



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 31, 2008

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$7,384,650 for the year ended June 30, 2007, a 3.6 percent decrease from 2006. The receipts included \$2,352,969 in property tax, \$403,700 from tax increment financing, \$2,448,119 from charges for service, \$1,125,713 from operating grants, contributions and restricted interest, \$19,099 from capital grants, contributions and restricted interest, \$762,916 from local option sales tax, \$251,941 from unrestricted interest on investments and \$20,193 from other general receipts.

Disbursements for the year totaled \$8,398,408, an 11.5 percent decrease from the prior year, and included \$1,219,728 for public safety, \$989,005 for culture and recreation and \$976,805 for public works. Also, disbursements for business type activities totaled \$2,624,987. The significant decrease in disbursements is due primarily to the advance refunding of general obligation bonds in the prior year.

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/reports.htm>.

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CITY OF KNOXVILLE

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

JUNE 30, 2007

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City of Knoxville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Harvey Sprafka	Mayor	Jan 2008
Sharon Dennison	Mayor Pro tem	Jan 2008
Bob Edwards	Council Member	Jan 2008
Bob Wims	Council Member	Jan 2008
Dave Roozeboom	Council Member	Jan 2010
Elsie Kemp	Council Member	Jan 2010
Dick Schrad	City Manager	Indefinite
Connie J. Stevens	City Clerk	Resigned
Donna L. Rank	City Clerk	Resigned
Jody J. Meyer	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, 2007, 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 unit, 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, 2007, 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, 2007, 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 January 3, 2008 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 internal control over financial reporting or 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 34 through 36 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 basic 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 four years ended June 30, 2006 (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 5 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

January 3, 2008

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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 3%, or approximately \$149,000, from fiscal year 2006 to fiscal year 2007. Capital grants, contributions and restricted interest decreased approximately \$245,000.
- Disbursements for governmental activities decreased 19.4%, or approximately \$1,389,000, in fiscal year 2007 from fiscal year 2006. Debt service and capital projects disbursements decreased approximately \$1,531,000 and \$466,000, respectively, while public works disbursements increased approximately \$289,000.
- Receipts of the City's business type activities decreased 6%, or \$127,000. Operating grants, contributions and restricted interest decreased approximately \$111,000.
- Disbursements for business type activities increased 12.7%, or approximately \$296,000.
- The City's total cash basis net assets decreased 14.7%, or approximately \$1,014,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$100,000 and the assets of the business type activities decreased approximately \$914,000.

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 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.

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, 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 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 the 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.

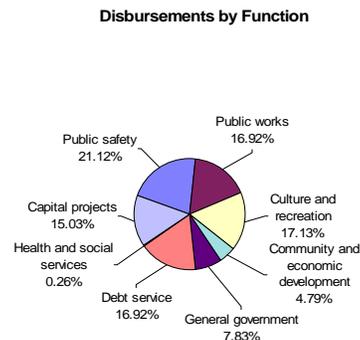
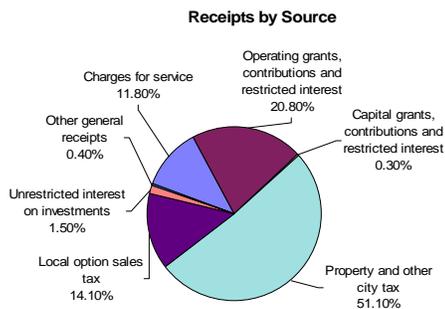
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide 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 decreased from a year ago, decreasing from \$3.6 million to \$3.5 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,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service	\$ 635,269	603,904
Operating grants, contributions and restricted interest	1,125,713	1,253,236
Capital grants, contributions and restricted interest	18,346	263,812
General receipts:		
Property and other city tax	2,756,669	2,677,688
Local option sales tax	762,916	653,652
Unrestricted interest on investments	81,960	60,929
Other general receipts	19,319	36,142
Total receipts	5,400,192	5,549,363
Disbursements:		
Public safety	1,219,728	1,126,278
Public works	976,805	687,467
Health and social services	14,846	14,307
Culture and recreation	989,005	872,086
Community and economic development	276,402	146,308
General government	452,096	474,939
Debt service	976,788	2,507,606
Capital projects	867,751	1,333,908
Total disbursements	5,773,421	7,162,899
Deficiency of receipts under disbursements	(373,229)	(1,613,536)
Transfers, net	273,377	142,679
Decrease in cash basis net assets	(99,852)	(1,470,857)
Cash basis net assets beginning of year	3,589,339	5,060,196
Cash basis net assets end of year	\$ 3,489,487	3,589,339



The City's total receipts for governmental activities decreased 3%, or approximately \$149,000. The total cost of all programs and services decreased \$1,389,000, or 19.4%, with no new programs added this year. The major change in receipts was capital grants, contributions and restricted interest decreased approximately \$245,000 due to a street grant received the prior year. The City increased property tax rates for 2007 by 3%. Net transfers increased approximately \$131,000, due primarily to transfers from the Enterprise, Sewer Fund to the General Fund. The major changes in disbursements were debt service and capital projects decreased approximately \$1,531,000 and \$466,000, respectively, due to the early repayment of debt in the prior year and street projects in the prior year, respectively.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service	\$ 1,812,850	1,754,236
Operating grants, contributions and restricted interest	-	261,716
Capital grants, contributions and restricted interest	753	80,136
General receipts:		
Unrestricted interest on investments	169,981	15,499
Other general receipts	874	-
Total receipts	<u>1,984,458</u>	<u>2,111,587</u>
Disbursements:		
Sewer	2,533,582	2,056,760
Airport	91,405	272,413
Total disbursements	<u>2,624,987</u>	<u>2,329,173</u>
Deficiency of receipts under disbursements	(640,529)	(217,586)
Transfers, net	<u>(273,377)</u>	<u>(142,679)</u>
Decrease in cash basis net assets	(913,906)	(360,265)
Cash basis net assets beginning of year	<u>3,310,987</u>	<u>3,671,252</u>
Cash basis net assets end of year	<u>\$ 2,397,081</u>	<u>3,310,987</u>

