



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

November 16, 2009

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$13,866,933 for the year ended June 30, 2009, a 45 percent increase over 2008. The receipts included \$2,689,456 in property tax, \$485,945 from tax increment financing, \$2,698,623 from charges for service, \$1,343,625 from operating grants, contributions and restricted interest, \$392,548 from capital grants, contributions and restricted interest, \$728,713 from local option sales tax, \$77,660 from unrestricted interest on investments, \$5,315,425 from sewer revenue bond proceeds and \$134,938 from other general receipts. The significant increase in receipts is primarily due to sewer revenue bond proceeds.

Disbursements for the year totaled \$10,117,863, a one percent decrease from the prior year, and included \$1,760,500 for debt service, \$1,461,699 for public safety and \$1,081,081 for culture and recreation. Also, disbursements for business type activities totaled \$3,253,486.

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/index.html>.

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**CITY OF KNOXVILLE**

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

**JUNE 30, 2009**

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## City of Knoxville

### Officials

Harvey Sprafka	Mayor	Jan 2010
Bob Wims	Mayor Pro tem	Jan 2012
Lori Beary (Appointed)	Council Member	Nov 2009
Kurt Sorensen	Council Member	(Resigned)
Debra McClung (Appointed)	Council Member	Nov 2009
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

**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, 2009, 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, 2009, 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.

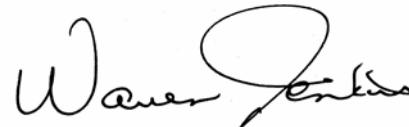
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Knoxville as of June 30, 2009, 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 October 22, 2009 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 six years ended June 30, 2008 (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

October 22, 2009



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 13.9%, or approximately \$1,007,000, from fiscal year 2008 to fiscal year 2009. General obligation refunding note proceeds decreased approximately \$1,754,000. Capital grants, contributions and restricted interest increased and operating grants, contributions, and restricted interest increased approximately \$123,000 and \$276,000, respectively. Property and other city tax increased approximately \$225,000 and local option sales tax increased approximately \$53,000.
- Disbursements for governmental activities decreased 11.3%, or approximately \$872,000, in fiscal year 2009 from fiscal year 2008. General obligation bonds refunded decreased \$1,725,000. General government and debt service function disbursements increased approximately \$169,000 and \$488,000, respectively, while capital projects disbursements decreased approximately \$188,000.
- Receipts of the City's business type activities increased 229.2%, or approximately \$5,302,000, primarily due to the receipt of sewer revenue bond proceeds of approximately \$5,315,000. Unrestricted interest on investments decreased approximately \$77,000. Operating grants, contributions, and restricted interest increased approximately \$28,000, while capital grants, contributions, and restricted interest decreased approximately \$15,000.
- Disbursements for business type activities increased 30.7%, or approximately \$764,000.
- The City's total cash basis net assets increased 70.2%, or approximately \$3,749,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities increased approximately \$100,000 and the assets of the business type activities increased approximately \$3,649,000.

### 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.

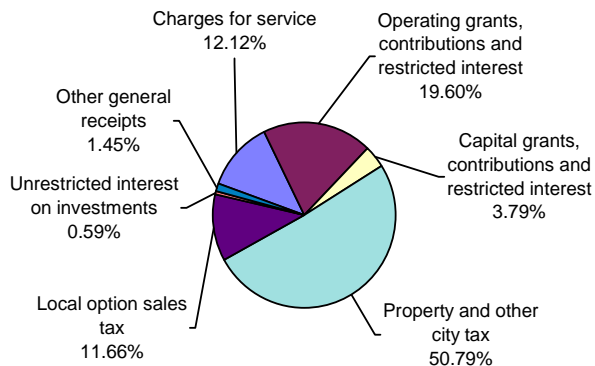
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

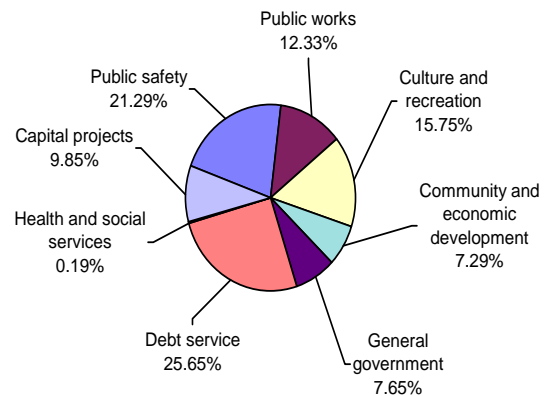
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$3.2 million to approximately \$3.3 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year Ended June 30,	
	2009	2008
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 757,395	686,010
Operating grants, contributions and restricted interest	1,225,039	949,534
Capital grants, contributions and restricted interest	237,126	114,019
General receipts:		
Property and other city tax	3,175,401	2,950,684
Local option sales tax	728,713	675,727
Unrestricted interest on investments	36,749	90,541
General obligation refunding note proceeds	-	1,753,528
Other general receipts	90,806	38,038
<b>Total receipts</b>	<b>6,251,229</b>	<b>7,258,081</b>
<b>Disbursements:</b>		
Public safety	1,461,699	1,340,870
Public works	846,135	766,058
Health and social services	12,869	17,776
Culture and recreation	1,081,081	973,213
Community and economic development	500,686	420,046
General government	525,216	356,589
Debt service	1,760,500	1,272,801
Capital projects	676,191	864,294
General obligation bonds refunded	-	1,725,074
<b>Total disbursements</b>	<b>6,864,377</b>	<b>7,736,721</b>
Deficiency of receipts under disbursements	(613,148)	(478,640)
Transfers, net	712,865	47,019
Increase (decrease) in cash basis net assets	99,717	(431,621)
Cash basis net assets beginning of year	3,165,864	3,597,485
Cash basis net assets end of year	\$ 3,265,581	3,165,864

