



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 15, 2008

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

The City's receipts totaled \$9,571,394 for the year ended June 30, 2008, a 29.6 percent increase over 2007. The receipts included \$2,513,873 in property tax, \$436,811 from tax increment financing, \$2,620,691 from charges for service, \$1,039,987 from operating grants, contributions and restricted interest, \$284,070 from capital grants, contributions and restricted interest, \$675,727 from local option sales tax, \$208,669 from unrestricted interest on investments, \$1,753,528 from general obligation refunding note proceeds and \$38,038 from other general receipts. The significant increase in receipts is primarily due to general obligation refunding note proceeds.

Disbursements for the year totaled \$10,225,724, a 21.8 percent increase over the prior year, and included \$1,340,870 for public safety, \$1,272,801 for debt service and \$973,213 for culture and recreation. Also, disbursements for business type activities totaled \$2,489,003. The significant increase in disbursements is primarily due to general obligation bonds refunded.

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, 2008

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City of Knoxville

Officials

(Before January 2008)

<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
Jody J. Meyer	City Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite

(After January 2008)

Harvey Sprafka	Mayor	Jan 2010
Bob Wims	Mayor Pro tem	Jan 2012
Jerry Ayers	Council Member	Resigned
Lori Beary (Appointed)	Council Member	Nov 2009
Dave Roozeboom	Council Member	Jan 2010
Elsie Kemp	Council Member	Jan 2010
Kurt Sorensen	Council Member	Jan 2012
Dick Schrad	City Manager	Indefinite
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, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Knoxville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

The financial statements referred to above include only the primary government of the City of Knoxville, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Knoxville as of June 30, 2008, 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.

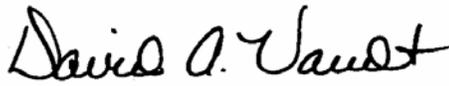
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Knoxville as of June 30, 2008, and the respective changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 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 primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the five years ended June 30, 2007 (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

November 17, 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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

During fiscal year 2008, the City restated the beginning cash basis net assets of the governmental activities and governmental funds (General Fund) to add previously unrecorded certificates of deposit held by the Knoxville Senior Center of \$107,998 (see Note 16). To facilitate and enhance comparability in this discussion and analysis, fiscal year 2007 amounts have been revised to reflect the changes as if they had been made in the prior year.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 34.4%, or approximately \$1,858,000, from fiscal year 2007 to fiscal year 2008. General obligation refunding note proceeds increased approximately \$1,754,000. Capital grants, contributions and restricted interest increased approximately \$96,000, while operating grants, contributions, and restricted interest decreased approximately \$176,000. Property tax increased approximately \$194,000 and local option sales tax decreased approximately \$87,000.
- Disbursements for governmental activities increased 34.0%, or approximately \$1,963,000, in fiscal year 2008 from fiscal year 2007. General obligation bonds refunded increased \$1,725,074. Debt service and community and economic development disbursements increased approximately \$296,000 and \$144,000, respectively, while public works disbursements decreased approximately \$211,000.
- Receipts of the City's business type activities increased 16.6%, or approximately \$329,000. Capital grants, contributions, and restricted interest and operating grants, contributions and restricted interest increased approximately \$169,000 and \$90,000, respectively.
- Disbursements for business type activities decreased 5.2%, or approximately \$136,000.
- The City's total cash basis net assets decreased 10.9%, or approximately \$654,000, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased approximately \$432,000 and the assets of the business type activities decreased approximately \$223,000.

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.

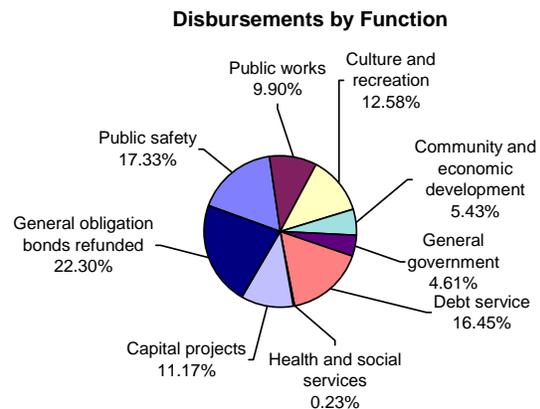
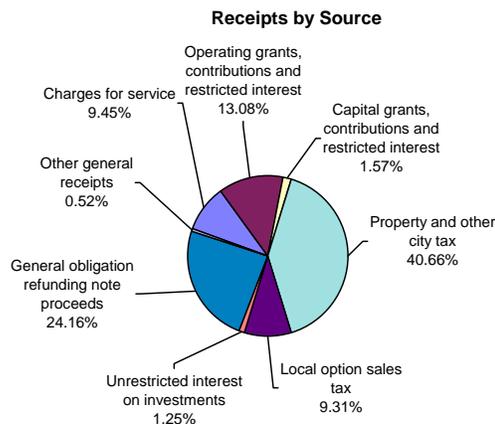
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

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 \$3.2 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,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service	\$ 686,010	635,269
Operating grants, contributions and restricted interest	949,534	1,125,713
Capital grants, contributions and restricted interest	114,019	18,346
General receipts:		
Property and other city tax	2,950,684	2,756,669
Local option sales tax	675,727	762,916
Unrestricted interest on investments	90,541	81,960
General obligation refunding note proceeds	1,753,528	-
Other general receipts	38,038	19,319
Total receipts	7,258,081	5,400,192
Disbursements:		
Public safety	1,340,870	1,219,728
Public works	766,058	976,805
Health and social services	17,776	14,846
Culture and recreation	973,213	989,005
Community and economic development	420,046	276,402
General government	356,589	452,096
Debt service	1,272,801	976,788
Capital projects	864,294	867,751
General obligation bonds refunded	1,725,074	-
Total disbursements	7,736,721	5,773,421
Deficiency of receipts under disbursements	(478,640)	(373,229)
Transfers, net	47,019	273,377
Decrease in cash basis net assets	(431,621)	(99,852)
Cash basis net assets beginning of year, as restated	3,597,485	3,697,337
Cash basis net assets end of year	\$ 3,165,864	3,597,485