The total business type activities cash balance decreased \$913,906 from the prior year to a year end balance of \$2,397,081. Disbursements increased primarily due to the wastewater treatment and lift station projects.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$3,213,729, an increase of more than \$349,000 over last year's total of \$2,864,075. 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 \$6,654 from the prior year to a year-end balance of \$280,784. There were no significant changes in receipts or disbursements for the General Fund.
- The Special Revenue, Road Use Tax Fund cash balance increased \$47,532 to \$227,211 during the fiscal year. There were no significant changes in receipts or disbursements for the Road Use Tax Fund.

- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance increased \$430,564 to a year-end balance of \$464,648. Disbursements related to street projects mentioned in the LOST ballot decreased, specifically the Roche Street Reconstruction Project and the 2006 Street Improvements Project.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$112,843 to a year-end balance of \$1,046,954. Disbursements decreased \$80,848 as a result of decreased disbursements made under development agreements.
- The Debt Service Fund cash balance increased \$99,217 to a year-end balance of \$56,496. Disbursements decreased due to refunding note proceeds of \$1,521,950 which were used in the prior year to advance refund a general obligation bond issue at the crossover date of June 1, 2006.
- The Capital Projects Fund cash balance decreased \$305,830 to \$379,228. Disbursements increased by \$260,182, most of which was for construction costs on the multi-use trail project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased \$891,831 to a year-end balance of \$2,305,353. Disbursements increased \$480,662, primarily due to the wastewater treatment and lift station projects.

BUDGETARY HIGHLIGHTS

The City did not amend its fiscal year 2007 budget.

The City exceeded the budget for the health and social services, community and economic development, general government, debt service and business type activities functions for the year ended June 30, 2007. Significant differences between the budget and actual disbursements were for the sewer business type activities. Significant differences between the budget and actual receipts were for increased use of money and property receipts in the General and Proprietary, Sewer Funds and increased intergovernmental receipts in the Capital Projects Fund.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$8,721,289 in bonds and other long-term debt outstanding, compared to \$9,615,341 last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2007	2006
General obligation bonds	\$ 3,930,000	4,275,000
General obligation capital loan notes	1,845,000	2,115,000
Sewer revenue bonds	2,865,000	3,130,000
Capital lease purchase agreement	81,289	95,341
Total	\$ 8,721,289	9,615,341

City debt payments in fiscal year 2007 reduced outstanding debt by \$894,052.

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 \$8,437,273 is below its constitutional debt limit of \$13,640,215.

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 2008 budget, tax rates and fees charged for various City activities. The City's fiscal year 2008 assessed value has increased \$2.3 million from the fiscal year 2007 level, an increase of 1.4%. The City's General Fund receipts from property tax will increase slightly from fiscal year 2007 levels. As a result, there are no new positions or services in the upcoming budget, though the City was able to retain all existing positions and services from fiscal year 2007.

Third, 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 decrease approximately \$452,000 and budgeted disbursements are expected to decrease approximately \$911,000, compared to actual fiscal year 2007 amounts.

The fiscal year 2008 levy is \$14.82658 per \$1,000 of taxable valuation, or an increase of \$0.49843 per \$1,000 of taxable valuation over that of fiscal year 2007. 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 2008.

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 Dick Schrad, 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, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,219,728	242,531	74,411	-
Public works	976,805	6,331	644,341	-
Health and social services	14,846	16,999	3,208	-
Culture and recreation	989,005	285,078	56,934	-
Community and economic development	276,402	28,457	320,587	-
General government	452,096	55,873	22,986	-
Debt service	976,788	-	3,246	-
Capital projects	867,751	-	-	18,346
Total governmental activities	5,773,421	635,269	1,125,713	18,346
Business type activities:				
Sewer	2,533,582	1,812,850	-	-
Airport	91,405	-	-	753
Total business type activities	2,624,987	1,812,850	-	753
Total	\$ 8,398,408	2,448,119	1,125,713	19,099

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 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:
 Streets
 Local option sales tax
 Urban renewal tax increment
 Debt service
 Capital projects
 Customer deposits
 Senior Citizens
 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
(902,786)	-	(902,786)
(326,133)	-	(326,133)
5,361	-	5,361
(646,993)	-	(646,993)
72,642	-	72,642
(373,237)	-	(373,237)
(973,542)	-	(973,542)
(849,405)	-	(849,405)
(3,994,093)	-	(3,994,093)
-	(720,732)	(720,732)
-	(90,652)	(90,652)
-	(811,384)	(811,384)
(3,994,093)	(811,384)	(4,805,477)
1,855,212	-	1,855,212
403,700	-	403,700
497,757	-	497,757
762,916	-	762,916
81,960	169,981	251,941
19,319	874	20,193
273,377	(273,377)	-
3,894,241	(102,522)	3,791,719
(99,852)	(913,906)	(1,013,758)
3,589,339	3,310,987	6,900,326
\$ 3,489,487	2,397,081	5,886,568
\$ 227,211	-	227,211
464,648	-	464,648
1,046,954	-	1,046,954
56,496	735,201	791,697
379,228	-	379,228
-	42,777	42,777
26,148	-	26,148
758,408	-	758,408
530,394	1,619,103	2,149,497
\$ 3,489,487	2,397,081	5,886,568