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities increased 13.9%, or approximately \$1,007,000. The total cost of all programs and services decreased approximately \$872,000, or 11.3%, with no new programs added this year. The major change in receipts was general obligation refunding note proceeds decreased approximately \$1,754,000. In addition, operating grants, contributions and restricted interest increased approximately \$276,000 due to a CEBA grant from the Iowa Department of Economic Development received during the fiscal year and property tax increased approximately \$225,000. The City increased property tax rates for 2009 by .9%. The major changes in disbursements were general obligation bonds refunded decreased \$1,725,000 and debt service increased approximately \$488,000 due to repayment of sewer revenue bonds. Capital project disbursements decreased approximately \$188,000 due to fewer disbursements for the FEMA ice storm damage project.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service	\$ 1,941,228	1,934,681
Operating grants, contributions and restricted interest	118,586	90,453
Capital grants, contributions and restricted interest	155,422	170,051
General receipts:		
Unrestricted interest on investments	40,911	118,128
Sewer revenue bond proceeds	5,315,425	-
Other general receipts	44,132	-
Total receipts	<u>7,615,704</u>	<u>2,313,313</u>
Disbursements:		
Sewer	2,939,460	2,220,064
Airport	314,026	268,939
Total disbursements	<u>3,253,486</u>	<u>2,489,003</u>
Excess (deficiency) of receipts over (under) disbursements	4,362,218	(175,690)
Transfers, net	<u>(712,865)</u>	<u>(47,019)</u>
Increase (decrease) in cash basis net assets	3,649,353	(222,709)
Cash basis net assets beginning of year	<u>2,174,372</u>	<u>2,397,081</u>
Cash basis net assets end of year	<u>\$ 5,823,725</u>	<u>2,174,372</u>

The total business type activities cash balance increased \$3,649,353 from the prior year to a year end balance of \$5,823,725. The increase in the cash balance was due primarily to bond proceeds received during the year which were not spent by June 30, 2009. Disbursements increased primarily due to sewer construction projects.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$3,143,718, an increase of more than \$163,000 from last year's total of \$2,980,469. 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 \$113,292 from the prior year to a year-end balance of \$273,866. Disbursements increased primarily due to community and economic development function disbursements associated with the Iowa Department of Economic Development CEBA grant and maintenance and repair in the general government function.

- The Special Revenue, Road Use Tax Fund cash balance decreased \$122,037 to a year-end balance of \$123,410, due primarily to decreased road use tax receipts.
- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance increased \$528,544 to a year-end balance of \$761,432. Receipts increased due to contributions received for the Roche and Main Street project and Iowa Department of Transportation STP grant funds received. Also, disbursements related to street projects mentioned in the LOST ballot decreased, specifically the 2007 Street Improvement Project which was closed out during fiscal year 2008.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$25,091 to a year-end balance of \$1,013,242. Tax increment financing receipts increased \$49,134 while disbursements decreased \$68,089 as a result of decreased disbursements made under development agreements.
- The Debt Service Fund cash balance increased \$98,440 to a year-end balance of \$226,907. Property tax increased \$46,588 over the prior year.
- The Capital Projects Fund cash balance decreased \$230,004 to a year-end balance of \$119,458. Disbursements increased \$196,634, most of which was attributable to greater construction costs during the fiscal year for the new street projects.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Sewer Fund cash balance increased \$3,482,735 to a year-end balance of \$5,386,288. Disbursements increased \$675,267, primarily due to the wastewater treatment and lift station projects. Also, receipts increased \$5,296,414 due to sewer revenue bond proceeds of \$5,315,425 received during the year.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 26, 2009 and resulted in an increase in operating disbursements related to library salaries, nuisance abatement costs, building costs, maintenance, debt service and capital project disbursements. Additionally, the budget amendment resulted in an increase in receipts due to receipt of a CEBA grant which were not previously budgeted. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$326,942 less than budgeted. This was primarily due to the City anticipating receiving more charges for service receipts for the sewer due to increased sewer rates.

The City exceeded the budget for the health and social services, general government and debt service functions for the year ended June 30, 2009. Significant differences between the budget and actual disbursements were for the business type activities, capital projects and community and economic development functions. Significant differences between the budget and actual receipts were charges for service receipts in the General Fund and the Proprietary, Sewer Fund, differences in intergovernmental receipts in the General Fund, Special Revenue, Road Use Tax Fund and Proprietary, Airport Fund and differences in miscellaneous receipts in the General Fund and Special Revenue, Local Option Sales Tax Fund.

## DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$12,131,000 in bonds and other long-term debt outstanding, compared to approximately \$7,842,000 last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2009	2008
General obligation bonds	\$ 1,725,000	1,850,000
General obligation capital loan notes	2,775,000	3,330,000
Sewer revenue bonds	7,580,000	2,595,000
Capital lease purchase agreement	51,085	66,548
Total	<u>\$ 12,131,085</u>	<u>7,841,548</u>

Principal payments in fiscal year 2009 reduced the City's outstanding debt by \$1,080,463.

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 \$4,668,901 (including \$117,816 of development and rebate agreements) is below its constitutional debt limit of \$16 million. However, the City also had \$2,207,904 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 Notes 3 and 4 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 2010 budget, tax rates and fees charged for various City activities. The City's fiscal year 2010 assessed value has increased approximately \$5.6 million from the fiscal year 2009 level, an increase of 3.4%. The City's General Fund receipts from property tax will increase slightly from the fiscal year 2009 level. As a result, there are no new positions or services in the upcoming budget, although the City was able to retain all existing positions and services from fiscal year 2009.

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 \$2,500,000 and budgeted disbursements are expected to increase approximately \$10,900,000 compared to actual fiscal year 2009 amounts.

The fiscal year 2010 levy is \$15.04177 per \$1,000 of taxable valuation, or an increase of \$0.14 per \$1000 of taxable valuation over that of fiscal year 2009. 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 2010.

