000	1.10	300,000	450,000	
2015	3.80	155,000	1.40	310,000	465,000	
2016	3.90	160,000	1.70	220,000	380,000	
2017	4.00	170,000	1.95	230,000	400,000	
2018	4.10	175,000	2.25	235,000	410,000	
2019	4.20	185,000	2.50	245,000	430,000	
2020	4.30	190,000	2.65	255,000	445,000	
2021		-	2.80	270,000	270,000	
2022		-	3.00	280,000	280,000	
2023		-		-	-	
Total		<u>\$1,465,000</u>		<u>\$3,145,000</u>	<u>\$4,610,000</u>	

Year Ending June 30,	Revenue Bonds				Total	
	Sewer Refunding		Sewer			
	Issued Nov 17, 2003		Issued Dec 10, 2008			
	Interest Rates	Amount	Interest Rates	Amount		
2012	3.85%	\$ 110,000	4.50%	\$ 100,000		
2013	4.00	115,000	4.50	100,000		
2014		-	4.50	200,000		
2015		-	4.50	210,000		
2016		-	4.50	210,000		
2017		-	4.50	215,000		
2018		-	4.50	275,000		
2019		-	4.50	285,000		
2020		-	4.50	305,000		
2021		-	4.55	320,000		
2022		-	4.60	340,000		
2023		-	4.65	360,000		
2024		-	4.70	380,000		
2025		-	4.75	405,000		
2026		-	4.80	430,000		
2027		-	4.80	455,000		
2028		-	4.85	480,000		
Total		<u>\$ 225,000</u>		<u>\$ 5,070,000</u>		

See accompanying independent auditor's report.

General Obligation Capital Loan Notes						
Refunding			Sewer Improvement			
Issued September 19, 2007			Issued November 18, 2010			
Interest Rates		Amount	Interest Rates		Amount	Total
3.800%	\$	120,000	2.70%	\$	25,000	145,000
3.850		125,000	2.70		30,000	155,000
3.875		130,000	2.70		30,000	160,000
3.900		135,000	2.70		20,000	155,000
3.950		140,000	2.70		70,000	210,000
4.000		150,000	2.70		70,000	220,000
4.050		150,000	2.70		70,000	220,000
4.050		160,000	2.70		75,000	235,000
		-	2.70		75,000	75,000
		-	2.70		80,000	80,000
		-	2.70		80,000	80,000
		-	2.70		85,000	85,000
		<u>\$ 1,110,000</u>			<u>\$ 710,000</u>	<u>\$ 1,820,000</u>

Sewer Refunding			
Issued Mar 13, 2010			
Interest Rates		Amount	Total
2.00 %	\$	230,000	440,000
2.00		235,000	450,000
2.25		245,000	445,000
2.75		250,000	460,000
3.00		260,000	470,000
3.00		270,000	485,000
		-	275,000
		-	285,000
		-	305,000
		-	320,000
		-	340,000
		-	360,000
		-	380,000
		-	405,000
		-	430,000
		-	455,000
		-	480,000
		<u>\$ 1,490,000</u>	<u>\$ 6,785,000</u>

City of Knoxville

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

For the Last Nine Years

	2011	2010	2009	2008
Receipts:				
Property tax	\$ 2,711,600	\$ 2,611,363	2,497,122	2,315,591
Tax increment financing	320,902	535,285	485,945	436,811
Other city tax	871,465	864,232	921,047	874,009
Licenses and permits	21,320	15,678	25,294	30,932
Use of money and property	65,552	77,345	94,747	156,478
Intergovernmental	1,690,173	1,136,792	1,082,430	927,964
Charges for service	745,648	639,917	627,050	552,542
Special assessments	7,433	10,874	5,231	3,796
Miscellaneous	203,690	380,054	411,077	152,616
Total	\$ 6,637,783	\$ 6,271,540	6,149,943	5,450,739
Disbursements:				
Operating:				
Public safety	\$ 1,589,674	\$ 1,506,286	1,403,437	1,278,799
Public works	860,317	783,903	766,763	711,474
Health and social services	18,477	15,151	12,869	17,776
Culture and recreation	1,124,962	1,141,093	1,081,081	973,213
Community and economic development	55,290	102,266	500,686	420,046
General government	577,811	503,383	498,032	329,067
Debt service	1,246,308	1,974,144	1,760,500	1,272,801
Capital projects	2,759,921	1,334,631	676,191	864,294
Total	\$ 8,232,760	\$ 7,360,857	6,699,559	5,867,470

See accompanying independent auditor's report.