The City's total receipts for governmental activities increased 34.4%, or approximately \$1,858,000. The total cost of all programs and services increased \$1,963,000, or 34.0%, with no new programs added this year. The major change in receipts was general obligation refunding note proceeds increased approximately \$1,754,000. In addition, capital grants, contributions and restricted interest increased approximately \$96,000 due to a FEMA grant received during the fiscal year for ice storm damage and property tax increased approximately \$194,000. The City increased property tax rates for 2008 by 9%. The major changes in disbursements were general obligation bonds refunded increased \$1,725,074, debt service and community and economic development increased approximately \$296,000 and \$144,000, respectively, due to the early repayment of debt from the proceeds from the general obligation refunding capital loan note issued during the fiscal year and payment disbursements on an Iowa Department of Economic Development CDBG grant, respectively.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service	\$ 1,934,681	1,812,850
Operating grants, contributions and restricted interest	90,453	-
Capital grants, contributions and restricted interest	170,051	753
General receipts:		
Unrestricted interest on investments	118,128	169,981
Other general receipts	-	874
Total receipts	<u>2,313,313</u>	<u>1,984,458</u>
Disbursements:		
Sewer	2,220,064	2,533,582
Airport	268,939	91,405
Total disbursements	<u>2,489,003</u>	<u>2,624,987</u>
Deficiency of receipts under disbursements	(175,690)	(640,529)
Transfers, net	<u>(47,019)</u>	<u>(273,377)</u>
Decrease in cash basis net assets	(222,709)	(913,906)
Cash basis net assets beginning of year	<u>2,397,081</u>	<u>3,310,987</u>
Cash basis net assets end of year	<u>\$ 2,174,372</u>	<u>2,397,081</u>

The total business type activities cash balance decreased \$222,709 from the prior year to a year end balance of \$2,174,372. Disbursements increased primarily due to greater disbursements for airport improvements.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$2,980,469, a decrease of more than \$341,000 from last year's total of \$3,321,727. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$1,624 from the prior year to a year-end balance of \$387,158. Receipts increased primarily due to the former Special Revenue, Liability, Property and Self Insurance Fund being reported as part of the General Fund for FY2008. Also, disbursements increased primarily due to a FEMA grant, Fire Department equipment and economic development disbursements.
- The Special Revenue, Road Use Tax Fund cash balance increased \$18,236 to \$245,447 during the fiscal year, due primarily to increased road use tax receipts.

- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance decreased \$231,760 to a year-end balance of \$232,888. Disbursements related to street projects mentioned in the LOST ballot increased, specifically the 2007 Street Improvements Project and the 2007 Sidewalk contract.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$58,803 to a year-end balance of \$988,151. Disbursements increased \$223,596 as a result of increased disbursements made under development agreements, while tax increment financing receipts increased \$33,111.
- The Debt Service Fund cash balance increased \$71,971 to a year-end balance of \$128,467. The City issued general obligation refunding notes of \$1,765,000 to advance refund general obligation bonds at the June 1, 2008 call date.
- The Capital Projects Fund cash balance decreased \$29,766 to \$349,462. Disbursements decreased \$607,528, most of which was attributable to greater construction costs in the previous fiscal year as many capital projects were completed.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased \$401,800 to a year-end balance of \$1,903,553. Disbursements decreased \$344,067, primarily due to the wastewater treatment and lift station projects. Also, receipts increased \$157,770 due to increases in sewer rates and fees during fiscal year 2008.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 19, 2008 and resulted in an increase in operating disbursements related to storm damage, increased fuel costs, building and equipment repair, debt service and capital project disbursements. Additionally, the budget amendment resulted in an increase in receipts due to increases in charges for service, receipt of a FEMA grant, recreation donations and reimbursements and special assessments which were not previously budgeted. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$678,337 more than budgeted. This was primarily due to the City receiving more in contributions than anticipated and a greater amount of grant funds received for the FFA and Iowa Department of Transportation grant for the airport, even after the amendment.

The City exceeded the budget for the public safety, public works, health and social services, culture and recreation, community and economic development and debt service functions for the year ended June 30, 2008. Significant differences between the budget and actual disbursements were for the community and economic development, the debt service and the capital projects functions. Significant differences between the budget and actual receipts were for charges for service receipts in the General and Proprietary, Sewer Funds and increased intergovernmental receipts in the Special Revenue, Road Use Tax and Proprietary, Airport Funds.

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$7,842,000 in bonds and other long-term debt outstanding, compared to approximately \$8,721,000 last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2008	2007
General obligation bonds	\$ 1,850,000	3,930,000
General obligation capital loan notes	3,330,000	1,845,000
Sewer revenue bonds	2,595,000	2,865,000
Capital lease purchase agreement	66,548	81,289
Total	\$ 7,841,548	8,721,289

Principal payments in fiscal year 2008 reduced the City's outstanding debt by \$879,741.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,279,797 (including \$33,249 of development and rebate agreements) is below its constitutional debt limit of \$13.9 million. However, the City also had \$2,387,811 of annual appropriation development and rebate agreements which are not subject to the constitutional debt limitation. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. The City's fiscal year 2009 assessed value has increased \$13.9 million from the fiscal year 2008 level, an increase of 9.3%. The City's General Fund receipts from property tax will increase slightly from fiscal year 2008 level. 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 2008.