City of Knoxville

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

As of and for the year ended June 30, 2007

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 1,199,299	-	-	-
Tax increment financing	-	-	-	403,700
Other city tax	148,799	-	762,916	-
Licenses and permits	51,121	-	-	-
Use of money and property	113,056	-	-	-
Intergovernmental	91,491	644,339	18,346	-
Charges for service	467,204	-	-	-
Miscellaneous	72,353	-	-	-
Total receipts	2,143,323	644,339	781,262	403,700
Disbursements:				
Operating:				
Public safety	976,418	-	-	-
Public works	101,785	565,299	-	-
Health and social services	14,846	-	-	-
Culture and recreation	874,674	-	-	-
Community and economic development	135,570	-	-	-
General government	401,719	31,508	-	-
Debt service	-	-	-	96,889
Capital projects	-	-	350,698	-
Total disbursements	2,505,012	596,807	350,698	96,889
Excess (deficiency) of receipts over (under) disbursements	(361,689)	47,532	430,564	306,811
Other financing sources (uses):				
Operating transfers in	405,103	-	-	-
Operating transfers out	(36,760)	-	-	(193,968)
Total other financing sources (uses)	368,343	-	-	(193,968)
Net change in cash balances	6,654	47,532	430,564	112,843
Cash balances beginning of year	274,130	179,679	34,084	934,111
Cash balances end of year	\$ 280,784	227,211	464,648	1,046,954
Cash Basis Fund Balances				
Reserved for:				
Senior Citizens	\$ 26,148	-	-	-
Debt service	-	-	-	-
Unreserved:				
General fund	254,636	-	-	-
Special revenue funds	-	227,211	464,648	1,046,954
Capital projects fund	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 280,784	227,211	464,648	1,046,954

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
481,486	-	489,691	2,170,476
-	-	-	403,700
16,271	-	17,423	945,409
-	-	-	51,121
3,314	9,130	19,098	144,598
-	313,438	-	1,067,614
-	-	-	467,204
-	1,938	35,336	109,627
501,071	324,506	561,548	5,359,749
-	-	163,869	1,140,287
-	-	-	667,084
-	-	-	14,846
-	-	34,227	908,901
-	124,343	14,675	274,588
-	-	-	433,227
879,899	-	-	976,788
-	517,053	-	867,751
879,899	641,396	212,771	5,283,472
(378,828)	(316,890)	348,777	76,277
478,045	11,060	-	894,208
-	-	(390,103)	(620,831)
478,045	11,060	(390,103)	273,377
99,217	(305,830)	(41,326)	349,654
(42,721)	685,058	799,734	2,864,075
56,496	379,228	758,408	3,213,729
-	-	-	26,148
56,496	-	-	56,496
-	-	-	254,636
-	-	548,829	2,287,642
-	379,228	-	379,228
-	-	209,579	209,579
56,496	379,228	758,408	3,213,729

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, 2007

Total governmental funds cash balances (page 17) \$ 3,213,729

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 equipment and building replacement to individual funds. A portion of the assets of the Internal Service Funds are included in governmental activities in the Statement of Activities and Net Assets.

275,758

Cash basis net assets of governmental activities (page 15)

\$ 3,489,487

Net change in cash balances (page 17)

\$ 349,654

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 equipment and building replacement to individual funds. A portion of the change in net assets of the Internal Service Funds is reported in governmental activities in the Statement of Activities and Net Assets.

(449,506)

Change in cash basis net assets of governmental activities (page 15)

\$ (99,852)

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, 2007

	Enterprise			Internal Service
	Sewer	Nonmajor Airport	Total	
Operating receipts:				
Charges for service	\$ 1,799,820	-	1,799,820	-
Miscellaneous	13,030	-	13,030	11,020
Total operating receipts	<u>1,812,850</u>	<u>-</u>	<u>1,812,850</u>	<u>11,020</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	79,441
Public works	-	-	-	309,721
Culture and recreation	-	-	-	80,104
Community and economic development	-	-	-	1,814
General government	-	-	-	18,869
Business type activities	2,138,520	91,405	2,229,925	273
Total operating disbursements	<u>2,138,520</u>	<u>91,405</u>	<u>2,229,925</u>	<u>490,222</u>
Deficiency of operating receipts under operating disbursements	<u>(325,670)</u>	<u>(91,405)</u>	<u>(417,075)</u>	<u>(479,202)</u>
Non-operating receipts (disbursements):				
Intergovernmental	-	753	753	-
Interest on investments	127,705	42,276	169,981	21,193
Insurance reimbursement	-	873	873	8,231
Debt service	(394,789)	-	(394,789)	-
Total non-operating receipts (disbursements)	<u>(267,084)</u>	<u>43,902</u>	<u>(223,182)</u>	<u>29,424</u>
Deficiency of receipts under disbursements	<u>(592,754)</u>	<u>(47,503)</u>	<u>(640,257)</u>	<u>(449,778)</u>
Transfers:				
Operating transfers in	-	25,700	25,700	-
Operating transfers out	(299,077)	-	(299,077)	-
Total transfers	<u>(299,077)</u>	<u>25,700</u>	<u>(273,377)</u>	<u>-</u>
Net change in cash balances	(891,831)	(21,803)	(913,634)	(449,778)
Cash balances beginning of year	3,197,184	(57,811)	3,139,373	896,878
Cash balances end of year	<u>\$ 2,305,353</u>	<u>(79,614)</u>	<u>2,225,739</u>	<u>447,100</u>
Cash Basis Fund Balances				
Reserved for:				
Debt service	\$ 735,201	-	735,201	-
Customer deposits	42,777	-	42,777	-
Unreserved	1,527,376	(79,614)	1,447,762	447,100
Total cash basis fund balances	<u>\$ 2,305,353</u>	<u>(79,614)</u>	<u>2,225,739</u>	<u>447,100</u>