2007	2006	2005	2004	2003
2,170,476	2,129,393	1,981,319	2,069,054	2,091,215
403,700	368,655	390,497	327,032	267,890
945,409	833,292	746,387	286,303	131,447
51,121	49,200	36,614	44,374	54,796
144,598	191,752	48,159	42,281	59,040
1,067,614	1,390,093	1,502,408	805,600	1,023,225
467,204	439,924	467,822	423,250	316,449
-	-	-	14,329	5,688
109,627	101,254	130,398	93,178	166,818
5,359,749	5,503,563	5,303,604	4,105,401	4,116,568
1,140,287	1,087,731	1,173,206	1,143,333	1,246,442
667,084	757,366	713,930	728,691	716,802
14,846	14,307	-	-	-
908,901	865,491	963,405	954,891	998,489
274,588	145,002	325,700	197,729	153,213
433,227	417,467	414,694	423,033	394,567
976,788	2,507,606	913,064	777,558	652,097
867,751	1,479,908	1,059,329	99,340	580,020
5,283,472	7,274,878	5,563,328	4,324,575	4,741,630

Schedule 6

City of Knoxville

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation: Airport Improvement Program	20.106	03-19-0051-10 03-19-0051-11	<u>\$ 384,624</u>
Indirect:			
U.S. Department of Agriculture: Iowa Department of Natural Resources: Cooperative Forestry Assistance	10.664	10-DG-11420004-021	2,200
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	08-NSP-011	664,094
U.S. Department of Transportation: Iowa Department of Public Safety: Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	PAP 09-410, Task 41	1,274
Occupant Protection Incentive Grants	20.602	PAP 11-03, Task 0500	1,626
U.S. Environmental Protection Agency: Iowa Department of Natural Resources: ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468	CS0248R	<u>447,372</u>
Total indirect			<u>1,116,566</u>
Total			<u>\$ 1,501,190</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Knoxville and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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 the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 12, 2011. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Knoxville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Knoxville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Knoxville's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Knoxville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 through II-F-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-G-11 through II-L-11 to be significant deficiencies. Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Knoxville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

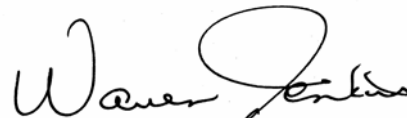
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Knoxville's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Knoxville's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Knoxville and other parties to whom the City of Knoxville may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Knoxville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 12, 2011

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**

City of Knoxville



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Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the City of Knoxville, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Knoxville's major federal programs for the year ended June 30, 2011. The City of Knoxville's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City of Knoxville's management. Our responsibility is to express an opinion on the City of Knoxville's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Knoxville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Knoxville's compliance with those requirements.

In our opinion, the City of Knoxville complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Knoxville is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Knoxville's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Knoxville's internal control over compliance.

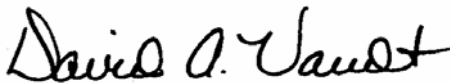
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

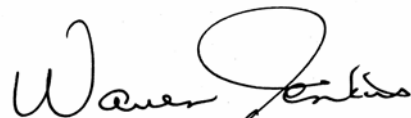
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program which is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part III of the accompanying Schedule of Findings and Questioned Costs as items III-B-11 and III-C-11 to be significant deficiencies.

The City of Knoxville's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Knoxville's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Knoxville and other parties to whom the City of Knoxville may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 12, 2011

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

- (a) Unqualified opinions were issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies and a material weakness in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - o CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
 - o CFDA Number 20.106 – Airport Improvement Program
 - o CFDA Number 66.468 – ARRA - Capitalization Grants for Drinking Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Knoxville did not qualify as a low-risk auditee.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-11 Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:

- (1) Cash – handling petty cash, reconciling and signing checks.
- (2) Investments – recording, custody and record-keeping.
- (3) Bank reconciliations – preparation and approval.
- (4) Long-term debt – record - keeping, compliance, debt payment processing and other cash functions.
- (5) Compensated absences - preparation and approval.
- (6) Receipts – opening mail, collecting receipts, recording receipts, maintaining accounts receivable records without independent reconciliation of recorded receipts to the deposit. Also, no initial listing is prepared and independently reviewed.
- (7) Disbursements – preparing disbursements, recording disbursements and reconciling.
- (8) Payroll – preparing disbursements, entering pay rates, recording payroll, control of undistributed warrants and custody of personnel files.
- (9) Transfers- preparing, recording and approving.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including elected officials.

