



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

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NEWS RELEASE

FOR RELEASE

November 17, 2016

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Auditor of State Mary Mosiman today released an audit report on the City of Knoxville, Iowa.

The City's receipts totaled \$15,897,024 for the year ended June 30, 2016, an 11.4% increase over the prior year. The receipts included \$3,343,878 of property tax, \$516,947 of tax increment financing, \$3,532,873 of charges for service, \$1,203,714 of operating grants, contributions and restricted interest, \$782,145 of capital grants, contributions and restricted interest, \$857,197 of local option sales tax, \$13,994 of unrestricted interest on investments, \$4,864,992 of bond proceeds and \$781,284 of other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$18,138,961, a 40% increase over the prior year, and included \$2,342,264 for public safety, \$1,544,971 for capital projects and \$1,510,074 for debt service. Also, disbursements for business type activities totaled \$8,815,347.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1620-0597-B00F>.

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CITY OF KNOXVILLE

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

JUNE 30, 2016

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City of Knoxville

Officials

(Before January 2016)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------|-------------------------------|---------------------|
| Brian Hatch | Mayor | Jan 2016 |
| Carolyn Formanek | Mayor Pro tem | Jan 2016 |
| April Verwers | Council Member | Jan 2016 |
| Tim Pitt | Council Member | Jan 2016 |
| Dawn Allspach-Kline | Council Member | Jan 2018 |
| Dave Roozeboom | Council Member | Jan 2018 |
| Harold Stewart | City Manager | (Resigned Aug 2015) |
| Aaron Adams | Interim City Manager | Indefinite |
| Heather Ussery | City Clerk | Indefinite |
| Jodi Basset | Deputy Clerk/Admin. Assistant | Indefinite |
| Robert Stuyvesant | Attorney | Indefinite |

(After January 2016)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------------------|-------------------------------|---------------------|
| Brian Hatch | Mayor | Jan 2020 |
| Dawn Allspach-Kline | Mayor Pro tem | Jan 2018 |
| Dave Roozeboom | Council Member | (Resigned Jan 2016) |
| Craig Kelley(Appointed Feb 2016) | Council Member | Nov 2017 |
| Rick Kingery | Council Member | Jan 2020 |
| James Lane | Council Member | Jan 2020 |
| Cal Stephens | Council Member | Jan 2020 |
| Aaron Adam | City Manager | Indefinite |
| Heather Ussery | City Clerk | Indefinite |
| Jodi Basset | Deputy Clerk/Admin. Assistant | 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:

Report on the Financial Statements

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, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include the financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require the financial data for the component units be reported with the financial data of the City's primary government unless the City also issues financial statements for the reporting entity which include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and cash balances of the aggregate discretely presented component unit has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City of Knoxville as of June 30, 2016, or the changes in cash basis financial thereof for the year ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to previously 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 of the City of Knoxville as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Knoxville's basic financial statements. The financial statements for the two years ended June 30, 2015 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. An adverse opinion was expressed on the financial statements of the aggregate discretely presented component units. The financial statements for the two years ended June 30, 2013 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2011 (which are not presented herein) and expressed unmodified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. The 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 9 through 14 and 42 through 48, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2016 on our consideration of the City of Knoxville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Knoxville's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

November 11, 2016

City of Knoxville

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Knoxville provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 39.8%, or approximately \$3,027,000, from fiscal year 2015 to fiscal year 2016. Property tax increased approximately \$384,000 and bond proceeds increased \$2,768,000.
- Disbursements of the City's governmental activities increased 18.0%, or approximately \$1,422,000, in fiscal year 2016 from fiscal year 2015. Public works and public safety disbursements increased approximately \$487,000 and \$245,000, respectively.
- Receipts of the City's business type activities decreased 21.0%, or approximately \$1,398,000, primarily due to approximately \$1,268,000 less in sewer revenue bond proceeds received in fiscal year 2016.
- Disbursements of the City's business type activities increased 74.4%, or approximately \$3,761,000, primarily due to increase of approximately \$4,012,000 in debt service disbursements. During the year the City made a payment to refunding bond agent for \$4,250,000 to retire sewer revenue bonds.
- The City's total cash basis net position decreased 20.2%, or approximately \$2,242,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased approximately \$1,268,000 and the cash basis net position of the business type activities decreased approximately \$3,510,000.