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, 2007

Total enterprise funds cash balances (page 20) \$ 2,225,739

***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 equipment and building replacement to individual funds. A portion of the assets of the Internal Service Funds are included in business type activities in the Statement of Activities and Net Assets.

171,342

Cash basis net assets of business type activities (page 15) \$ 2,397,081

Net change in cash balances (page 20) \$ (913,634)

***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 equipment and building replacement to individual funds. A portion of the change in net assets of the Internal Service Funds is reported in business type activities in the Statement of Activities and Net Assets.

(272)

Change in cash basis net assets of business type activities (page 15) \$ (913,362)

See notes to financial statements.

City of Knoxville

Notes to Financial Statements

June 30, 2007

(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 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 unit. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the city is significant.

Excluded Component Unit

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 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.

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 two categories:

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 category. 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 urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account 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 waste water 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 of Knoxville 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.

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the health and social services, community and economic development, general government, debt service and business-type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 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, 2007, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,161,062 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 Payable

Annual debt service requirements to maturity for general obligation bonds, capital loan notes and 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
2008	\$ 355,000	176,510	280,000	63,024	270,000	119,866	905,000	359,400
2009	375,000	161,403	290,000	53,999	285,000	110,159	950,000	325,561
2010	390,000	145,028	295,000	44,573	300,000	99,424	985,000	289,025
2011	240,000	127,737	340,000	34,936	310,000	87,761	890,000	250,434
2012	250,000	117,847	355,000	23,355	325,000	75,474	930,000	216,676
2013 - 2017	1,450,000	413,740	285,000	22,250	1,375,000	185,259	3,110,000	621,249
2018 - 2020	870,000	74,793	-	-	-	-	870,000	74,793
Total	\$ 3,930,000	1,217,058	1,845,000	242,137	2,865,000	677,943	8,640,000	2,137,138

Sewer Revenue Bonds

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 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 balance 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 amount of principal and interest on the bonds falling due in the same year.

Capital Lease Purchase Agreement

The City entered into a capital lease purchase agreement to lease a rescue vehicle. The following is a schedule of the future minimum lease payments, including interest at 4.8% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2007:

Year Ending June 30,	Amount
2008	\$ 18,724
2009	18,724
2010	18,724
2011	18,724
2012	18,723
Total minimum lease payments	<u>93,619</u>
Less amount representing interest	<u>(12,330)</u>
Present value of net minimum lease payments	<u>\$ 81,289</u>

Payments under the capital lease purchase agreement totaled \$18,724 during the year ended June 30, 2007.

(4) 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 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2007, 2006 and 2005 were \$62,308, \$63,362 and \$68,480, 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 9.35% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2007, 2006 and 2005 were \$137,491, \$134,773 and \$127,596, respectively, which met the required contribution for each year.

(5) 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, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Holiday	\$ 9,000
Vacation	96,000
Sick leave	37,000
Compensatory time	<u>18,000</u>
Total	<u>\$ 160,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Liability, Property and Self Insurance	\$ 62,792
	Employee Benefits - Health	181,378
	FICA and IPERS Benefits	106,130
	Emergency	39,803
	Enterprise:	
	Sewer	15,000
		<u>405,103</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	193,968
	Enterprise:	
	Sewer	284,077
		<u>478,045</u>
Capital Projects	General	<u>11,060</u>
Enterprise:		
Airport	General	<u>25,700</u>
Total		<u>\$ 919,908</u>

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

(7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 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 300 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, 2007 were \$142,540.

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 and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides 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, 2007, 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 claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual 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, boiler and machinery and aviation liability. The City assumes liability for any deductibles and claims in excess of coverage limitations. The City assumes responsibility for workers compensation, employee blanket bond, and aviation liability claims in excess of \$1,000,000, \$75,000 and \$2,000,000, respectively. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Deficit Balance

At June 30, 2007, the Enterprise, Airport Fund had a deficit balance of (\$79,614). The City is reviewing alternatives to eliminate this deficit.

(9) Construction Commitments

The City has entered into construction contracts totaling \$3,930,549. As of June 30, 2007, costs of \$3,111,020 had been paid on the contracts. The remaining \$819,529 will be paid as work on these projects progresses.

(10) Interfund Receivable/Payable

In prior years, the General Fund loaned the Special Revenue, Urban Renewal Tax Increment Fund \$85,251 to pay for principal and interest due on the 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. No payments were made during the year ended June 30, 2007.