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 increase approximately \$2,300,000 and budgeted disbursements are expected to decrease approximately \$2,600,000 compared to actual fiscal year 2008 amounts.

The fiscal year 2009 levy is \$14.90153 per \$1,000 of taxable valuation, or an increase of \$0.32 per \$1,000 of taxable valuation over that of fiscal year 2008. 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 2009.

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, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,340,870	299,563	138,374	-
Public works	766,058	5,188	665,068	87,669
Health and social services	17,776	14,151	16,838	-
Culture and recreation	973,213	295,372	95,952	-
Community and economic development	420,046	13,404	8,251	-
General government	356,589	58,332	22,514	-
Debt service	1,272,801	-	2,537	-
Capital projects	864,294	-	-	26,350
Total governmental activities	6,011,647	686,010	949,534	114,019
Business type activities:				
Sewer	2,220,064	1,934,681	45,516	-
Airport	268,939	-	44,937	170,051
Total business type activities	2,489,003	1,934,681	90,453	170,051
Total	\$ 8,500,650	2,620,691	1,039,987	284,070

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 General obligation refunding note proceeds, net of \$11,472 discount
 General obligation bonds refunded
 Miscellaneous
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year (as restated)

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 Citizen Center
 Other purposes
 Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(902,933)	-	(902,933)
(8,133)	-	(8,133)
13,213	-	13,213
(581,889)	-	(581,889)
(398,391)	-	(398,391)
(275,743)	-	(275,743)
(1,270,264)	-	(1,270,264)
(837,944)	-	(837,944)
(4,262,084)	-	(4,262,084)
-	(239,867)	(239,867)
-	(53,951)	(53,951)
-	(293,818)	(293,818)
(4,262,084)	(293,818)	(4,555,902)
2,012,155	-	2,012,155
436,811	-	436,811
501,718	-	501,718
675,727	-	675,727
90,541	118,128	208,669
1,753,528	-	1,753,528
(1,725,074)	-	(1,725,074)
38,038	-	38,038
47,019	(47,019)	-
3,830,463	71,109	3,901,572
(431,621)	(222,709)	(654,330)
3,597,485	2,397,081	5,994,566
\$ 3,165,864	2,174,372	5,340,236
\$ 245,447	-	245,447
232,888	-	232,888
988,151	-	988,151
128,467	293,465	421,932
349,462	-	349,462
-	41,787	41,787
147,357	-	147,357
648,896	-	648,896
425,196	1,839,120	2,264,316
\$ 3,165,864	2,174,372	5,340,236

City of Knoxville

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

As of and for the year ended June 30, 2008

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 1,324,759	-	-	-
Tax increment financing	-	-	-	436,811
Other city tax	164,116	-	675,727	-
Licenses and permits	30,932	-	-	-
Use of money and property	83,828	-	-	-
Intergovernmental	152,259	752,712	22,993	-
Charges for service	552,542	-	-	-
Special assessments	3,796	-	-	-
Miscellaneous	90,839	3,517	-	-
Total receipts	2,403,071	756,229	698,720	436,811
Disbursements:				
Operating:				
Public safety	1,132,898	-	-	-
Public works	97,766	613,708	-	-
Health and social services	17,776	-	-	-
Culture and recreation	967,188	-	-	-
Community and economic development	283,692	-	-	-
General government	295,029	34,038	-	-
Debt service	-	-	-	320,485
Capital projects	-	-	830,480	-
Total disbursements	2,794,349	647,746	830,480	320,485
Excess (deficiency) of receipts over (under) disbursements	(391,278)	108,483	(131,760)	116,326
Other financing sources (uses):				
General obligation refunding note proceeds (net of \$11,472 discount)	-	-	-	-
General obligation bonds refunded	-	-	-	-
Operating transfers in	454,517	-	-	18,776
Operating transfers out	(64,863)	(90,247)	(100,000)	(193,905)
Total other financing sources (uses)	389,654	(90,247)	(100,000)	(175,129)
Net change in cash balances	(1,624)	18,236	(231,760)	(58,803)
Cash balances beginning of year (as restated)	388,782	227,211	464,648	1,046,954
Cash balances end of year	\$ 387,158	245,447	232,888	988,151
Cash Basis Fund Balances				
Reserved for:				
Senior Center	\$ 147,357	-	-	-
Debt service	-	-	-	-
Unreserved:				
General fund	239,801	-	-	-
Special revenue funds	-	245,447	232,888	988,151
Capital projects fund	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 387,158	245,447	232,888	988,151

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
485,448	-	505,384	2,315,591
-	-	-	436,811
16,270	-	17,896	874,009
-	-	-	30,932
50,102	25	22,523	156,478
-	-	-	927,964
-	-	-	552,542
-	-	-	3,796
3,538	4,077	50,645	152,616
555,358	4,102	596,448	5,450,739
-	-	145,901	1,278,799
-	-	-	711,474
-	-	-	17,776
-	-	6,025	973,213
-	54	136,300	420,046
-	-	-	329,067
952,316	-	-	1,272,801
-	33,814	-	864,294
952,316	33,868	288,226	5,867,470
(396,958)	(29,766)	308,222	(416,731)
1,753,528	-	-	1,753,528
(1,725,074)	-	-	(1,725,074)
440,475	-	56,239	970,007
-	-	(473,973)	(922,988)
468,929	-	(417,734)	75,473
71,971	(29,766)	(109,512)	(341,258)
56,496	379,228	758,408	3,321,727
128,467	349,462	648,896	2,980,469
-	-	-	147,357
128,467	-	-	128,467
-	-	-	239,801
-	-	430,560	1,897,046
-	349,462	-	349,462
-	-	218,336	218,336
128,467	349,462	648,896	2,980,469