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 Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system and municipal airport. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the airport and the sanitary sewer operations. The Airport and Sanitary Sewer Funds are considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

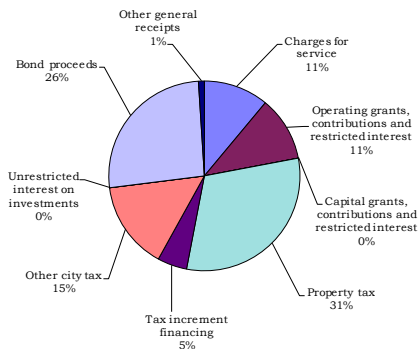
Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

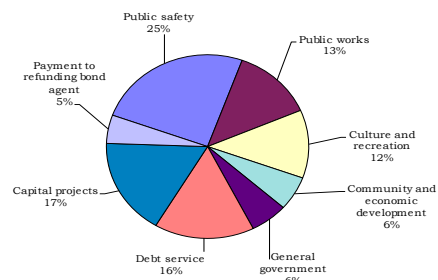
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$4.907 million to approximately \$6.176 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

| Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands) | | |
|---|---------------------|-------|
| | Year ended June 30, | |
| | 2016 | 2015 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 1,133 | 1,054 |
| Operating grants, contributions and restricted interest | 1,204 | 1,187 |
| Capital grants, contributions and restricted interest | 25 | 132 |
| General receipts: | | |
| Property tax | 3,344 | 2,960 |
| Tax increment financing | 517 | 531 |
| Other city tax | 1,560 | 1,685 |
| Unrestricted interest on investments | 2 | 4 |
| Bond proceeds | 2,768 | - |
| Other general receipts | 78 | 51 |
| Total receipts | 10,631 | 7,604 |
| Disbursements: | | |
| Public safety | 2,342 | 2,097 |
| Public works | 1,188 | 701 |
| Culture and recreation | 1,148 | 1,108 |
| Community and economic development | 588 | 350 |
| General government | 542 | 661 |
| Debt service | 1,510 | 1,559 |
| Capital projects | 1,545 | 1,425 |
| Payment to refunding bond agent | 460 | - |
| Total disbursements | 9,323 | 7,901 |
| Change in cash basis net position before transfers | 1,308 | (297) |
| Transfers, net | (39) | (91) |
| Change in cash basis net position | 1,269 | (388) |
| Cash basis net position beginning of year | 4,907 | 5,295 |
| Cash basis net position end of year | \$ 6,176 | 4,907 |

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 39.8%, or approximately \$3,027,000, from the prior year. The total cost of all programs and services increased approximately \$1,422,000, or 18.0%. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation corporate purpose and refunding bonds.

The City increased property tax rates for fiscal year 2016 an average of 5.8%. This increase raised the City's property tax receipts approximately \$384,000 in fiscal year 2016. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase approximately \$93,000 next year.

The cost of all governmental activities this year was approximately \$9.3 million compared to approximately \$7.9 million last year. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$6.5 million because some of the cost was paid by those directly benefited from the programs (approximately \$1,133,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,228,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2016 from approximately \$2,373,000 to approximately \$2,362,000.

| Changes in Cash Basis Net Position of Business Type Activities | | |
|--|---------------------|-------|
| (Expressed in Thousands) | | |
| | Year ended June 30, | |
| | 2016 | 2015 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 2,400 | 2,232 |
| Capital grants, contributions and restricted interest | 757 | 1,055 |
| General receipts: | | |
| Unrestricted interest on investments | 12 | 4 |
| Sewer revenue bond proceeds, net | 2,097 | 3,365 |
| Other general receipts | - | 8 |
| Total receipts | 5,266 | 6,664 |
| Disbursements: | | |
| Sewer | 3,881 | 4,525 |
| Payment to refunding bond agent | 4,250 | - |
| Airport | 684 | 529 |
| Total disbursements | 8,815 | 5,054 |
| Change in cash basis net position before transfers | (3,549) | 1,610 |
| Transfers, net | 39 | 91 |
| Change in cash basis net position | (3,510) | 1,701 |
| Cash basis net position beginning of year | 6,172 | 4,471 |
| Cash basis net position end of year | \$ 2,662 | 6,172 |