(11) Economic Development Loans

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, 2007, no payment was received on the loan. The loan balance at June 30, 2007 was \$15,000.

(12) Community Economic Betterment Account Loan

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 balance outstanding on the conventional loan at June 30, 2007 was \$38,542. 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.

(13) 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 issued one new development and rebate agreement for \$135,526 in FY2007. The City agreed to rebate incremental 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 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, 2007, the City rebated \$96,889 of incremental tax to the developers, consisting of \$12,060 for principal and \$84,829 for interest. The outstanding principal balance on these agreements at June 30, 2007 is \$2,580,984.

No bonds or notes were issued for these projects. To the extent there is insufficient incremental 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.

(14) Contingent Liability

In May 2000, the City entered into an agreement with Wal-Mart. In return for the construction of public improvements, the City would pay \$880,000 to Wal-Mart. As of June 30, 2007, Wal-Mart had not submitted its certification of costs to the City. The City anticipates paying Wal-Mart upon receipt of such certification. The payment will be made from the Special Revenue, Urban Renewal Tax Increment Fund.

(15) 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 Self Insurance Fund were recorded as disbursements by the operating funds. Payments to Group Services, Inc. for service fees and medical claims for the year ended June 30, 2007 were \$15,070.

(16) Subsequent Event

In August 2007, the City issued \$1,765,000 of general obligation refunding capital loan notes.

City of Knoxville

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, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,170,476	-	-
Tax increment financing	403,700	-	-
Other city tax	945,409	-	-
Licenses and permits	51,121	-	-
Use of money and property	144,598	191,174	21,193
Intergovernmental	1,067,614	753	-
Charges for service	467,204	1,808,051	8,231
Miscellaneous	109,627	24,923	11,020
Total receipts	5,359,749	2,024,901	40,444
Disbursements:			
Public safety	1,140,287	79,441	79,441
Public works	667,084	309,721	309,721
Health and social services	14,846	-	-
Culture and recreation	908,901	80,104	80,104
Community and economic development	274,588	1,814	1,814
General government	433,227	18,869	18,869
Debt service	976,788	-	-
Capital projects	867,751	-	-
Business type activities	-	2,624,987	273
Total disbursements	5,283,472	3,114,936	490,222
Excess (deficiency) of receipts over (under) disbursements	76,277	(1,090,035)	(449,778)
Other financing sources (uses), net	273,377	(273,377)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	349,654	(1,363,412)	(449,778)
Balances beginning of year	2,864,075	4,036,251	896,878
Balances end of year	\$ 3,213,729	2,672,839	447,100

See accompanying independent auditor's report.

Total	Budgeted Amounts Original and Final	Final to Total Variance
2,170,476	2,167,989	2,487
403,700	417,418	(13,718)
945,409	784,454	160,955
51,121	49,720	1,401
314,579	73,130	241,449
1,068,367	730,661	337,706
2,267,024	2,204,656	62,368
123,530	131,325	(7,795)
7,344,206	6,559,353	784,853
1,140,287	1,163,811	23,524
667,084	780,318	113,234
14,846	-	(14,846)
908,901	918,889	9,988
274,588	156,939	(117,649)
433,227	416,627	(16,600)
976,788	892,569	(84,219)
867,751	965,426	97,675
2,624,714	2,097,423	(527,291)
7,908,186	7,392,002	(516,184)
(563,980)	(832,649)	268,669
-	-	-
(563,980)	(832,649)	268,669
6,003,448	6,399,866	(396,418)
5,439,468	5,567,217	(127,749)

City of Knoxville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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 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 ten major classes of disbursements known as functions, not by fund. These ten 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 ended June 30, 2007, disbursements exceeded the amounts budgeted in the health and social services, community and economic development, general government, debt service and business type activities 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, 2007

	Special Revenue						
	Liability, Property and Self- Insurance	Employee Benefits - Health	FICA and IPERS Benefits	Police Retirement	Emergency	Urban Revitalization	Revolving Loan
Receipts:							
Property tax	\$ 118,087	205,238	111,745	-	39,946	-	-
Other city tax	4,356	7,510	4,096	-	1,461	-	-
Use of money and property	-	-	-	5,213	-	-	5,629
Miscellaneous	-	-	-	-	-	-	-
Total receipts	122,443	212,748	115,841	5,213	41,407	-	5,629
Disbursements:							
Operating:							
Public safety	-	-	-	137,490	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Community and economic development	-	-	-	-	-	-	-
Total disbursements	-	-	-	137,490	-	-	-
Excess (deficiency) of receipts over (under) disbursements	122,443	212,748	115,841	(132,277)	41,407	-	5,629
Other financing uses:							
Operating transfers out	(62,792)	(181,378)	(106,130)	-	(39,803)	-	-
Net change in cash balances	59,651	31,370	9,711	(132,277)	1,604	-	5,629
Cash balances beginning of year	30,924	16,289	27,245	185,543	20,446	3,956	161,203
Cash balances end of year	\$ 90,575	47,659	36,956	53,266	22,050	3,956	166,832
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	\$ 90,575	47,659	36,956	53,266	22,050	3,956	166,832
Permanent funds	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 90,575	47,659	36,956	53,266	22,050	3,956	166,832

See accompanying independent auditor's report.