## 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, 2009

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,461,699	371,409	111,243	-
Public works	846,135	3,791	641,441	-
Health and social services	12,869	13,495	4,487	-
Culture and recreation	1,081,081	308,777	68,931	-
Community and economic development	500,686	14,247	330,445	8,400
General government	525,216	45,676	68,485	-
Debt service	1,760,500	-	7	-
Capital projects	676,191	-	-	228,726
Total governmental activities	6,864,377	757,395	1,225,039	237,126
Business type activities:				
Sewer	2,939,460	1,897,901	102,600	-
Airport	314,026	43,327	15,986	155,422
Total business type activities	3,253,486	1,941,228	118,586	155,422
Total	\$ 10,117,863	2,698,623	1,343,625	392,548

**General Receipts:**

Property and other city tax levied for:  
 General purposes  
 Tax increment financing  
 Debt service  
 Local option sales tax  
 Unrestricted interest on investments  
 Sewer revenue bond proceeds (net of \$54,575 discount)  
 Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:

Nonexpendable:

Permanent funds

Expendable:

Streets

Local option sales tax

Urban renewal tax increment

Debt service

Capital projects

Customer deposits

Senior Citizen Center

Other purposes

Unrestricted

**Total cash basis net assets**

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(979,047)	-	(979,047)
(200,903)	-	(200,903)
5,113	-	5,113
(703,373)	-	(703,373)
(147,594)	-	(147,594)
(411,055)	-	(411,055)
(1,760,493)	-	(1,760,493)
(447,465)	-	(447,465)
(4,644,817)	-	(4,644,817)
-	(938,959)	(938,959)
-	(99,291)	(99,291)
-	(1,038,250)	(1,038,250)
(4,644,817)	(1,038,250)	(5,683,067)
2,141,097	-	2,141,097
485,945	-	485,945
548,359	-	548,359
728,713	-	728,713
36,749	40,911	77,660
-	5,315,425	5,315,425
90,806	44,132	134,938
712,865	(712,865)	-
4,744,534	4,687,603	9,432,137
99,717	3,649,353	3,749,070
3,165,864	2,174,372	5,340,236
\$ 3,265,581	5,823,725	9,089,306
\$ 226,229	-	226,229
123,410	-	123,410
761,432	-	761,432
1,013,242	-	1,013,242
226,907	826,757	1,053,664
119,458	2,857,581	2,977,039
-	38,972	38,972
152,471	-	152,471
400,669	-	400,669
241,763	2,100,415	2,342,178
\$ 3,265,581	5,823,725	9,089,306

City of Knoxville

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

As of and for the year ended June 30, 2009

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
<b>Receipts:</b>				
Property tax	\$ 1,455,066	-	-	-
Tax increment financing	-	-	-	485,945
Other city tax	159,521	-	728,713	-
Licenses and permits	25,294	-	-	-
Use of money and property	79,581	-	-	4,795
Intergovernmental	389,411	641,439	51,580	-
Charges for service	627,050	-	-	-
Special assessments	5,231	-	-	-
Miscellaneous	150,080	1,485	177,146	-
Total receipts	<u>2,891,234</u>	<u>642,924</u>	<u>957,439</u>	<u>490,740</u>
<b>Disbursements:</b>				
Operating:				
Public safety	1,182,679	-	-	-
Public works	97,666	668,079	-	-
Health and social services	12,869	-	-	-
Culture and recreation	1,014,798	-	-	-
Community and economic development	393,241	-	-	-
General government	498,032	-	-	-
Debt service	-	-	-	252,396
Capital projects	-	-	445,689	-
Total disbursements	<u>3,199,285</u>	<u>668,079</u>	<u>445,689</u>	<u>252,396</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(308,051)</u>	<u>(25,155)</u>	<u>511,750</u>	<u>238,344</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	281,031	-	116,794	-
Operating transfers out	(86,272)	(96,882)	(100,000)	(213,253)
Total other financing sources (uses)	<u>194,759</u>	<u>(96,882)</u>	<u>16,794</u>	<u>(213,253)</u>
Net change in cash balances	(113,292)	(122,037)	528,544	25,091
Cash balances beginning of year	387,158	245,447	232,888	988,151
Cash balances end of year	<u>\$ 273,866</u>	<u>123,410</u>	<u>761,432</u>	<u>1,013,242</u>
<b>Cash Basis Fund Balances</b>				
Reserved for:				
Senior Center	\$ 152,471	-	-	-
Debt service	-	-	-	-
Permanent funds	-	-	-	-
Unreserved:				
General fund	121,395	-	-	-
Special revenue funds	-	123,410	761,432	1,013,242
Capital projects fund	-	-	-	-
Total cash basis fund balances	<u>\$ 273,866</u>	<u>123,410</u>	<u>761,432</u>	<u>1,013,242</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
532,036	-	510,020	2,497,122
-	-	-	485,945
16,323	-	16,490	921,047
-	-	-	25,294
7	29	10,335	94,747
-	-	-	1,082,430
-	-	-	627,050
-	-	-	5,231
-	1,289	81,077	411,077
548,366	1,318	617,922	6,149,943
-	-	220,758	1,403,437
-	-	1,018	766,763
-	-	-	12,869
-	-	66,283	1,081,081
-	-	107,445	500,686
-	-	-	498,032
1,508,104	-	-	1,760,500
-	230,502	-	676,191
1,508,104	230,502	395,504	6,699,559
(959,738)	(229,184)	222,418	(549,616)
1,058,178	-	-	1,456,003
-	(820)	(245,911)	(743,138)
1,058,178	(820)	(245,911)	712,865
98,440	(230,004)	(23,493)	163,249
128,467	349,462	648,896	2,980,469
226,907	119,458	625,403	3,143,718
-	-	-	152,471
226,907	-	-	226,907
-	-	226,229	226,229
-	-	-	121,395
-	-	399,174	2,297,258
-	119,458	-	119,458
226,907	119,458	625,403	3,143,718

**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, 2009

**Total governmental funds cash balances (page 17)** \$ 3,143,718

***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.

121,863

**Cash basis net assets of governmental activities (page 15)**

\$ 3,265,581

**Net change in cash balances (page 17)**

\$ 163,249

***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.

(63,532)