Total business type activities receipts for the fiscal year were approximately \$5.3 million compared to approximately \$6.7 million last year. This significant decrease was due primarily to the receipt of approximately \$1,268,000 less of sewer bond proceeds in fiscal year 2016. The cash balance decreased approximately \$3,510,000 from the prior year because the bond proceeds held in the escrow account at June 30, 2015 were used to retire the 2008 sewer revenue bonds. Total disbursements for the fiscal year increased 74.4% to approximately \$8.8 million primarily due to retiring the 2008 sewer revenue bonds.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$6,057,087, an increase of more than \$1,923,000 above last year's total of \$4,133,573. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$77,824 from the prior year to \$1,233,340. Approximately \$65,000 of this increase was due to an increase in property tax received.
- The Special Revenue, Road Use Tax Fund cash balance increased \$52,018 to \$377,685. This increase was due primarily to a \$143,000 increase in road use tax received this fiscal year. The City intends to use this money to upgrade the condition of all City roads.
- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance decreased approximately \$143,000 to a year-end balance of \$514,368. The decrease is due to an increase in disbursements for projects during the year.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance was \$114,989, an increase of \$62,293 from the previous year. The increase was the result of no transfers made to repay the interfund loan between the Urban Renewal Tax Increment Fund and the Enterprise, Sewer Fund in fiscal year 2016.
- The Debt Service Fund cash balance increased \$32,055 to \$140,522.
- The Capital Projects Fund cash balance increased approximately \$1,772,000 to a year-end balance of \$2,722,427. The increase was due to bond proceeds of \$2,308,445 received in fiscal year 2016.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance decreased \$2,993,373 to \$3,058,516, due primarily due to retiring the 2008 sewer revenue bonds.
- The Enterprise, Airport Fund cash balance increased \$205,023 to (\$396,456). The increase was a result of the City receiving federal grant fund to reimburse the City for a portion of the runway project disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on March 11, 2016 and resulted in an increase in disbursements of approximately \$2,700,000 primarily related to economic development incentives and the Water Reclamation Facility Infiltration project.

The City's receipts were \$967,652 more than budgeted. This was primarily due to the City receiving more in intergovernmental receipts for the airport grant in fiscal year 2016 than anticipated.

Total disbursements were \$2,485,092 less than the amended budget. The City exceeded the amounts budgeted in the public safety, public works and culture and recreation functions for the year ended June 30, 2016.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$15,967,110 of bonds and other long-term debt outstanding, compared to \$17,100,453 last year, as shown below.

| | Outstanding Debt at Year-End (Expressed in Thousands) | |
|---------------------------------------|--|--------|
| | June 30, | |
| | 2016 | 2015 |
| General obligation bonds | \$ 7,350 | 5,350 |
| General obligation capital loan notes | 535 | 1,205 |
| Sewer revenue bonds | 7,896 | 10,545 |
| Capital lease | 186 | - |
| Total | \$ 15,967 | 17,100 |

Debt decreased as a result of the payment of series 2008 sewer revenue bonds. In addition, the City issued corporate purpose and refunding general obligation bonds for the purpose of refunding the series 2007A general obligation capital loan notes and funding various capital projects.

In 2016, the City's general obligation bond rating was upgraded to A1 by national rating agencies. 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 of approximately \$8.6 million, including the appropriated portion of the tax increment financing rebate agreements of \$544,488 is significantly below its constitutional debt limit of approximately \$15.7 million. 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 of Knoxville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 3.5% versus 3.3% a year ago. This compares with the State's unemployment rate of 4.0% and the national rate of 4.9%.

These indicators were taken into account when adopting the budget for fiscal year 2017. Budgeted receipts are approximately \$10.1 million and budgeted disbursements are approximately \$12.4 million. The budget also includes \$2.6 million of proceeds from debt.

If these estimates are realized, the City's cash balance is expected to increase approximately \$1,425,000 to \$7.3 million by the close of fiscal year 2017.

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 Heather Ussery, City Clerk, 305 S. 3rd Street, Knoxville, Iowa 50138.