Self-Supported Municipal Improvement District	Police Department Trust	Rescue Donations	Library Gifts/ Memorials	Recreation Donations	Auld Park Playground Trust	Permanent		Total
						Cemetery Perpetual Care	Reaver Trust	
14,675	-	-	-	-	-	-	-	489,691
-	-	-	-	-	-	-	-	17,423
-	597	767	1,546	-	914	4,432	-	19,098
-	10,166	10,001	5,434	1,450	-	8,285	-	35,336
14,675	10,763	10,768	6,980	1,450	914	12,717	-	561,548
-	19,658	6,721	-	-	-	-	-	163,869
-	-	-	33,666	561	-	-	-	34,227
14,675	-	-	-	-	-	-	-	14,675
14,675	19,658	6,721	33,666	561	-	-	-	212,771
-	(8,895)	4,047	(26,686)	889	914	12,717	-	348,777
-	-	-	-	-	-	-	-	(390,103)
-	(8,895)	4,047	(26,686)	889	914	12,717	-	(41,326)
1	29,903	33,609	53,278	6,927	33,548	196,362	500	799,734
1	21,008	37,656	26,592	7,816	34,462	209,079	500	758,408
1	21,008	37,656	26,592	7,816	34,462	-	-	548,829
-	-	-	-	-	-	209,079	500	209,579
1	21,008	37,656	26,592	7,816	34,462	209,079	500	758,408

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, 2007

	Equipment Replacement	Building Replacement	Self Insurance	Total
Operating receipts:				
Charges for service	\$ 525	-	10,495	11,020
Operating disbursements:				
Governmental activities:				
Public safety	79,441	-	-	79,441
Public works	309,721	-	-	309,721
Culture and recreation	80,104	-	-	80,104
Community and economic development	1,814	-	-	1,814
General government	3,799	-	15,070	18,869
Business type activities:				
Sewer	273	-	-	273
Total operating disbursements	475,152	-	15,070	490,222
Deficiency of operating receipts under operating disbursements	(474,627)	-	(4,575)	(479,202)
Non-operating receipts:				
Insurance reimbursement	8,231	-	-	8,231
Interest on investments	21,193	-	-	21,193
Total non-operating receipts	29,424	-	-	29,424
Deficiency of receipts under disbursements	(445,203)	-	(4,575)	(449,778)
Cash balances beginning of year	876,899	10,026	9,953	896,878
Cash balances end of year	\$ 431,696	10,026	5,378	447,100
Cash Basis Fund Balances				
Unreserved	\$ 431,696	10,026	5,378	447,100

See accompanying independent auditor's report.

City of Knoxville
Schedule of Indebtedness
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
General corporate purpose	May 1, 2000	5.05 - 5.70%	\$ 3,230,000
Essential corporate purpose	Jan 15, 2005	2.25 - 4.30	2,200,000
Total			
General obligation capital loan notes:			
General corporate purpose	May 1, 2005	2.70 - 3.90%	\$ 700,000
General obligation refunding	May 1, 2005	3.25 - 4.00	1,525,000
Total			
Revenue bonds:			
Sewer	Mar 1, 2002	3.875 - 4.70%	\$ 3,000,000
Sewer refunding	Nov 17, 2003	1.50 - 4.00	995,000
Total			
Capital lease purchase agreement:			
Rescue vehicle	Aug 24, 2004	4.80%	\$ 108,737

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
2,190,000	-	230,000	1,960,000	115,745
2,085,000	-	115,000	1,970,000	75,255
<u>\$ 4,275,000</u>	<u>-</u>	<u>345,000</u>	<u>3,930,000</u>	<u>191,000</u>
660,000	-	50,000	610,000	23,405
1,455,000	-	220,000	1,235,000	48,819
<u>\$ 2,115,000</u>	<u>-</u>	<u>270,000</u>	<u>1,845,000</u>	<u>72,224</u>
2,405,000	-	170,000	2,235,000	104,624
725,000	-	95,000	630,000	24,465
<u>\$ 3,130,000</u>	<u>-</u>	<u>265,000</u>	<u>2,865,000</u>	<u>129,089</u>
<u>95,341</u>	<u>-</u>	<u>14,052</u>	<u>81,289</u>	<u>4,672</u>

City of Knoxville
Bond and Note Maturities

June 30, 2007

Year Ending June 30,	General Obligation Bonds					Total
	Corporate Purpose		Essential			
	Issued May 1, 2000		Corporate Purpose			
	Issued May 1, 2000		Issued Jan 15, 2005			
	Interest		Interest			
	Rates	Amount	Rates	Amount		
2008	5.05%	\$ 235,000	2.70%	\$ 120,000	355,000	
2009	5.10	250,000	2.90	125,000	375,000	
2010	5.10	260,000	3.10	130,000	390,000	
2011	5.15	110,000	3.25	130,000	240,000	
2012	5.20	115,000	3.40	135,000	250,000	
2013	5.25	120,000	3.50	145,000	265,000	
2014	5.35	125,000	3.70	150,000	275,000	
2015	5.45	135,000	3.80	155,000	290,000	
2016	5.50	140,000	3.90	160,000	300,000	
2017	5.60	150,000	4.00	170,000	320,000	
2018	5.65	155,000	4.10	175,000	330,000	
2019	5.70	165,000	4.20	185,000	350,000	
2020		-	4.30	190,000	190,000	
Total		<u>\$ 1,960,000</u>		<u>\$ 1,970,000</u>	<u>3,930,000</u>	