Response – The City has recently hired more personnel, so we will try to segregate these duties.

Conclusion – Response accepted.

II-B-11 Knoxville Municipal Waterworks – The Waterworks provides billing and collection services for the City's sewer and water fees. The sewer receipts are remitted to the City. The Waterworks provides a reconciliation of billings, collections and receivable balances to the City, but the City does not review the reconciliation.

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

Response – Staff will prepare a monthly reconciliation which will be reviewed by the City Manager.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

- II-C-11 Rescue Billings – One employee is responsible for collecting receipts, recording receipts, opening mail and maintaining the accounts receivable records. Also, write-offs of delinquent rescue billings are not approved by an independent person. In addition, an initial listing of receipts is not prepared.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

Response – As of September 6, 2011, the City contracted out rescue billing services. This will help create a broader segregation of duties than we have been previously able to do.

Conclusion – Response accepted.

- II-D-11 Rescue Billings Reconciliation – The Rescue Department provides billing and collection information to the City Clerk for the City's rescue fees. The City does not prepare a reconciliation of rescue billings, collections and delinquencies.

Recommendation – The City should prepare a monthly rescue billings reconciliation report. The report should be reviewed for propriety.

Response – The City has recently contracted the billing to a third party administrator. The administrator will provide a report quarterly which will be reviewed by the City.

Conclusion – Response accepted.

- II-E-11 Recreation Center – One employee is responsible for opening the mail, collecting receipts, recording receipts and preparing the deposit. In addition, an initial listing of receipts is not prepared.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

Response – The City has a small full time staff. Will do better in the future with cross training these duties with other staff members.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

- II-F-11 Knoxville Senior Citizens Center – One employee is responsible for collecting receipts, recording receipts, deposit preparation, opening mail and disbursements. Also, deposits are not made intact and timely. In addition, an initial listing of receipts is not prepared.

The Knoxville Senior Citizens Center does not prepare bank reconciliations or an investment register.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Knoxville Senior Citizens Center should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Additionally, deposits should be made intact and timely.

In addition, the Center should prepare bank reconciliations at the end of each month to reconcile book and bank balances and the reconciliations should be reviewed by an independent person. The Center should also maintain an investment register.

Response – The City will discuss this matter with Senior Center staff to resolve this issue.

Conclusion – Response accepted.

- II-G-11 Records of Account – The Knoxville Senior Citizens Center and the Knoxville Friends of the Library maintained checking and savings accounts separate from the City Clerk's records. The transactions and the resulting balances were not reported to the City Council each month and the transactions were not recorded in the City Clerk's records. Also, the Knoxville Senior Citizens Center and the Knoxville Friends of the Library were not included in the City's budget.

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

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." Until the Knoxville Senior Citizen Center and the Knoxville Friends of the Library demonstrate they are legally separate from the City, the monthly financial transactions should be included in the City Clerk's monthly financial reports. Also, the Knoxville Senior Citizens Center and the Knoxville Friends of the Library should be included in the City's budget.

The year end balance of the separate checking account maintained by the Recreation Center should be included in the City's records.

Response – City Manager will discuss this issue with the Library and Senior Center Directors to resolve this issue.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

- II-H-11 Investment Register – An investment register is not maintained to include detailed information for all investments on hand and interest received on each investment. Also, the City did not account for all interest earned on investments in the financial statements.

Recommendation – The City should maintain a detailed investment register of each investment purchased and redeemed, including the investment number, interest rate, date purchased, maturity date and the amount of the investment.

Response – Interest received is accounted for and recorded each month on spreadsheets and kept in an investment binder. For future the City can create a register which has more information as requested.

Conclusion – Response accepted.

- II-I-11 Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- A disaster recovery plan.
- Logging off terminals.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's internal control over computer-based systems.

Response – The City will look into creating a disaster recovery plan. Personnel are aware of the need to log off terminals. However the City will develop and implement a policy.

Conclusion – Response accepted.

- II-J-11 Petty Cash and Change Funds – The Library, Police Department and Recreation Center maintain petty cash or change funds. The funds at the Library and the Police Department are not maintained on an imprest basis. The Police Department's change/petty cash was also co-mingled with employee funds used for such items as greeting cards. In addition, the City's records do not accurately reflect the balance of all cash on hand at the end of the fiscal year.