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

\$ 99,717

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, 2009

	Enterprise			Internal Service
	Sewer	Nonmajor Airport	Total	
Operating receipts:				
Charges for service	\$ 1,897,901	43,327	1,941,228	88,631
Miscellaneous	102,600	-	102,600	-
Total operating receipts	<u>2,000,501</u>	<u>43,327</u>	<u>2,043,828</u>	<u>88,631</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	58,262
Public works	-	-	-	79,372
General government	-	-	-	27,184
Business type activities	808,664	314,026	1,122,690	74,950
Total operating disbursements	<u>808,664</u>	<u>314,026</u>	<u>1,122,690</u>	<u>239,768</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>1,191,837</u>	<u>(270,699)</u>	<u>921,138</u>	<u>(151,137)</u>
Non-operating receipts (disbursements):				
Intergovernmental	-	171,408	171,408	-
Interest on investments	40,911	-	40,911	12,654
Insurance reimbursement	-	5,372	5,372	-
Miscellaneous	37,902	858	38,760	-
Capital projects	(2,055,845)	-	(2,055,845)	-
Revenue bond proceeds (net of \$54,575 discount)	5,315,425	-	5,315,425	-
Total non-operating receipts (disbursements)	<u>3,338,393</u>	<u>177,638</u>	<u>3,516,031</u>	<u>12,654</u>
Excess (deficiency) of receipts over (under) disbursements	<u>4,530,230</u>	<u>(93,061)</u>	<u>4,437,169</u>	<u>(138,483)</u>
Transfers:				
Operating transfers in	-	35,025	35,025	299,605
Operating transfers out	(1,047,495)	-	(1,047,495)	-
Total transfers	<u>(1,047,495)</u>	<u>35,025</u>	<u>(1,012,470)</u>	<u>299,605</u>
Net change in cash balances	3,482,735	(58,036)	3,424,699	161,122
Cash balances beginning of year	<u>1,903,553</u>	<u>(106,761)</u>	<u>1,796,792</u>	<u>562,975</u>
Cash balances end of year	<u>\$ 5,386,288</u>	<u>(164,797)</u>	<u>5,221,491</u>	<u>724,097</u>
<b>Cash Basis Fund Balances</b>				
Reserved for:				
Debt service	\$ 826,757	-	826,757	-
Customer deposits	38,972	-	38,972	-
Sewer project construction	2,857,581	-	2,857,581	-
Unreserved	<u>1,662,978</u>	<u>(164,797)</u>	<u>1,498,181</u>	<u>724,097</u>
Total cash basis fund balances	<u>\$ 5,386,288</u>	<u>(164,797)</u>	<u>5,221,491</u>	<u>724,097</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, 2009

**Total enterprise funds cash balances (page 20)** \$ 5,221,491

***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.

602,234

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

\$ 5,823,725

**Net change in cash balances (page 20)**

\$ 3,424,699

***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.

224,654

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

\$ 3,649,353

See notes to financial statements.

City of Knoxville

Notes to Financial Statements

June 30, 2009

**(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 the following categories:

### Restricted Net Assets:

Nonexpendable - Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's permanent funds.

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

### Unrestricted Net Assets:

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

The Debt Service Fund is utilized to account for 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, 2009, disbursements exceeded the amounts budgeted in the health and social services, general government and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2009 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, 2009, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,156,195 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							
	Bonds		Capital Loan Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 130,000	65,515	565,000	102,824	400,000	343,721	1,095,000	512,060
2011	130,000	61,485	460,000	83,196	410,000	327,559	1,000,000	472,240
2012	135,000	57,260	475,000	67,115	425,000	310,771	1,035,000	435,146
2013	145,000	52,670	215,000	50,040	440,000	292,899	800,000	395,609
2014	150,000	47,595	225,000	41,898	440,000	273,955	815,000	363,448
2015 - 2019	845,000	147,170	835,000	94,925	1,990,000	1,064,113	3,670,000	1,306,208
2019 - 2023	190,000	8,170	-	-	1,705,000	671,012	1,895,000	679,182
2024 - 2028	-	-	-	-	1,770,000	219,158	1,770,000	219,158
Total	\$ 1,725,000	439,865	2,775,000	439,998	7,580,000	3,503,188	12,080,000	4,383,051

### Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3,000,000 of 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 \$2,280,683. For the current year, principal and interest paid and total customer net receipts were \$275,824 and \$1,191,837, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$995,000 of 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 \$477,235. For the current year, principal and interest paid and total customer net receipts were \$119,335 and \$1,191,837, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$5,370,000 of sewer revenue bonds issued in December 2008. Proceeds from the bonds provided financing for the construction of improvements to the municipal sanitary sewer system of the city. The bonds are payable solely from sewer customer net receipts and are payable through 2028. The total principal and interest remaining to be paid on the bonds is \$8,325,270. For the current year, principal and interest paid and total customer net receipts were \$218,179 and \$1,191,837, respectively.

Annual principal and interest payments on the above sewer revenue bonds are expected to require 51 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.

**(4) Capital Lease Purchase Agreement**

The City entered into a capital lease purchase agreement to lease a rescue vehicle. The following is a schedule of the future minimum lease payments, including interest at 4.8% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2009:

Year Ending June 30,	Amount
2010	\$ 18,724
2011	18,724
2012	18,723
Total minimum lease payments	56,171
Less amount representing interest	(5,086)
Present value of net minimum lease payments	\$ 51,085

Payments under the capital lease purchase agreement totaled \$18,724 during the year ended June 30, 2009.

**(5) Pension and Retirement Benefits**

Iowa Public Employees Retirement System

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

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$90,606, \$73,328 and \$62,308, 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, 2009, 2008 and 2007 were \$102,635, \$130,647 and \$137,491, respectively, which met the required contribution for each year.

**(6) 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, 2009, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Holiday	\$ 28,000
Vacation	104,000
Sick leave	29,000
Compensatory time	<u>23,000</u>
Total	<u>\$ 184,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 16,450
	Employee Benefits - Health	180,164
	Emergency	65,747
	Capital Projects	820
	Enterprise:	
	Sewer	17,850
		<u>281,031</u>
Special Revenue:	Enterprise:	
Local Option Sales Tax	Sewer	116,794
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	196,803
	Enterprise:	
	Sewer	861,375
		<u>1,058,178</u>
Enterprise:	General	
Airport		35,025
Internal Service:	General	
Equipment Replacement		31,247
	Special Revenue:	
	Road Use Tax	96,882
	Local Option Sales Tax	100,000
	Enterprise:	
	Sewer	51,476
		<u>279,605</u>
Building Replacement	General	20,000
Total		<u>\$ 1,790,633</u>

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

## **(8) 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 577 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, 2009 were \$147,654.

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 by The Travelers Insurance Company.

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, 2009, 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.