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, 2008

Total governmental funds cash balances (page 17) \$ 2,980,469

***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.

185,395

Cash basis net assets of governmental activities (page 15) \$ 3,165,864

Net change in cash balances (page 17) \$ (341,258)

***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.

(90,363)

Change in cash basis net assets of governmental activities (page 15) \$ (431,621)

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, 2008

	Enterprise			Internal Service
	Sewer	Nonmajor Airport	Total	
Operating receipts:				
Charges for service	\$ 1,885,724	41,706	1,927,430	20,000
Miscellaneous	94,473	-	94,473	-
Total operating receipts	<u>1,980,197</u>	<u>41,706</u>	<u>2,021,903</u>	<u>20,000</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	62,071
Public works	-	-	-	54,584
General government	-	-	-	27,522
Business type activities	1,798,676	268,939	2,067,615	30,822
Total operating disbursements	<u>1,798,676</u>	<u>268,939</u>	<u>2,067,615</u>	<u>174,999</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>181,521</u>	<u>(227,233)</u>	<u>(45,712)</u>	<u>(154,999)</u>
Non-operating receipts (disbursements):				
Intergovernmental	-	171,952	171,952	-
Sale of equipment	-	-	-	14,500
Interest on investments	118,128	-	118,128	19,314
Miscellaneous	-	1,330	1,330	-
Debt service	(390,566)	-	(390,566)	-
Total non-operating receipts (disbursements)	<u>(272,438)</u>	<u>173,282</u>	<u>(99,156)</u>	<u>33,814</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(90,917)</u>	<u>(53,951)</u>	<u>(144,868)</u>	<u>(121,185)</u>
Transfers:				
Operating transfers in	-	26,804	26,804	237,060
Operating transfers out	(310,883)	-	(310,883)	-
Total transfers	<u>(310,883)</u>	<u>26,804</u>	<u>(284,079)</u>	<u>237,060</u>
Net change in cash balances	(401,800)	(27,147)	(428,947)	115,875
Cash balances beginning of year	2,305,353	(79,614)	2,225,739	447,100
Cash balances end of year	<u>\$ 1,903,553</u>	<u>(106,761)</u>	<u>1,796,792</u>	<u>562,975</u>
Cash Basis Fund Balances				
Reserved for:				
Debt service	\$ 293,465	-	293,465	-
Customer deposits	41,787	-	41,787	-
Unreserved	1,568,301	(106,761)	1,461,540	562,975
Total cash basis fund balances	<u>\$ 1,903,553</u>	<u>(106,761)</u>	<u>1,796,792</u>	<u>562,975</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, 2008

Total enterprise funds cash balances (page 20) \$ 1,796,792

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.

377,580

Cash basis net assets of business type activities (page 15)

\$ 2,174,372

Net change in cash balances (page 20)

\$ (428,947)

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.

206,238

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

\$ (222,709)

See notes to financial statements.

City of Knoxville

Notes to Financial Statements

June 30, 2008

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

Excluded Component Units

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

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

Jointly Governed Organizations

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

Related Organization

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

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in 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, 2008, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services, cultural and recreation, community and economic development and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 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, 2008, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,141,813 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation		Capital Loan Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 125,000	69,140	555,000	122,054	285,000	110,159	965,000	301,353
2010	130,000	65,515	565,000	102,824	300,000	99,424	995,000	267,763
2011	130,000	61,485	460,000	83,196	310,000	87,761	900,000	232,442
2012	135,000	57,260	475,000	67,115	325,000	75,474	935,000	199,849
2013	145,000	52,670	215,000	50,040	340,000	62,101	700,000	164,811
2014 - 2018	810,000	178,825	750,000	117,788	1,035,000	123,158	2,595,000	419,771
2019 - 2020	375,000	24,110	310,000	19,035	-	-	685,000	43,145
Total	\$ 1,850,000	509,005	3,330,000	562,052	2,595,000	558,077	7,775,000	1,629,134

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3,000,000 in sewer revenue bonds issued in March 2002. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2017. The total principal and interest remaining to be paid on the notes is \$2,556,507. For the current year, principal and interest paid and total customer net receipts were \$272,824 and \$181,521, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$995,000 in sewer revenue refunding bonds issued in November 2003. Proceeds from the bonds provided the prepayment of a portion of the City's outstanding Sewer Revenue Bonds, Series 1993 dated September 14, 1993. The bonds are payable solely from sewer customer net receipts and are payable through 2013. The total principal and interest remaining to be paid on the bonds is \$596,570. For the current year, principal and interest paid and total customer net receipts were \$117,043 and \$181,521, respectively.

Annual principal and interest payments on the above sewer revenue bonds are expected to require 215 percent of net receipts.

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

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

The City has not transferred the required amounts to the sinking account for the Sewer Fund as required by the bond resolutions.

Also, the balance of the reserve account is not in compliance with the requirement of the bond resolution.

In addition, the City has not established sewer rates sufficient to produce and maintain net revenues at a level not less than 110% of the average annual installments of principal and interest on the bonds falling due in the same year.

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, 2008:

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Amount</u>
2009	\$ 18,724
2010	18,724
2011	18,724
2012	18,723
Total minimum lease payments	<u>74,895</u>
Less amount representing interest	<u>(8,347)</u>
Present value of net minimum lease payments	<u>\$ 66,548</u>

Payments under the capital lease purchase agreement totaled \$18,724 during the year ended June 30, 2008.

General Obligation Refunding Capital Loan Notes

The City issued \$1,765,000 General Obligation Refunding Capital Loan Notes, Series 2007A. The City entered into an escrow agreement with Bankers Trust Company, N.A., and deposited the proceeds from the refunding notes. The notes were issued as an advance refunding to retire the outstanding balance of \$1,725,000 of the \$3,230,000 General Obligation Corporate Purpose Bonds, issued May 1, 2000, on the call date of June 1, 2008.