Basic Financial Statements

City of Knoxville

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

| | Disbursements | Program Receipts | | |
|---|---------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 2,342,264 | 648,303 | 128,853 | - |
| Public works | 1,187,553 | 3,035 | 918,524 | - |
| Culture and recreation | 1,148,355 | 341,229 | 38,251 | - |
| Community and economic development | 588,345 | 87,369 | 71,197 | - |
| General government | 542,052 | 52,719 | 46,889 | - |
| Debt service | 1,510,074 | - | - | - |
| Capital projects | 1,544,971 | - | - | 24,776 |
| Total governmental activities | 8,863,614 | 1,132,655 | 1,203,714 | 24,776 |
| Business type activities: | | | | |
| Sewer | 3,881,003 | 2,309,926 | - | 32,300 |
| Airport | 684,344 | 90,292 | - | 725,069 |
| Total business type activities | 4,565,347 | 2,400,218 | - | 757,369 |
| Total | \$ 13,428,961 | 3,532,873 | 1,203,714 | 782,145 |
| General Receipts and Transfers: | | | | |
| Property and other city tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Tax increment financing | | | | |
| Local option sales tax | | | | |
| Commercial/industrial tax replacement | | | | |
| Utility franchise | | | | |
| Unrestricted interest on investments | | | | |
| Bond proceeds | | | | |
| Payment to refunding bond agent | | | | |
| Miscellaneous | | | | |
| Transfers | | | | |
| Total general receipts and transfers | | | | |
| Change in cash basis net position | | | | |
| Cash basis net position beginning of year | | | | |
| Cash basis net position end of year | | | | |
| Cash Basis Net Position | | | | |
| Restricted: | | | | |
| Nonexpendable: | | | | |
| Permanent funds | | | | |
| Expendable: | | | | |
| Streets | | | | |
| Debt service | | | | |
| Capital projects and equipment | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net position | | | | |

See notes to financial statements.

| Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|--|-----------------------------|-------------|
| Governmental Activities | Business Type Activities | Total |
| (1,565,108) | - | (1,565,108) |
| (265,994) | - | (265,994) |
| (768,875) | - | (768,875) |
| (429,779) | - | (429,779) |
| (442,444) | - | (442,444) |
| (1,510,074) | - | (1,510,074) |
| (1,520,195) | - | (1,520,195) |
| (6,502,469) | - | (6,502,469) |
| - | (1,538,777) | (1,538,777) |
| - | 131,017 | 131,017 |
| - | (1,407,760) | (1,407,760) |
| (6,502,469) | (1,407,760) | (7,910,229) |
| 2,641,824 | - | 2,641,824 |
| 702,054 | - | 702,054 |
| 516,947 | - | 516,947 |
| 857,197 | - | 857,197 |
| 120,257 | - | 120,257 |
| 583,197 | - | 583,197 |
| 2,112 | 11,882 | 13,994 |
| 2,768,445 | 2,096,547 | 4,864,992 |
| (460,000) | (4,250,000) | (4,710,000) |
| 77,826 | 4 | 77,830 |
| (39,000) | 39,000 | - |
| 7,770,859 | (2,102,567) | 5,668,292 |
| 1,268,390 | (3,510,327) | (2,241,937) |
| 4,907,489 | 6,172,387 | 11,079,876 |
| \$ 6,175,879 | 2,662,060 | 8,837,939 |
| \$ 269,658 | - | 269,658 |
| 377,685 | - | 377,685 |
| 255,511 | 511,675 | 767,186 |
| 2,722,427 | 615,775 | 3,338,202 |
| 1,206,511 | - | 1,206,511 |
| 1,344,087 | 1,534,610 | 2,878,697 |
| \$ 6,175,879 | 2,662,060 | 8,837,939 |