**(9) Deficit Balances**

At June 30, 2009, the Enterprise, Airport Fund and the Special Revenue, K-9 Unit Program Fund had deficit balances of \$164,797 and \$1,495, respectively. The City is reviewing alternatives to eliminate these deficits.

**(10) Construction Commitments**

The City has entered into construction contracts totaling \$5,142,636. As of June 30, 2009, costs of \$2,189,206 had been paid on the contracts. The remaining \$2,953,430 will be paid as work on these projects progresses.

**(11) Interfund Receivable/Payable**

In prior years, the General Fund loaned the Special Revenue, Urban Renewal Tax Increment Fund \$85,251 to pay principal and interest due on general obligation bonds prior to the collection of tax increment financing receipts. The loan is to be repaid, without interest, as tax increment financing receipts are collected. During the year ended June 30, 2009, payments totaling \$16,450 were made. The remaining \$68,801 will be repaid as receipts are collected.

**(12) 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, 2009, no payment was received on the loan. The loan balance at June 30, 2009 was \$15,000.

**(13) Community Economic Betterment Account Loans**

On December 16, 2004, the City was awarded a \$200,000 Community Economic Betterment Account loan on behalf of Ultimate Truck Body from the Iowa Department of Economic Development (IDED). The loan consists of a \$50,000 conventional interest free loan and a \$150,000 forgivable loan. Repayment of the conventional loan is to be made in 48 equal monthly payments of \$1,042, with the first payment due on August 1, 2006. Payments are made directly to IDED by Ultimate Truck Body. The balance outstanding on the conventional loan at June 30, 2009 was \$25,000. At the project completion date, if the business has fulfilled at least 50% of its job creation/retention requirement, \$3,409 will be forgiven for each new job created/retained for at least ninety days past the project completion date. Any balance will be amortized over a two year period in equal monthly payments, with 6% per annum interest. All criteria have been met for the forgiveness of the forgivable loan.



On June 19, 2008, the City was awarded a \$90,000 Community Economic Betterment Account loan on behalf of Five Star Industries, Inc. from the Iowa Department of Economic Development (IDED). The loan consists of a \$45,000 conventional interest free loan and a \$45,000 forgivable loan. Repayment of the conventional loan is to be made in 60 equal monthly payments of \$750, with the first payment due on June 1, 2009. Payments are made directly to IDED by Five Star Industries, Inc. The balance outstanding on the conventional loan at June 30, 2009 was \$44,250. At the project completion date, if the business has fulfilled at least 50% of its job creation/retention requirement, a pro rata percentage will be forgiven for each new FTE job created/retained at the time the repayment amount is calculated. Any balance will be amortized over a two year period in equal monthly payments, with 6% per annum interest.

On March 20, 2008, the City was awarded a \$216,000 Community Economic Betterment Account loan on behalf of Verista Imaging, Inc. (Verista) from the Iowa Department of Economic Development (IDED). The loan consists of a \$108,000 conventional interest free loan and a \$108,000 forgivable loan. Repayment of the conventional loan is to be made in 60 equal monthly payments of \$1,800, with the first payment due on July 1, 2008. The balance outstanding on the conventional loan at June 30, 2009 was \$108,000. At the project completion date, if the business has fulfilled 50% or more of its job obligations (58 FTE's), a pro rata percentage will be forgiven for each new FTE job created/retained at the time the repayment amount is calculated. Any balance will be amortized over a two year period at 6% per annum interest with equal monthly payments.

Additionally, the Chamber of Commerce and Verista entered into an agreement under which the City loaned Verista \$100,800. This was funded through the City's revolving loan fund, which is a partnership between the City and the Chamber of Commerce. Repayment of the interest free loan is to be made in 36 equal monthly installments of \$2,800, with the first payment made on July 1, 2008. The outstanding balance of this loan at June 30, 2009 was \$92,400.

Subsequent to June 30, 2009, Verista Imaging, Inc. filed for bankruptcy and the local bank foreclosed on the building occupied by Verista. Also, Verista has stopped making payments to IDED and the City on the above loans. Whether the City will receive the remaining balance of the loan is interminable.

**(14) Iowa Department of Economic Development**

On April 1, 2009, the City entered into a contract with the Iowa Department of Economic Development (IDED) for the Neighborhood Stabilization Program. The award amount is \$973,903 for the purposes of benefiting low, moderate and middle income individuals for the redevelopment of abandoned and foreclosed homes and residential properties and the stabilization and revitalization of neighborhoods. As of June 30, 2009, the City has not received any funds from the award.

**(15) 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, 2009, the City rebated \$237,615 of incremental tax to the developers, consisting of \$95,340 for principal and \$142,275 for interest. The outstanding principal balance on these agreements at June 30, 2009 is \$2,325,720, which includes \$2,207,904 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.

**(16) 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, 2009, 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.

**(17) Employee Health Insurance Plan**

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

Payments to the Internal Service, Self Insurance Fund 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, 2009 were \$3,362.