Recommendation – Petty cash and change funds should be maintained on an imprest basis. Employee personal funds should be maintained separately from the City's change funds and petty cash funds. In addition, the City should ensure all change funds and petty cash funds are included in the financial records.

Response – The City was not aware of this issue until found during the audit process. We will discuss matters with the various Department's and include balances in the financial records.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

II-K-11 Travel Policy – The City has not adopted a travel reimbursement policy, including an approved mileage rate. Additionally, the City is not monitoring when withholding is required for taxable travel.

Recommendation – The City should adopt a travel reimbursement policy, including a requirement all reimbursement expenses be itemized. The policy should also specify lodging, meals and mileage reimbursement rates. In addition, the City should ensure taxes are withheld when appropriate.

Response – The City will look into creating a travel policy, including withholding taxes as appropriate. Approved mileage rate used has always been the Internal Revenue Service approved amount.

Conclusion – Response accepted.

II-L-11 Travel Disbursements and Payroll of City Officials – The City Manager and other Department heads periodically travel. Travel costs are generally charged to a City credit card. The detailed credit card charges and receipts are not reviewed by anyone to ensure travel disbursements are appropriate.

Recommendation – The City should review travel expenses in enough detail to ensure charges are appropriate.

Response – The monthly credit card statements will be reviewed and signed by the City Manager.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Pass-through Agency Number: 08-NSP-011
Federal Award Year: 2010
U.S. Department of Housing and Urban Development
Passed-through the Iowa Department of Economic Development

CFDA Number 20.106: Airport Improvement Program
Agency Number: 03-19-0051-10, 03-19-0051-11
Federal Award Year: 2010, 2011
U.S. Department of Transportation

CFDA Number 66.468: ARRA - Capitalization Grants for Drinking Water State Revolving Funds
Pass-through Agency Number: CS0248R
Federal Award Year: 2010
U.S. Environment Protection Agency
Passed through the Iowa Department of Natural Resources

III-A-11 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-11.

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Agency Number: 08-NSP-011
Federal Award Year: 2010
U.S. Department of Housing and Urban Development
Passed-through the Iowa Department of Economic Development

III-B-11 Reimbursement Request – The City operates the program on a reimbursement basis. The OMB Circular A-133 Compliance Supplement defines reimbursement basis as program costs being paid for by entity funds before reimbursement is requested. In one of two requests during the fiscal year ended June 30, 2011, the City requested reimbursement of funds prior to disbursing the funds. This resulted in \$28,447 subsequently being remitted to the Iowa Department of Economic Development.

Recommendation – The City should develop procedures to ensure all requests for reimbursement are based on actual disbursements made.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Response and Corrective Action Plan – The City entered into a contract with another entity to administer this grant and they have not performed their duties, as has been identified. The City is currently working to remedy this issue and will take such matters into consideration when selecting future grant administrators.

Conclusion – Response accepted.

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Agency Number: 08-NSP-011

Federal Award Year: 2010

U.S. Department of Housing and Urban Development

Passed-through the Iowa Department of Economic Development

III-C-11 Reporting – The grant agreement entered into by the City and the Iowa Department of Economic Development requires quarterly reports to be filed by the 15th of the month following the end of the quarter. Three of the four quarterly reports for fiscal year ended June 30, 2011 were not filed timely.

Recommendation – The City should establish and implement policies and procedures to ensure quarterly reports are filed timely as required by the grant agreement.

Response and Corrective Action Plan – This issue also relates to the non-performance of the contracted entity for administration for this grant. Staff is working to remedy the issue. Future reports will be filed by the City as required.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety, public works, health and social services, and general government functions. In addition, disbursements exceeded the amounts budgeted in the public safety, health and social services, general government, debt service and capital projects functions prior to the budget amendment. 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 – In the future the City will amend the budget prior to disbursements exceeding budgeted amounts.

Conclusion – Response accepted.

IV-B-11 Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Mastercard	Flowers for funeral	\$ 38
Mastercard	Plaque for retiring employee	76
Ramaeker Screen Printing	Staff shirts	136
Walmart	Toiletry items (toothpaste, mouthwash, etc.) for courtesy counter at airport	63

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

Recommendation – The City Council should determine and document the public purpose served by this disbursement prior to authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – The policies regarding these issues will be reviewed and addressed during the personnel policy manual review and update.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

- IV-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-11 Business Transactions – No business transactions between the City and City officials or employees were noted.
- IV-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not publish a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish total expenditures from each City fund as required. The minutes of the June 28, 2011 Council meeting have not been prepared and were consequently not published timely.