City of Knoxville

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

As of and for the year ended June 30, 2016

| | Special Revenue | | | |
|--|-----------------|--------------|---------------------------|--------------------------------|
| | General | Road Use Tax | Local Option Sales Tax | Urban Renewal Tax Increment |
| Receipts: | | | | |
| Property tax | \$ 1,592,012 | - | - | - |
| Tax increment financing | - | - | - | 516,947 |
| Other city tax | 134,963 | - | 857,197 | - |
| Licenses and permits | 661,710 | - | - | - |
| Use of money and property | 35,251 | - | - | 244 |
| Intergovernmental | 231,703 | 903,735 | - | - |
| Charges for service | 964,298 | - | - | - |
| Special assessments | 6,279 | - | - | - |
| Miscellaneous | 146,185 | 14,789 | - | - |
| Total receipts | 3,772,401 | 918,524 | 857,197 | 517,191 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 1,669,334 | - | - | - |
| Public works | 49,203 | 756,477 | - | - |
| Culture and recreation | 905,971 | - | - | - |
| Community and economic development | 559,601 | - | - | - |
| General government | 471,468 | - | - | - |
| Debt service | - | - | - | 454,898 |
| Capital projects | - | - | 646,634 | - |
| Total disbursements | 3,655,577 | 756,477 | 646,634 | 454,898 |
| Excess (deficiency) of receipts over (under) disbursements | 116,824 | 162,047 | 210,563 | 62,293 |
| Other financing sources (uses): | | | | |
| Bond proceeds and \$53,445 premium | - | - | - | - |
| Payment to refunding bond agent | - | - | - | - |
| Transfers in | 35,000 | - | 310,193 | - |
| Transfers out | (74,000) | (110,029) | (663,730) | - |
| Total other financing sources (uses) | (39,000) | (110,029) | (353,537) | - |
| Change in cash balances | 77,824 | 52,018 | (142,974) | 62,293 |
| Cash balances beginning of year | 1,155,516 | 325,667 | 657,342 | 52,696 |
| Cash balances end of year | \$ 1,233,340 | 377,685 | 514,368 | 114,989 |
| Cash Basis Fund Balances | | | | |
| Nonspendable | \$ - | - | - | - |
| Restricted for: | | | | |
| Streets | - | 377,685 | - | - |
| Debt service | - | - | - | 114,989 |
| Capital projects and equipment | - | - | - | - |
| Other purposes | - | - | 514,368 | - |
| Unassigned | 1,233,340 | - | - | - |
| Total cash basis fund balances | \$ 1,233,340 | 377,685 | 514,368 | 114,989 |

See notes to financial statements.

| Debt Service | Capital Projects | Nonmajor | Total |
|--------------|---------------------|----------|-------------|
| 683,078 | - | 888,804 | 3,163,894 |
| - | - | - | 516,947 |
| 18,976 | - | 26,045 | 1,037,181 |
| - | - | - | 661,710 |
| - | 22 | 166 | 35,683 |
| 27,637 | - | 33,868 | 1,196,943 |
| - | - | - | 964,298 |
| - | - | - | 6,279 |
| - | 67,863 | 16,716 | 245,553 |
| 729,691 | 67,885 | 965,599 | 7,828,488 |
| - | 201,765 | 480,346 | 2,351,445 |
| - | 260,457 | 124,601 | 1,190,738 |
| - | 58,468 | 189,059 | 1,153,498 |
| - | - | 28,884 | 588,485 |
| - | - | 72,862 | 544,330 |
| 1,055,176 | - | - | 1,510,074 |
| - | 898,337 | - | 1,544,971 |
| 1,055,176 | 1,419,027 | 895,752 | 8,883,541 |
| (325,485) | (1,351,142) | 69,847 | (1,055,053) |
| 460,000 | 2,308,445 | - | 2,768,445 |
| (460,000) | - | - | (460,000) |
| 357,540 | 1,125,341 | - | 1,828,074 |
| - | (310,193) | - | (1,157,952) |
| 357,540 | 3,123,593 | - | 2,978,567 |
| 32,055 | 1,772,451 | 69,847 | 1,923,514 |
| 108,467 | 949,976 | 883,909 | 4,133,573 |
| 140,522 | 2,722,427 | 953,756 | 6,057,087 |
| - | - | 269,658 | 269,658 |
| - | - | - | 377,685 |
| 140,522 | - | - | 255,511 |
| - | 2,722,427 | - | 2,722,427 |
| - | - | 692,143 | 1,206,511 |
| - | - | (8,045) | 1,225,295 |
| 140,522 | 2,722,427 | 953,756 | 6,057,087 |

City of Knoxville

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

As of and for the year ended June 30, 2016

Total governmental funds cash balances (page 19) \$ 6,057,087

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

The Internal Service Fund is used by management to change the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

118,792

Cash basis net position of governmental activities (page 17)

\$ 6,175,879

Change in cash balances (page 19)

\$ 1,923,514

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

(655,124)

Change in cash basis net position of governmental activities (page 17)

\$ 1,268,390

See notes to financial statements.