**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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Total
<b>Receipts:</b>			
Property tax	\$ 2,497,122	-	2,497,122
Tax increment financing	485,945	-	485,945
Other city tax	921,047	-	921,047
Licenses and permits	25,294	-	25,294
Use of money and property	94,747	53,565	148,312
Intergovernmental	1,082,430	171,408	1,253,838
Charges for service	627,050	2,029,859	2,656,909
Special assessments	5,231	-	5,231
Miscellaneous	411,077	146,732	557,809
Total receipts	<u>6,149,943</u>	<u>2,401,564</u>	<u>8,551,507</u>
<b>Disbursements:</b>			
Public safety	1,403,437	58,262	1,461,699
Public works	766,763	79,372	846,135
Health and social services	12,869	-	12,869
Culture and recreation	1,081,081	-	1,081,081
Community and economic development	500,686	-	500,686
General government	498,032	27,184	525,216
Debt service	1,760,500	-	1,760,500
Capital projects	676,191	-	676,191
Business type activities	-	3,253,485	3,253,485
Total disbursements	<u>6,699,559</u>	<u>3,418,303</u>	<u>10,117,862</u>
Excess (deficiency) of receipts over (under) disbursements	(549,616)	(1,016,739)	(1,566,355)
Other financing sources (uses), net	<u>712,865</u>	<u>4,602,560</u>	<u>5,315,425</u>
Excess of receipts and other financing sources over disbursements and other financing uses	163,249	3,585,821	3,749,070
Balances beginning of year	<u>2,980,469</u>	<u>2,359,767</u>	<u>5,340,236</u>
Balances end of year	<u>\$ 3,143,718</u>	<u>5,945,588</u>	<u>9,089,306</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
2,499,556	2,499,556	(2,434)
495,203	495,203	(9,258)
930,133	930,133	(9,086)
69,295	69,295	(44,001)
94,219	94,219	54,093
1,109,823	1,477,023	(223,185)
3,185,895	3,185,895	(528,986)
-	-	5,231
127,125	127,125	430,684
8,511,249	8,878,449	(326,942)
1,485,951	1,485,951	24,252
1,007,793	1,007,793	161,658
-	-	(12,869)
1,194,566	1,229,566	148,485
652,693	1,069,893	569,207
452,590	473,090	(52,126)
745,859	1,486,432	(274,068)
1,295,846	1,295,846	619,655
4,136,224	4,136,224	882,739
10,971,522	12,184,795	2,066,933
(2,460,273)	(3,306,346)	1,739,991
6,300,000	6,300,000	(984,575)
3,839,727	2,993,654	755,416
4,761,966	5,193,200	147,036
8,601,693	8,186,854	902,452

City of Knoxville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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 nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the 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 \$1,213,273. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the health and social services, general government 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, 2009

	Special Revenue				
	Employee Benefits - Health	Police Retirement	Emergency	Urban Revitalization	Revolving Loan
Receipts:					
Property tax	\$ 347,954	102,589	44,114	-	-
Other city tax	11,597	3,419	1,474	-	-
Use of money and property	1,683	-	-	-	3,527
Miscellaneous	-	-	-	-	8,400
Total receipts	<u>361,234</u>	<u>106,008</u>	<u>45,588</u>	<u>-</u>	<u>11,927</u>
Disbursements:					
Operating:					
Public safety	69,861	102,635	-	-	-
Public works	1,018	-	-	-	-
Culture and recreation	58,854	-	-	-	-
Community and economic development	36,814	-	-	-	61,200
Total disbursements	<u>166,547</u>	<u>102,635</u>	<u>-</u>	<u>-</u>	<u>61,200</u>
Excess (deficiency) of receipts over (under) disbursements	194,687	3,373	45,588	-	(49,273)
Other financing uses:					
Operating transfers out	(180,164)	-	(65,747)	-	-
Net change in cash balances	14,523	3,373	(20,159)	-	(49,273)
Cash balances beginning of year	119,443	55,184	20,159	3,906	74,229
Cash balances end of year	<u>\$ 133,966</u>	<u>58,557</u>	<u>-</u>	<u>3,906</u>	<u>24,956</u>
<b>Cash Basis Fund Balances</b>					
Reserved:					
Permanent funds	\$ -	-	-	-	-
Unreserved:					
Special revenue funds	133,966	58,557	-	3,906	24,956
Total cash basis fund balances	<u>\$ 133,966</u>	<u>58,557</u>	<u>-</u>	<u>3,906</u>	<u>24,956</u>

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	K-9 Unit Program	Permanent		Total
							Cemetery Perpetual Care	Reaver Trust	
15,363	-	-	-	-	-	-	-	-	510,020
-	-	-	-	-	-	-	-	-	16,490
-	392	322	875	-	306	-	3,230	-	10,335
-	16,370	17,670	19,864	-	-	14,110	4,663	-	81,077
15,363	16,762	17,992	20,739	-	306	14,110	7,893	-	617,922
-	15,700	16,957	-	-	-	15,605	-	-	220,758
-	-	-	-	-	-	-	-	-	1,018
-	-	-	7,332	97	-	-	-	-	66,283
9,431	-	-	-	-	-	-	-	-	107,445
9,431	15,700	16,957	7,332	97	-	15,605	-	-	395,504
5,932	1,062	1,035	13,407	(97)	306	(1,495)	7,893	-	222,418
-	-	-	-	-	-	-	-	-	(245,911)
5,932	1,062	1,035	13,407	(97)	306	(1,495)	7,893	-	(23,493)
-	31,249	30,939	55,550	4,929	34,972	-	217,836	500	648,896
5,932	32,311	31,974	68,957	4,832	35,278	(1,495)	225,729	500	625,403
-	-	-	-	-	-	-	225,729	500	226,229
5,932	32,311	31,974	68,957	4,832	35,278	(1,495)	-	-	399,174
5,932	32,311	31,974	68,957	4,832	35,278	(1,495)	225,729	500	625,403

**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, 2009

	Equipment Replacement	Building Replacement	Self Insurance	Total
Operating receipts:				
Charges for service	\$ -	-	88,631	88,631
Operating disbursements:				
Governmental activities:				
Public safety	58,262	-	-	58,262
Public works	79,372	-	-	79,372
General government	23,459	-	3,725	27,184
Business type activities:				
Sewer	74,950	-	-	74,950
Total operating disbursements	236,043	-	3,725	239,768
Excess (deficiency) of operating receipts over (under) operating disbursements	(236,043)	-	84,906	(151,137)
Non-operating receipts:				
Interest on investments	12,182	80	392	12,654
Excess (deficiency) of receipts over (under) disbursements	(223,861)	80	85,298	(138,483)
Operating transfers in	279,605	20,000	-	299,605
Net change in cash balances	55,744	20,080	85,298	161,122
Cash balances beginning of year	528,871	10,026	24,078	562,975
Cash balances end of year	\$ 584,615	30,106	109,376	724,097
<b>Cash Basis Fund Balances</b>				
Unreserved	\$ 584,615	30,106	109,376	724,097

See accompanying independent auditor's report.