The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$85,818.

(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 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$73,328, \$62,308 and \$63,362, 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, 2008, 2007 and 2006 were \$130,647, \$137,491 and \$134,773, 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, 2008, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Holiday	\$ 27,000
Vacation	110,000
Sick leave	23,000
Compensatory time	<u>21,000</u>
Total	<u>\$ 181,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Liability, Property and Self Insurance	\$ 90,575
	Employee Benefits - Health	302,942
	Emergency	43,500
	Enterprise:	
	Sewer	17,500
		<u>454,517</u>
Special Revenue:		
Urban Revitalization	General	<u>19,283</u>
Special Revenue:		
Urban Renewal Tax Increment	General	<u>18,776</u>
Special Revenue:	Special Revenue:	
Employee Benefits - Health	FICA and IPERS Benefits	<u>36,956</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	193,905
	Enterprise:	
	Sewer	246,570
		<u>440,475</u>
Enterprise:		
Airport	General	<u>26,804</u>
Internal Service:	Special Revenue:	
Equipment Replacement	Road Use Tax	90,247
	Local Option Sales Tax	100,000
	Enterprise:	
	Sewer	46,813
		<u>237,060</u>
Total		<u>\$ 1,233,871</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 563 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 200 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, 2008 were \$145,159.

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 \$10,000,000 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, 2008, 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 casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation, employee blanket bond, 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, 2008, the Enterprise, Airport Fund had a deficit balance of \$106,761. The City is reviewing alternatives to eliminate this deficit.

(9) Construction Commitments

The City has entered into construction contracts totaling \$2,045,025. As of June 30, 2008, costs of \$1,561,794 had been paid on the contracts. The remaining \$483,231 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, 2008.

(11) Economic Development Loan

On February 2, 2000, the City loaned \$25,000 to the Knoxville Chamber of Commerce to assist in funding a local business expansion. The interest free loan is to be repaid over five years. During the year ended June 30, 2008, no payment was received on the loan. The loan balance at June 30, 2008 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, 2008 was \$26,042. 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 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, 2008, the City rebated \$320,485 of incremental tax to the developers, consisting of \$159,924 for principal and \$160,561 for interest. The outstanding principal balance on these agreements at June 30, 2008 is \$2,421,060, which includes \$2,387,811 subject to annual appropriation.

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, 2008, 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, 2008 were \$1,300.

(16) Restatement

The beginning cash basis net assets of the governmental activities and governmental funds have been restated to add previously unrecorded certificates of deposit held by the Knoxville Senior Center. The detail of the restatement is as follows:

	<u>Governmental Activities</u>	<u>Governmental Funds General</u>
Cash basis net assets June 30, 2007, as previously reported	\$ 3,489,487	280,784
To add previously unrecorded certificates of deposit held by the Knoxville Senior Center	<u>107,998</u>	<u>107,998</u>
Cash basis net assets July 1, 2007, as restated	<u>\$ 3,597,485</u>	<u>388,782</u>

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 2,315,591	-	2,315,591
Tax increment financing	436,811	-	436,811
Other city tax	874,009	-	874,009
Licenses and permits	30,932	-	30,932
Use of money and property	156,478	137,442	293,920
Intergovernmental	927,964	171,952	1,099,916
Charges for service	552,542	1,947,430	2,499,972
Special assessments	3,796	-	3,796
Miscellaneous	152,616	110,303	262,919
Total receipts	5,450,739	2,367,127	7,817,866
Disbursements:			
Public safety	1,278,799	62,071	1,340,870
Public works	711,474	54,584	766,058
Health and social services	17,776	-	17,776
Culture and recreation	973,213	-	973,213
Community and economic development	420,046	-	420,046
General government	329,067	27,522	356,589
Debt service	1,272,801	390,566	1,663,367
Capital projects	864,294	-	864,294
Business type activities	-	2,098,437	2,098,437
Total disbursements	5,867,470	2,633,180	8,500,650
Excess (deficiency) of receipts over (under) disbursements	(416,731)	(266,053)	(682,784)
Other financing sources (uses), net	75,473	(47,019)	28,454
Deficiency of receipts and other financing sources under disbursements and other financing uses	(341,258)	(313,072)	(654,330)
Balances beginning of year (as restated)	3,321,727	2,672,839	5,994,566
Balances end of year	\$ 2,980,469	2,359,767	5,340,236

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
2,270,173	2,334,833	(19,242)
399,289	399,289	37,522
821,840	821,840	52,169
29,975	54,975	(24,043)
51,142	301,142	(7,222)
83,850	773,810	326,106
2,339,415	2,339,415	160,557
-	3,000	796
111,225	111,225	151,694
<u>6,106,909</u>	<u>7,139,529</u>	<u>678,337</u>
1,316,861	1,316,861	(24,009)
686,542	712,542	(53,516)
-	-	(17,776)
915,005	931,005	(42,208)
157,359	196,359	(223,687)
431,926	461,926	105,337
435,659	715,659	(947,708)
-	3,062,000	2,197,706
<u>2,537,839</u>	<u>2,537,839</u>	<u>439,402</u>
<u>6,481,191</u>	<u>9,934,191</u>	<u>1,433,541</u>
(374,282)	(2,794,662)	2,111,878
-	2,276,500	(2,248,046)
(374,282)	(518,162)	(136,168)
<u>6,378,582</u>	<u>6,378,582</u>	<u>(384,016)</u>
<u>6,004,300</u>	<u>5,860,420</u>	<u>(520,184)</u>

City of Knoxville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These 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 Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$3,453,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, community and economic development and debt service 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, 2008