Year Ending June 30,	General Obligation Capital Loan Notes					Total
	General		General Obligation			
	Corporate Purpose		Refunding			
	Issued May 1, 2005		Issued May 1, 2005			
	Interest		Interest			
	Rates	Amount	Rates	Amount		
2008	3.10%	\$ 50,000	3.250%	\$ 230,000	280,000	
2009	3.25	50,000	3.250	240,000	290,000	
2010	3.35	50,000	3.250	245,000	295,000	
2011	3.50	85,000	3.375	255,000	340,000	
2012	3.60	90,000	3.500	265,000	355,000	
2013	3.70	90,000		-	90,000	
2014	3.80	95,000		-	95,000	
2015	3.90	100,000		-	100,000	
Total		<u>\$ 610,000</u>		<u>\$ 1,235,000</u>	<u>1,845,000</u>	

See accompanying independent auditor's report.

Revenue Bonds				
Sewer Revenue		Sewer Revenue Refunding		
Issued Mar 1, 2002		Issued Nov 17, 2003		
Interest Rates	Amount	Interest Rates	Amount	Total
4.00%	\$ 175,000	2.85%	\$ 95,000	270,000
4.10	185,000	3.15	100,000	285,000
4.15	195,000	3.40	105,000	300,000
4.15	205,000	3.60	105,000	310,000
4.25	215,000	3.85	110,000	325,000
4.37	225,000	4.00	115,000	340,000
4.50	240,000		-	240,000
4.55	250,000		-	250,000
4.65	265,000		-	265,000
4.70	280,000		-	280,000
	-		-	-
	-		-	-
	-		-	-
	<u>\$ 2,235,000</u>		<u>\$ 630,000</u>	<u>2,865,000</u>

Schedule 5

City of Knoxville

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

For the Last Five Years

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

See accompanying independent auditor's report.



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

To the Honorable Mayor and
Members of the City Council:

We have audited 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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon January 3, 2008. 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Knoxville's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Knoxville's financial statements that is more than inconsequential will not be prevented or detected by the City of Knoxville's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Knoxville's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (C), (D) and (E) are material weaknesses.

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 that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 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. 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. This report 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

January 3, 2008

City of Knoxville
Schedule of Findings
Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(A) Segregation of Duties – One important element in designing internal control that safeguards assets and reasonably ensures 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) Receipts – opening mail, collecting receipts and recording receipts without independent reconciliation of recorded receipts to the deposit.
- (4) Disbursements – preparing disbursements, recording disbursements and reconciling function.

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 – We will segregate duties as much as possible with existing staff. Journal entries and investment records will be reviewed by the City Manager.

Conclusion – Response accepted.

(B) 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:

- Storage of backup tapes/disks off site.
- 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.

City of Knoxville

Schedule of Findings

Year ended June 30, 2007

Response – City currently maintains off-site storage of backup tapes. Part of new software program being installed includes a disaster recovery plan. Employees are logging off terminals nightly.

Conclusion – Response accepted.

- (C) Rescue Billings – One employee is responsible for collecting receipts, recording receipts and maintaining the accounts receivable records. 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 – City Manager will approve write offs of delinquent accounts.

Conclusion – Response accepted.

- (D) Rescue Billings Reconciliation – The Rescue Department provides billing and collection services 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 billing reconciliation report. The report should be reviewed for propriety.

Response – A monthly rescue reconciliation reported will be prepared and reviewed by the City Manager.

Conclusion – Response accepted.

- (E) 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 – Additional staff have been hired at the Recreation Center and duties have been segregated to obtain the maximum amount of internal control possible.

Conclusion – Response accepted.

- (F) Records of Account – The Knoxville Senior Citizen Board 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 Council each month and the transactions were not recorded in the Clerk's records. The City was not able to provide documentation the Knoxville Senior Citizen Board and

City of Knoxville

Schedule of Findings

Year ended June 30, 2007

Knoxville Friends of the Library had obtained separate legal status as of June 30, 2007. This was resolved for audit purposes.

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 Board and the Knoxville Friends of the Library demonstrate they are legally separate from the City, the monthly financial transactions should be included in the Clerk’s monthly financial reports.

Response – This appears to have been resolved – currently have separate legal status.

Conclusion – Response accepted.

- (G) Records of Account – The Fireman and Rescue Association of Knoxville maintained a checking account separate from the City Clerk’s records. The transactions and the resulting balances were not reported to the Council each month and the transactions were not recorded in the Clerk’s records. During the fiscal year, the City was unable to determine if Fireman and Rescue Association of Knoxville obtained separate legal status.

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 Association demonstrates it is legally separate from the City, the monthly financial transactions should be included in the Clerk’s monthly financial reports.

Response – This appears to have been resolved – currently have separate legal status.

Conclusion – Response accepted.

- (H) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – City will adopt a formal written credit card policy.

Conclusion – Response accepted.

- (I) Bank Reconciliation – The City did not prepare a bank reconciliation for May and June of 2007.

Recommendation – The City should prepare bank reconciliations at the end of each month to reconcile between book and bank balances to ensure the City’s cash balance is correct.

City of Knoxville

Schedule of Findings

Year ended June 30, 2007

Response – Currently bank reconciliations are currently available for May and June of 2007. The cover sheet has been discontinued and its format is in the process of being modified. New software to be in place by January 1, 2008.

Conclusion – Response accepted.