City of Knoxville  
Schedule of Indebtedness  
Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential corporate purpose	Jan 15, 2005	2.25 - 4.30%	\$ 2,200,000
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
Sewer	Dec 10, 2008	4.50 - 4.85	5,370,000
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
\$ 1,850,000	-	125,000	1,725,000	69,140
560,000	-	50,000	510,000	20,355
1,005,000	-	240,000	765,000	33,644
1,765,000	-	265,000	1,500,000	68,055
\$ 3,330,000	-	555,000	2,775,000	122,054
2,060,000	-	185,000	1,875,000	90,824
535,000	-	100,000	435,000	19,335
-	5,370,000	100,000	5,270,000	118,179
\$ 2,595,000	5,370,000	385,000	7,580,000	228,338
66,548	-	15,463	51,085	3,261

City of Knoxville  
Bond and Note Maturities  
June 30, 2009

Year Ending June 30,	General Obligation Bonds				General Obligation Capital		
	Essential Corporate Purpose		General Corporate Purpose		General Obligation Refunding		
	Issued Jan 15, 2005		Issued May 1, 2005		Issued May 1, 2005		
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2010	3.10%	\$ 130,000	3.35%	\$ 50,000	3.250%	\$ 245,000	
2011	3.25	130,000	3.50	85,000	3.375	255,000	
2012	3.40	135,000	3.60	90,000	3.500	265,000	
2013	3.50	145,000	3.70	90,000		-	
2014	3.70	150,000	3.80	95,000		-	
2015	3.80	155,000	3.90	100,000		-	
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>\$ 1,725,000</u>		<u>\$ 510,000</u>		<u>\$ 765,000</u>	

Year Ending June 30,	Revenue Bonds					
	Sewer Revenue		Sewer Revenue Refunding		Sewer Revenue	
	Issued Mar 1, 2002		Issued Nov 17, 2003		Issued Dec 10, 2008	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2010	4.15%	\$ 195,000	3.40%	\$ 105,000	4.50%	\$ 100,000
2011	4.15	205,000	3.60	105,000	4.50	100,000
2012	4.25	215,000	3.85	110,000	4.50	100,000
2013	4.37	225,000	4.00	115,000	4.50	100,000
2014	4.50	240,000		-	4.50	200,000
2015	4.55	250,000		-	4.50	210,000
2016	4.65	265,000		-	4.50	210,000
2017	4.70	280,000		-	4.50	215,000
2018		-		-	4.50	275,000
2019		-		-	4.50	285,000
2020		-		-	4.50	305,000
2021		-		-	4.55	320,000
2022		-		-	4.60	340,000
2023		-		-	4.65	360,000
2024		-		-	4.70	380,000
2025		-		-	4.75	405,000
2026		-		-	4.80	430,000
2027		-		-	4.80	455,000
2028		-		-	4.85	480,000
Total		<u>\$ 1,875,000</u>		<u>\$ 435,000</u>		<u>\$ 5,270,000</u>

See accompanying independent auditor's report.

Loan Notes		
General Obligation		
Refunding		
Issued September 19, 2007		
Interest		
Rates	Amount	Total
3.700%	\$ 270,000	565,000
3.750	120,000	460,000
3.800	120,000	475,000
3.850	125,000	215,000
3.875	130,000	225,000
3.900	135,000	235,000
3.950	140,000	140,000
4.000	150,000	150,000
4.050	150,000	150,000
4.050	160,000	160,000
	-	-
	<u>\$ 1,500,000</u>	<u>\$ 2,775,000</u>

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Total
400,000
410,000
425,000
440,000
440,000
460,000
475,000
495,000
275,000
285,000
305,000
320,000
340,000
360,000
380,000
405,000
430,000
455,000
480,000
<u>7,580,000</u>

City of Knoxville

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

For the Last Seven Years

	2009	2008	2007	2006
Receipts:				
Property tax	\$ 2,497,122	2,315,591	2,170,476	2,129,393
Tax increment financing	485,945	436,811	403,700	368,655
Other city tax	921,047	874,009	945,409	833,292
Licenses and permits	25,294	30,932	51,121	49,200
Use of money and property	94,747	156,478	144,598	191,752
Intergovernmental	1,082,430	927,964	1,067,614	1,390,093
Charges for service	627,050	552,542	467,204	439,924
Special assessments	5,231	3,796	-	-
Miscellaneous	411,077	152,616	109,627	101,254
<b>Total</b>	<b>\$ 6,149,943</b>	<b>5,450,739</b>	<b>5,359,749</b>	<b>5,503,563</b>
Disbursements:				
Operating:				
Public safety	\$ 1,403,437	1,278,799	1,140,287	1,087,731
Public works	766,763	711,474	667,084	757,366
Health and social services	12,869	17,776	14,846	14,307
Culture and recreation	1,081,081	973,213	908,901	865,491
Community and economic development	500,686	420,046	274,588	145,002
General government	498,032	329,067	433,227	417,467
Debt service	1,760,500	1,272,801	976,788	2,507,606
Capital projects	676,191	864,294	867,751	1,479,908
<b>Total</b>	<b>\$ 6,699,559</b>	<b>5,867,470</b>	<b>5,283,472</b>	<b>7,274,878</b>

See accompanying independent auditor's report.



2005	2004	2003
1,981,319	2,069,054	2,091,215
390,497	327,032	267,890
746,387	286,303	131,447
36,614	44,374	54,796
48,159	42,281	59,040
1,502,408	805,600	1,023,225
467,822	423,250	316,449
-	14,329	5,688
130,398	93,178	166,818
<b>5,303,604</b>	<b>4,105,401</b>	<b>4,116,568</b>
1,173,206	1,143,333	1,246,442
713,930	728,691	716,802
-	-	-
963,405	954,891	998,489
325,700	197,729	153,213
414,694	423,033	394,567
913,064	777,558	652,097
1,059,329	99,340	580,020
<b>5,563,328</b>	<b>4,324,575</b>	<b>4,741,630</b>

**City of Knoxville**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Auditor of State

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Des Moines, Iowa 50319-0004

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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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 22, 2009. 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), (F), (I), (K) and (L) are material weaknesses.

#### Compliance and Other Matters

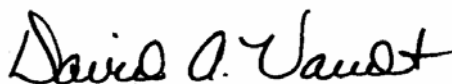
As part of obtaining reasonable assurance about whether the City of Knoxville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and 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, 2009 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.

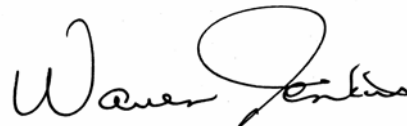
The City of Knoxville's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Knoxville's responses and, accordingly, we express no opinion on them.