City of Knoxville

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

As of and for the year ended June 30, 2016

| | Enterprise | | | Internal Service |
|---|--------------|-----------|-------------|---------------------|
| | Sewer | Airport | Total | |
| Operating receipts: | | | | |
| Use of money and property | \$ 7,571 | 90,292 | 97,863 | - |
| Charges for service | 2,286,435 | - | 2,286,435 | 178,915 |
| Miscellaneous | 15,920 | - | 15,920 | - |
| Total operating receipts | 2,309,926 | 90,292 | 2,400,218 | 178,915 |
| Operating disbursements: | | | | |
| Governmental activities: | | | | |
| Public safety | - | - | - | 57,653 |
| Public works | - | - | - | 20,003 |
| Culture and recreation | - | - | - | 32,298 |
| Community and economic development | - | - | - | 881 |
| General government | - | - | - | 14,307 |
| Business type activities | 955,424 | 101,472 | 1,056,896 | - |
| Total operating disbursements | 955,424 | 101,472 | 1,056,896 | 125,142 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | 1,354,502 | (11,180) | 1,343,322 | 53,773 |
| Non-operating receipts (disbursements): | | | | |
| Intergovernmental | - | 725,075 | 725,075 | - |
| Interest on investments | 11,882 | - | 11,882 | 225 |
| Project reimbursement | 32,300 | - | 32,300 | - |
| State revolving fund bond proceeds | 2,096,547 | - | 2,096,547 | - |
| Capital projects | (2,027,024) | (582,872) | (2,609,896) | - |
| Payment to refunding bond agent | (4,250,000) | - | (4,250,000) | - |
| Debt service | (898,555) | - | (898,555) | - |
| Net non-operating receipts (disbursements) | (5,034,850) | 142,203 | (4,892,647) | 225 |
| Excess (deficiency) of receipts over (under) disbursements | (3,680,348) | 131,023 | (3,549,325) | 53,998 |
| Transfers: | | | | |
| Transfers in | 721,975 | 74,000 | 795,975 | - |
| Transfers out | (35,000) | - | (35,000) | (1,431,097) |
| Total transfers in (out) | 686,975 | 74,000 | 760,975 | (1,431,097) |
| Change in cash balances | (2,993,373) | 205,023 | (2,788,350) | (1,377,099) |
| Cash balances beginning of year | 6,051,889 | (601,479) | 5,450,410 | 1,495,891 |
| Cash balances end of year | \$ 3,058,516 | (396,456) | 2,662,060 | 118,792 |
| Cash Basis Fund Balances | | | | |
| Restricted for: | | | | |
| Debt service | \$ 511,675 | - | 511,675 | - |
| Capital projects and equipment | 615,775 | - | 615,775 | - |
| Unrestricted | 1,931,066 | (396,456) | 1,534,610 | 118,792 |
| Total cash basis fund balances | \$ 3,058,516 | (396,456) | 2,662,060 | 118,792 |

See notes to financial statements.

City of Knoxville

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

As of and for the year ended June 30, 2016

Total enterprise funds cash balances (page 21) \$ 2,662,060***Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan and equipment and building replacement to individual funds. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

-**Cash basis net position of business type activities (page 17)** \$ 2,662,060**Change in cash balances (page 21)**

\$ (2,788,350)

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan and equipment and building replacement to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

(721,977)**Change in cash basis net position of business type activities (page 17)** \$ (3,510,327)

See notes to financial statements.

City of Knoxville

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Knoxville is a political subdivision of the State of Iowa located in the 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, culture and recreation, community and economic development and general government services. The City also provides sewer utilities and airport services for its citizens.

A. Reporting Entity

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

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

Excluded Component Units

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

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marion County Assessor's Conference Board, Marion County Emergency Management Commission, Marion County Joint E911 Service Board, Marion County/Warren County Drug Task Force, Marion County for Public Safety Dispatch and Communications Operation 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 Cash Basis Statement of Activities and Net Position 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Funds.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 from general and emergency levies 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 the road use tax allocation from the State of Iowa to be used 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 local option sales tax resolution.