	Special Revenue						
	Liability, Property and Self- Insurance	Employee Benefits - Health	FICA and IPERS Benefits	Police Retirement	Emergency	Urban Revitalization	Revolving Loan
Receipts:							
Property tax	\$ -	325,845	-	123,225	40,148	-	-
Other city tax	-	11,925	-	4,510	1,461	-	-
Use of money and property	-	-	-	4,830	-	-	8,197
Miscellaneous	-	-	-	-	-	-	-
Total receipts	-	337,770	-	132,565	41,609	-	8,197
Disbursements:							
Operating:							
Public safety	-	-	-	130,647	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Community and economic development	-	-	-	-	-	19,333	100,800
Total disbursements	-	-	-	130,647	-	19,333	100,800
Excess (deficiency) of receipts over (under) disbursements	-	337,770	-	1,918	41,609	(19,333)	(92,603)
Other financing sources (uses):							
Operating transfers in	-	36,956	-	-	-	19,283	-
Operating transfers out	(90,575)	(302,942)	(36,956)	-	(43,500)	-	-
Total other financing sources (uses)	(90,575)	(265,986)	(36,956)	-	(43,500)	19,283	-
Net change in cash balances	(90,575)	71,784	(36,956)	1,918	(1,891)	(50)	(92,603)
Cash balances beginning of year	90,575	47,659	36,956	53,266	22,050	3,956	166,832
Cash balances end of year	\$ -	119,443	-	55,184	20,159	3,906	74,229
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	\$ -	119,443	-	55,184	20,159	3,906	74,229
Permanent funds	-	-	-	-	-	-	-
Total cash basis fund balances	\$ -	119,443	-	55,184	20,159	3,906	74,229

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	
16,166	-	-	-	-	-	-	-	505,384
-	-	-	-	-	-	-	-	17,896
-	628	792	1,585	-	510	5,981	-	22,523
-	15,553	1,805	30,511	-	-	2,776	-	50,645
16,166	16,181	2,597	32,096	-	510	8,757	-	596,448
-	5,940	9,314	-	-	-	-	-	145,901
-	-	-	3,138	2,887	-	-	-	6,025
16,167	-	-	-	-	-	-	-	136,300
16,167	5,940	9,314	3,138	2,887	-	-	-	288,226
(1)	10,241	(6,717)	28,958	(2,887)	510	8,757	-	308,222
-	-	-	-	-	-	-	-	56,239
-	-	-	-	-	-	-	-	(473,973)
-	-	-	-	-	-	-	-	(417,734)
(1)	10,241	(6,717)	28,958	(2,887)	510	8,757	-	(109,512)
1	21,008	37,656	26,592	7,816	34,462	209,079	500	758,408
-	31,249	30,939	55,550	4,929	34,972	217,836	500	648,896
-	31,249	30,939	55,550	4,929	34,972	-	-	430,560
-	-	-	-	-	-	217,836	500	218,336
-	31,249	30,939	55,550	4,929	34,972	217,836	500	648,896

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, 2008

	Equipment Replacement	Building Replacement	Self Insurance	Total
Operating receipts:				
Charges for service	\$ -	-	20,000	20,000
Operating disbursements:				
Governmental activities:				
Public safety	62,071	-	-	62,071
Public works	54,584	-	-	54,584
General government	26,222	-	1,300	27,522
Business type activities:				
Sewer	30,822	-	-	30,822
Total operating disbursements	173,699	-	1,300	174,999
Excess (deficiency) of operating receipts over (under) operating disbursements	(173,699)	-	18,700	(154,999)
Non-operating receipts:				
Sale of equipment	14,500	-	-	14,500
Interest on investments	19,314	-	-	19,314
Total non-operating receipts	33,814	-	-	33,814
Excess (deficiency) of receipts over (under) disbursements	(139,885)	-	18,700	(121,185)
Operating transfers in	237,060	-	-	237,060
Net change in cash balances	97,175	-	18,700	115,875
Cash balances beginning of year	431,696	10,026	5,378	447,100
Cash balances end of year	\$ 528,871	10,026	24,078	562,975
Cash Basis Fund Balances				
Unreserved	\$ 528,871	10,026	24,078	562,975

See accompanying independent auditor's report.

City of Knoxville
Schedule of Indebtedness
Year ended June 30, 2008

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	3.10 - 3.50	1,525,000
General obligation refunding	Sept. 19, 2007	3.70 - 4.05	1,765,000
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
1,960,000	-	1,960,000	-	104,130
1,970,000	-	120,000	1,850,000	72,380
<u>\$ 3,930,000</u>	<u>-</u>	<u>2,080,000</u>	<u>1,850,000</u>	<u>176,510</u>
610,000	-	50,000	560,000	21,905
1,235,000	-	230,000	1,005,000	41,119
-	1,765,000	-	1,765,000	47,639
<u>\$ 1,845,000</u>	<u>1,765,000</u>	<u>280,000</u>	<u>3,330,000</u>	<u>110,663</u>
2,235,000	-	175,000	2,060,000	97,824
630,000	-	95,000	535,000	22,043
<u>\$ 2,865,000</u>	<u>-</u>	<u>270,000</u>	<u>2,595,000</u>	<u>119,867</u>
81,289	-	14,741	66,548	3,983

City of Knoxville
Bond and Note Maturities

June 30, 2008

Year Ending June 30,	General Obligation Bonds	
	Essential	
	Corporate Purpose	
	Issued Jan 15, 2005	
	Interest	
	Rates	Amount
2009	2.90%	\$ 125,000
2010	3.10	130,000
2011	3.25	130,000
2012	3.40	135,000
2013	3.50	145,000
2014	3.70	150,000
2015	3.80	155,000
2016	3.90	160,000
2017	4.00	170,000
2018	4.10	175,000
2019	4.20	185,000
2020	4.30	190,000
Total		<u>\$ 1,850,000</u>