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

October 22, 2009

City of Knoxville  
Schedule of Findings  
Year ended June 30, 2009

**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) Bank reconciliations – preparation and independent approval.
- (4) Receipts – opening mail, collecting receipts and recording receipts without independent reconciliation of recorded receipts to the deposit.
- (5) Disbursements – preparing disbursements, recording disbursements and reconciling.
- (6) 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.

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:

- A disaster recovery plan.
- Logging off terminals.

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

Response – A revision for logging off terminals policy is included in the Personnel Manual. The City will research and draft a written policy for a disaster recovery plan.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2009

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

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

Response – The initial listing of receipts will be prepared by the City Clerk. Also, the City Manager will approve write-offs.

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 Fire Chief and/or City Manager.

Conclusion – Response accepted.

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

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

Response – The City will continue to segregate duties with Recreation Center staff to obtain the maximum amount of internal control possible.

Conclusion – Response accepted.

- (F) Knoxville Senior Center – One employee is responsible for collecting receipts, recording receipts, deposit preparation, opening mail and disbursing. Also, deposits are not made intact and timely. 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 Knoxville Senior Center should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Additionally, deposits should be made on a timely basis.

Response – We will research options to obtain the maximum internal control possible and ensure deposits are made on a timely basis through discussions with the Knoxville Senior Center Director and Board of Directors.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2009

- (G) 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. Also, the Knoxville Senior Center and the Knoxville Friends of the Library were not included in the City budget.

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 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. Also, the Knoxville Senior Center and the Knoxville Friends of the Library should be included in the City budget.

Response – The Knoxville Senior Center and the Knoxville Friends of the Library will be included in the Clerk’s monthly financial reports, annual reports and budgets.

Conclusion – Response accepted.

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

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 – The City adopted a formal credit card policy on May 4, 2009.

Conclusion – Response accepted.

- (I) Bank Reconciliation – The Knoxville Senior Center does not prepare bank reconciliations.

Also, interest on investments was not recorded as a receipt in the financial statements. This matter was resolved for audit purposes.

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

Interest on investments should be recorded as a receipt in the financial statements.

Response – Will work with the Knoxville Senior Center Director and Senior Center Board to provide bank reconciliations and record interest.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2009

- (J) 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.

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 will use the format provided by the auditor to record detail as needed. Will also provide the format to the Knoxville Senior Center.

Conclusion – Response accepted.

- (K) Financial Reporting – During the audit, we identified material amounts of receipts 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 – City will record in the future.

Conclusion – Response accepted.

- (L) Fund Balances – The City's computer system software tracks individual fund balances. However, the City does not utilize the fund balance report to reconcile to bank balances and does not document the reconciling items between the fund balances and the bank balances. Also, certain interest on investments were not recorded as a receipt on the financial statements. These matters were resolved for audit purposes.

Recommendation – The City should reconcile the fund balance report to the bank balances and document the reconciling items between the fund balances and the bank balances. Interest on investments should be recorded as a receipt on the financial statements.

Response – Matters discussed above have been resolved for the 2008-09 fiscal year.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.



City of Knoxville  
Schedule of Findings  
Year ended June 30, 2009

**Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the health and social services, general government 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 amount budgeted for the community and economic development function 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 amendment will be adopted prior to functions being exceeded.

Conclusion – Response accepted.

- (2) Questionable Disbursements – A disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented was noted. This disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Pizza Hut	Lunch for hazmat class	\$ 99

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

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

Response – The Knoxville Fire Department provided 32 hours of training (16 hours per weekend) on two separate weekends to the Knoxville Fire Department, the Bussey Fire Department, Indiana Township Fire Department and the Knoxville Police Reserve unit. There was no open lunch hour – trainees were required to stay in the building. Trainees paid for one day’s lunch and the City the other day’s lunch each weekend. In the future we will document the public purpose served.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2009

- (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 are approved upon approval of entire City budget. Any unbudgeted transfers requiring Council action through resolution will be approved during the fiscal year.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – 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 City made transfers from the Enterprise, Sewer Fund to the Debt Service Fund. Subsequently, sewer revenue bond payments were made from the Debt Service Fund.

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 principal and interest payments from the sewer revenue bond sinking account rather than the Debt Service Fund.

Response – City will make debt service payment directly from the sewer revenue bond sinking account rather than transfers to the debt service fund for payment. Monthly transfers are being made to the sewer revenue bond sinking account.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2009

- (9) Financial Condition – The Special Revenue, K-9 Unit Program Fund and the Enterprise, Airport Fund had deficit balances of \$1,495 and \$164,797, respectively at June 30, 2009.

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

Response – The K-9 Unit program will be funded by transfers from the police department as needed if further donations are not realized. Airport disbursements will be covered with City and FAA grant monies.

Conclusion – Response accepted.

- (10) Notice of Public Hearing for Capital Projects – The City held public hearings to review an application for the West Area and Fifth Street Relief Sewer Project and the Street Improvement Project. However, notice of the public hearings were not published not less than 4 nor more than 20 days before the hearings as required by Chapter 362.3 of the Code of Iowa. The notice of public hearings were published 25 days prior to the public hearings.

Recommendation – The City should give notice at least four but not more than twenty days prior to the hearing as provided in Chapter 362.3 of the Code of Iowa.

Response – The deadlines for newspaper publications were changed by the Journal Express during the fiscal year. Adjustments have now been made to accommodate the City's legal requirements.

Conclusion – Response accepted.

- (11) Tax Increment Financing – The City's tax increment financing (TIF) certification includes the Knoxville Wal-Mart TIF debt of \$880,000. However, 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.

Recommendation – The City should complete Form 3 on the TIF Indebtedness Certification to the County Auditor to reduce the TIF indebtedness outstanding by the amount of cash on hand at June 30, 2009 in the Special Revenue, Tax Increment Financing Fund.

Response – City will complete TIF Certification Form 3 to reduce outstanding indebtedness.

Conclusion – Response accepted.

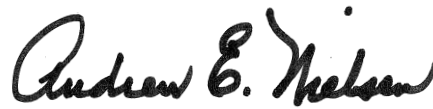
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City of Knoxville

Staff

This audit was performed by:

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