- (J) Investment Register – An investment register is not maintained to include detailed information for all investments on hand and interest received on each investment.

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

Response – Currently the investment register is up to date.

Conclusion – Response accepted.

- (K) Financial Reporting – The City recorded a negative receipt which should have been recorded as a disbursement. Also, the City recorded a negative disbursement which should have been recorded as a receipt. These transactions result in revenues and disbursements being understated. These matters were resolved for audit purposes.

Recommendation – The City should properly record all receipts and disbursements.

Response – The City will review accounting methods.

Conclusion – Response accepted.

- (L) Purchase Orders – The City's purchase order policy requires the signature of the department head to approve the purchase order.

Certain purchase orders did not include the department head's signature and other individuals were allowed to sign the purchase orders.

Recommendation – The City should follow its purchase order policy requiring purchase orders to be signed by the department head.

Response – Purchase Order policy and procedures are now being followed.

Conclusion – Response accepted.

- (M) Fund Balance – The City records detail transactions of receipts and disbursements for each fund on its computer system software which is used to prepare monthly and year to date reports for each of the City's receipts and disbursements. The City does not use this computer software to track fund balances. Monthly reports are prepared using a spreadsheet which summarizes each fund's transactions of total receipts, total disbursements, total transfers in/out and reconciles the beginning fund balance with the ending fund balance.

City of Knoxville

Schedule of Findings

Year ended June 30, 2007

Adjustments were made to the monthly report spreadsheets which were not documented or recorded on the City's computer system software. Therefore, the beginning fund balances did not reconcile with the ending fund balances using the City's computer system software of year to date receipts and disbursement. This matter was resolved for audit purposes.

Recommendation – Any corrections to the monthly report spreadsheet of fund balances should be documented and recorded on the City's computer system software so the year to date reports will reconcile with the beginning balances and the ending balances on the monthly report spreadsheets.

Response – Any corrections will be documented and recorded on the City's computer system.

Conclusion – Response accepted.

- (N) Debt Service Fund – The Debt Service Fund has several accounts for the various general obligation bonds and notes. Property tax collections for debt service are not properly allocated to the various Debt Service Fund accounts.

Recommendation – Property tax collections for debt service should be properly allocated to the various Debt Service Fund accounts.

Response – We will properly allocate property taxes to the various Debt Service Funds.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2007

Part IV: Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the health and social services, community and economic development, general government, debt service and business-type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will amend the budget if needed in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – One questionable disbursement 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 was noted. This disbursement is as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Hy Vee	15 buffet lunches for City Council held before City Council meeting to conduct interviews for City Clerk	\$ 105

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

Response – Interviews were held all day through the lunch hour period. All involved, including the interview team from outside the City, were provided a sandwich lunch as members did not have to leave the facility.

Conclusion – Response acknowledged. However, the City should document the public purpose served.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2007

- (5) 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 insure the coverage is adequate for current operations.
- (6) Council Minutes – Except as noted below, no transactions were found we believe should have been approved in the Council minutes but were not.

Transfers were not properly approved in the Council minutes.

Recommendation – Transfers should be approved in the council minutes.

Response – Any unbudgeted transfers will be in the form of a resolution on a Council Meeting agenda as needed.

Conclusion – Response accepted.

- (7) 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.
- (8) Revenue Bonds – Except as noted below, no instances of non-compliance with the requirements of the revenue bond resolutions were noted.

Monthly transfers were not made to the sewer revenue bond sinking account as required by the sewer revenue bond resolutions.

Recommendation – Monthly transfers should be made to the sewer revenue bond sinking accounts as required by the sewer revenue bond resolutions.

Response – Transfers will be made as required.

Conclusion – Response accepted.

- (9) Financial Condition – The City had a deficit balance of (\$79,614) at June 30, 2007 in the Enterprise, Airport Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The City is investigating other revenue sources for the Airport Fund in order to eliminate the deficit balance.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2007

- (10) Unclaimed Property – The City has not reported unclaimed property of \$5,752 to the Treasurer of State as required by Chapter 556.11 of the Code of Iowa.

Recommendation – The City should report unclaimed property to the Treasurer of State as required by Chapter 556.11 of the Code of Iowa.

Response – Investigation of outstanding checks is currently taking place with action as needed.

Conclusion – Response accepted.

- (11) Employee Benefit Levy/Liability, Property, Self-Insurance Levy – The City made transfers from the Special Revenue, Employee Benefit – Health and the Liability, Property and Self-Insurance Funds to the General Fund for more than the actual disbursements in the General Fund of \$28,769 and \$55,984, respectively. This matter was resolved for audit purposes.

Recommendation – The City should return the excess funds to the General Fund from the Special Revenue, Employee Benefit-Health and the Liability, Property and Self-Insurance Funds.

Response – Transfers were made per budgeted amounts, rather than actual amounts expended. Corrections will be made in this budget year.

Conclusion – Response accepted

City of Knoxville

Schedule of Findings

Year ended June 30, 2007

- (12) Annual Financial Report – The Annual Financial Report was not submitted by the deadline of December 1, 2006.

Recommendation – The City should submit the annual financial report by December 1st.

Response – The Annual Report will be submitted prior to December 1.

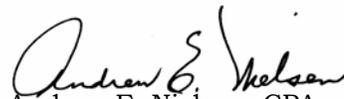
Conclusion – Response accepted.

City of Knoxville

Staff

This audit was performed by:

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