Year Ending June 30,	General Obligation Capital Loan Notes							Total
	General Corporate Purpose		General Obligation Refunding		General Obligation Refunding			
	Issued May 1, 2005		Issued May 1, 2005		Issued September 19, 2007			
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
2009	3.25%	\$ 50,000	3.250%	\$ 240,000	3.700%	\$ 265,000	555,000	
2010	3.35	50,000	3.250	245,000	3.700	270,000	565,000	
2011	3.50	85,000	3.375	255,000	3.750	120,000	460,000	
2012	3.60	90,000	3.500	265,000	3.800	120,000	475,000	
2013	3.70	90,000	-	-	3.850	125,000	215,000	
2014	3.80	95,000	-	-	3.875	130,000	225,000	
2015	3.90	100,000	-	-	3.900	135,000	235,000	
2016	-	-	-	-	3.950	140,000	140,000	
2017	-	-	-	-	4.000	150,000	150,000	
2018	-	-	-	-	4.050	150,000	150,000	
2019	-	-	-	-	4.050	160,000	160,000	
Total		<u>\$ 560,000</u>		<u>\$ 1,005,000</u>		<u>\$ 1,765,000</u>	<u>3,330,000</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
4.10%	\$ 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>\$ 2,060,000</u>		<u>\$ 535,000</u>	<u>2,595,000</u>

Schedule 5

City of Knoxville

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

For the Last Six Years

	2008	2007	2006	2005	2004	2003
Receipts:						
Property tax	\$ 2,315,591	2,170,476	2,129,393	1,981,319	2,069,054	2,091,215
Tax increment financing	436,811	403,700	368,655	390,497	327,032	267,890
Other city tax	874,009	945,409	833,292	746,387	286,303	131,447
Licenses and permits	30,932	51,121	49,200	36,614	44,374	54,796
Use of money and property	156,478	144,598	191,752	48,159	42,281	59,040
Intergovernmental	927,964	1,067,614	1,390,093	1,502,408	805,600	1,023,225
Charges for service	552,542	467,204	439,924	467,822	423,250	316,449
Special assessments	3,796	-	-	-	14,329	5,688
Miscellaneous	152,616	109,627	101,254	130,398	93,178	166,818
Total	\$ 5,450,739	5,359,749	5,503,563	5,303,604	4,105,401	4,116,568
Disbursements:						
Operating:						
Public safety	\$ 1,278,799	1,140,287	1,087,731	1,173,206	1,143,333	1,246,442
Public works	711,474	667,084	757,366	713,930	728,691	716,802
Health and social services	17,776	14,846	14,307	-	-	-
Culture and recreation	973,213	908,901	865,491	963,405	954,891	998,489
Community and economic development	420,046	274,588	145,002	325,700	197,729	153,213
General government	329,067	433,227	417,467	414,694	423,033	394,567
Debt service	1,272,801	976,788	2,507,606	913,064	777,558	652,097
Capital projects	864,294	867,751	1,479,908	1,059,329	99,340	580,020
Total	\$ 5,867,470	5,283,472	7,274,878	5,563,328	4,324,575	4,741,630

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 17, 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, including 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), (E), (I) and (J) 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, 2008 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

November 17, 2008

City of Knoxville
Schedule of Findings
Year ended June 30, 2008

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.
- (5) Payroll – preparing disbursements, recording payroll, control of undistributed warrants and custody of personnel files.

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. We have reallocated duties with hiring of new employee in City Hall front desk position.

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.
- Changing of passwords every 60 to 90 days.
- Removing access for terminated employees.

City of Knoxville

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Year ended June 30, 2008

- An employee requesting to reset a password and then gaining access to another employee's password.
- Instructing employees about their responsibility to maintain password privacy, including not sharing their password with the employee's supervisor.

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

Response – Backup is off-site through new IDrive program implemented in June 2008. Will begin changing of passwords every 90 days. We are running our new Data Tech software program alongside our current AS400 program until December 2008. At that time the program will be discontinued and former employee's name access will be eliminated. Policies regarding passwords will be developed. Employees log off terminals nightly.

Conclusion – Response acknowledged. Also, the City should develop a disaster recovery plan.

- (C) Rescue Billings – One employee is responsible for collecting receipts, recording receipts, opening mail 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 – Rescue billing duties have been moved to the City Hall front desk position with cross-training and segregation of receipting planned.

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 billings reconciliation report 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.

City of Knoxville

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Year ended June 30, 2008

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 Center and the Knoxville Friends of the Library maintained checking and savings accounts separate from the City Clerk's records. The transactions and the resulting balances were not reported to the 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 Center and Knoxville Friends of the Library had obtained separate legal status as of June 30, 2008. 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 Center and the Knoxville Friends of the Library demonstrate they are legally separate from the City, the monthly financial transactions should be included in the Clerk's monthly financial reports.

Response – Will research separate legal status and take action as needed.

Conclusion – Response acknowledged. Until separate legal status from the City is obtained, the monthly financial transactions should be included in the clerk's monthly financial reports.

- (G) 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.

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.

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

Also, the Knoxville Senior Center does not maintain an investment register.

City of Knoxville

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Year ended June 30, 2008

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 – The City provides detailed information on all investments and will change the format previously used to include all investments on one spreadsheet. This format has been provided by the State Auditor’s Office. Interest earned on one investment was not recorded and the previous value did not include the additional interest earned. We will also communicate the need for an investment register to the Senior Citizens Center.

Conclusion – Response accepted.

- (I) Financial Reporting – During the audit, we identified material amounts of receipts and disbursements, as well as previously unrecorded certificates of deposit at the Knoxville Senior Center, not recorded in the City’s financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements. These matters were resolved for audit purposes.

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

Response – The City has implemented a new software system through Data Technologies to accurately track all receipts and disbursements through proper data entry.