Recommendation – The City should comply with Chapter 372.13 of the Code of Iowa prepare and publish all City Council minutes as well as publish receipts and expenditures as required.

Response – Staff will review publishing requirements and make any necessary adjustments.

Conclusion – Response accepted.

- IV-G-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-H-10 Revenue Bonds – No instances of non-compliance with the revenue bond resolutions were noted.
- IV-I-11 Financial Condition – The Enterprise, Airport and the Special Revenue, K-9 Unit Program Funds had deficit balances of \$339,379 and \$4,556, respectively, at June 30, 2011.

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to sound financial positions.

Response – Staff will look into why these funds have deficits and make necessary adjustments.

Conclusion – Response accepted.

- IV-J-11 Sewer Improvement Notes – The notice of proposed issuance of \$710,000 general obligation storm sewer improvement notes was not published at least ten days prior to the meeting at which it was proposed to take action for the issuance of the notes as required by Chapter 384.26(5)(a) of the Code of Iowa.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Recommendation – The City should consult legal counsel to determine the disposition of this matter. In addition, in the future the City should comply with the Code of Iowa.

Response – The City uses the legal firm of Dorsey and Whitney as well as financial advisor PFM for all bond issuances. Staff will review this issue with them and take any necessary action. If this truly occurred it is an abnormality and not a normal occurrence. The City will comply with State Code for future issuances.

Conclusion – Response accepted.

- IV-K-11 Capital Projects – Chapter 384.103(2)(a) of the Code of Iowa states, “When an emergency repair of a public improvement is necessary and the delay of advertising and a public letting might cause serious loss or injury to the city, the chief officer or official of the governing body of the city or the governing body shall make a finding of the necessity to institute emergency proceedings under this section, and shall procure a certificate from a competent licensed professional engineer or registered architect, certifying that emergency repairs are necessary.” The City Council declared a project for the cemetery as an emergency due to sink holes. However, they did not obtain a certificate from a competent licensed professional or registered architect certifying the emergency repairs were necessary.

In addition, disbursements for three contracts exceeded the approved contracts.

Recommendation – The City should consult legal counsel on this matter. In addition, in the future, if emergency repairs are necessary, the City should obtain the required certification noting the emergency repairs are necessary. Also, the City should develop procedures to monitor disbursements for capital projects so they do not exceed the total amount contracted. If changes are necessary, a change order should be approved by the City Council prior to the contract being exceeded.

Response – Staff will ensure the certification of a certified engineer or architect is obtained for emergency repairs. All change orders will be approved by Council before paid.

Conclusion – Response accepted.

- IV-L-11 Tax Increment Financing – The City has tax increment financing (TIF) debt of \$124,659 outstanding at June 30, 2011 and annual appropriation debt related to Park Lane Development with a maturity date of December 31, 2023. The City had cash on hand of \$282,178 at June 30, 2011 in the Special Revenue, Urban Renewal Tax Increment Fund to pay for the TIF debt outstanding. Therefore, the City has \$157,719 more cash on hand than is needed to pay the TIF debt outstanding.

In addition, during the year ended June 30, 2011, the City transferred \$23,757 to the Debt Service Fund for its share of debt for Westridge TIF. However, this debt was refunded during the year.

Recommendation – The City should consult legal counsel to determine the disposition of this issue. Since the City has sufficient cash on hand to pay the TIF indebtedness outstanding, the City should complete and provide TIF certification

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Form 3 to the County Auditor to reduce the TIF indebtedness outstanding for the cash on hand at June 30, 2011 in the Special Revenue, Urban Renewal Tax Increment Fund. The City should also certify the proper amount of annual appropriation debt to be paid in the subsequent year annually.

Response – Staff provided a newly amended agreement with Park Lane Development regarding their TIF proceeds. Staff will research the issue and either use the funds toward outstanding TIF debt or use it towards a TIF eligible improvement within the Urban Revitalization area.

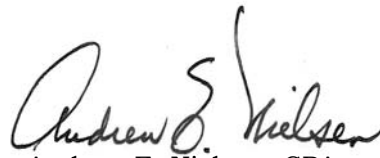
Conclusion – Response acknowledged. The City should use excess proceeds to reduce outstanding TIF debt.

City of Knoxville

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Daniel W. Henaman, Staff Auditor
Lara K. Van Wyk, Staff Auditor
Adam B. Bartz, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State