Conclusion – Response accepted.

- (J) Fund Balances – The City records detailed 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.

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 disbursements. 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 reconcile with the beginning balances and the ending balances on the monthly report spreadsheets.

Response – Our new software will accommodate the level of detail needed.

Conclusion- Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2008

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Also, disbursements exceeded the amounts budgeted for the general government and capital project functions prior to a budget amendment.

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 – Budget amendments will be adopted prior to disbursements exceeding budget by function.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney’s General opinion dated April 25, 1979 were noted.
- (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.
- (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 ensure 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 – Budgeted transfers were approved upon approval of the entire City budget. Any unbudgeted transfers will require Council approval by resolution.

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.

City of Knoxville

Schedule of Findings

Year ended June 30, 2008

- (8) Revenue Bonds – The following 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.
 - The reserve account balance is not in compliance with the minimum balance requirement of the sewer revenue bond resolutions.
 - The City has not established sewer rates sufficient to produce and maintain net revenues at a level not less than 110% of the average annual installments of principal and interest on the bonds falling due in the same year.

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

Also, the City should make sufficient transfers to the sewer revenue bond sinking account to maintain the minimum balance requirements of the bond resolution.

In addition, the City should establish sewer rates sufficient to produce and maintain net revenues at a level not less than 110% of the average annual installments of principal and interest on the bonds falling due in the same year.

Response – Monthly transfers will be made to the sewer revenue bond sinking account. The Reserve Fund balance is now in compliance with resolution requirements. There will be a twenty-seven percent increase in sewer rates effective January 2009 to maintain net revenues at the required level.

Conclusion – Response accepted.

- (9) Financial Condition – The Enterprise, Airport Fund had a deficit balance of \$106,761 at June 30, 2008.

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

Response – The Airport Fund involves a grant from the FAA on a reimbursable basis. Disbursements will be covered with City and grant monies.

Conclusion – Response accepted.

- (10) Unclaimed Property – The City has not reported unclaimed property of \$3,490 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 – The City will be submitting the unclaimed property report to the State Treasurer as part of the Great Iowa Treasure Hunt program prior to November 1, 2008.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2008

- (11) Liability, Property and Self-Insurance Levy – The City levied \$124,834 for liability, property, and self-insurance purposes as part of the General Fund tax levy, while the City expended \$70,041 for this purpose. The amount levied exceeded the amount disbursed by \$54,793 during the year.

Recommendation – The City should decrease the levy for liability, property and self insurance since the City levied an excess amount.

Response – The City will decrease the 2009-10 levy amount required by the excess amount in the budget process.

Conclusion – Response accepted.

- (12) Perpetual Care Cemetery – The City did not file an annual report for the City’s perpetual care cemetery with the Insurance Commissioner within four months following the end of the cemetery’s fiscal year as required by Chapter 523I.813 of the Code of Iowa..

Recommendation – The City should file the annual report for the perpetual care cemetery as required.

Response – The City will file the annual report for the perpetual care cemetery with the Iowa Securities and Regulated Industries Bureau as required.

Conclusion – Response accepted.

- (13) Tax Increment Financing – The City’s tax increment financing (TIF) certification required by Chapter 403 of the Code of Iowa and filed December 1, 2006 certified \$3,621,280 of TIF debt outstanding. The City’s Special Revenue, Urban Renewal Tax Increment Fund balance at June 30, 2006 was \$934,111 to pay for the TIF debt outstanding. In accordance with guidance provided by the Iowa Department of Management, funds on hand in the TIF fund should be deducted from TIF debt, with the net amount certified December 1, 2006. Had the City deducted the Urban Renewal Tax Increment Fund balance from its TIF debt, the result would have been a reduction of debt certification at December 1, 2006.

Also, the City has sufficient cash on hand to pay the TIF indebtedness outstanding and does not need additional TIF increment tax from the County Treasurer to repay the TIF debt outstanding.

In addition, no interest is earned on the TIF balance as required by Chapter 12C.9 of the Code of Iowa.

For the majority of the City’s rebate agreements, debt is represented as the total estimated rebate amount due each developer over a specified period of time. One of the agreements, however, contains “annual appropriation” language which limits the City’s liability to the amount annually appropriated by the Council for payment to the developer in the next year, if any. No principal and interest payments were due in the next fiscal year. Therefore, the City over certified its TIF indebtedness by \$2,387,811.

City of Knoxville

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Year ended June 30, 2008

Recommendation – The City should consult legal counsel to determine what to do with the excess cash on hand at June 30, 2008 in the Special Revenue, Tax Increment Financing Fund.

Also, the City should complete Form 3 on the TIF Indebtedness Certification to the County Auditor to reduce the TIF indebtedness outstanding for the cash on hand at June 30, 2008 in the Special Revenue, Tax Increment Financing Fund.

In addition, the City should ensure interest is earned on TIF balances as required by Chapter 12C.9 of the Code of Iowa.

The City should only certify TIF debt for the annual appropriation each year of the debt and not the entire debt balance. The City should decertify the excess balance previously certified.

Response – The City is seeking legal counsel regarding TIF Fund excess cash. The City will complete Form 3 on Certification form to the County Auditor to reduce outstanding indebtedness. The City will begin allocating monthly interest to TIF fund balances.

We will decertify the annual appropriation excess balance previously certified and only certify the annual appropriated amount each year.

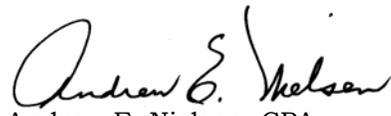
Conclusion – Response accepted.

City of Knoxville

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Tracy L. Daugherty, CPA, Senior Auditor
Paula J. Smothers, Staff Auditor
Daniel W. Henaman, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State