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

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

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

The City reports the following major proprietary fund:

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

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

The City also reports the following proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, public works and culture and recreation functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 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 ensure 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, 2016, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,159,377 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

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

| Year Ending June 30, | General Obligation Bonds and Notes | | Revenue Bonds and Notes | | Total | |
|----------------------------|---------------------------------------|----------|----------------------------|-----------|------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | \$ 1,025,000 | 148,686 | 638,000 | 178,350 | 1,663,000 | 327,036 |
| 2018 | 1,035,000 | 133,501 | 517,000 | 165,283 | 1,552,000 | 298,784 |
| 2019 | 1,000,000 | 116,599 | 524,000 | 156,400 | 1,524,000 | 272,999 |
| 2020 | 1,070,000 | 98,937 | 541,000 | 146,695 | 1,611,000 | 245,632 |
| 2021 | 915,000 | 78,446 | 554,000 | 136,007 | 1,469,000 | 214,453 |
| 2022-2026 | 2,335,000 | 156,507 | 3,060,000 | 486,965 | 5,395,000 | 643,472 |
| 2027-2031 | 505,000 | 15,200 | 2,062,000 | 135,263 | 2,567,000 | 150,463 |
| Total | \$ 7,885,000 | 747,876 | 7,896,000 | 1,404,963 | 15,781,000 | 2,152,839 |

Revenue Bonds/Notes

On February 16, 2010, the City entered into a state revolving loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$2,216,056 of sewer revenue bonds with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal sanitary sewer system of the City. During the year ended June 30, 2015, the City paid principal of \$25,000 and interest of \$65,250 on the bonds. At June 30, 2015, the outstanding principal balance was \$2,150,000.

On June 19, 2015, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of sewer revenue bonds of up to \$2,518,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing certain wastewater treatment facilities. At June 30, 2016, the City had drawn down \$2,297,000 of the authorized amount and does not expect to draw additional proceeds on this bond. During the year ended June 30, 2016, the City paid principal of \$1,000 and interest of \$29,644 on the bonds. At June 30, 2015, the outstanding principal balance was \$2,296,000.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$9,398,056 of sewer revenue bonds/notes issued in February 2010, March 2010, April 2015 and June 2015. The bonds/notes are payable solely from sewer customer net receipts and are payable through 2031. For the year ended June 30, 2016, annual principal and interest payments on the bonds/notes required 66% of net receipts. The total principal and interest remaining to be paid on the bonds/notes is \$9,300,963. For the current year, principal and interest paid and total customer net receipts were \$898,555 and \$1,354,502, respectively.

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

- (a) The bonds/notes will only be redeemed from the future earnings of the enterprise activity and the bond/note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond/note sinking accounts within the Enterprise Funds for the purpose of making the bond/note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a sewer reserve until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying, at maturity, principal and interest on the bonds/notes 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 125% of the average annual installments or principal and interest on the bonds/notes falling due in the same year.

General Obligation Refunding Bonds

On June 1, 2016, the City issued \$2,715,000 of general obligation corporate purpose and refunding bonds Series 2016A. The bonds were issued for constructing street improvements including incidental water, sanitary sewer, sidewalk and storm water drainage infrastructure and refunding \$460,000 of general obligation capital loan notes refunding Sewer Series 2007A issued September 19, 2007. The bonds bear interest at 2.00% per annum and mature in varying annual amounts ranging from \$160,000 to \$255,000 with the final maturity due on June 1, 2028.

The City reduced its total debt service payments over the next three fiscal years by \$14,090 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$13,598 on the refunding.

(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 3.4% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2016:

| Year ending June 30, | Amount |
|---|-------------------|
| 2017 | \$ 40,427 |
| 2018 | 40,427 |
| 2019 | 40,427 |
| 2020 | 40,428 |
| 2021 | 40,428 |
| Total minimum lease payments | 202,137 |
| Less amount representing interest | (16,027) |
| Present value of net minimum lease payments | <u>\$ 186,110</u> |

There were no payments under the capital lease purchase agreement during the year ended June 30, 2016.

(5) Pension Plan

Iowa Public Employees' Retirement System (IPERS)

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$141,823.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$851,085 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.0172268%, which was an increase of 0.0009311% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$83,275, \$198,536 and \$255,456, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

| | |
|--|---|
| Rate of inflation (effective June 30, 2014) | 3.00% per annum. |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 17.00% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 1996) | 7.50% compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 1990) | 4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation. |

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Asset Allocation | Long-Term Expected Real Rate of Return |
|------------------------|------------------|--|
| Core plus fixed income | 28% | 2.04% |
| Domestic equity | 24 | 6.29 |
| International equity | 16 | 6.75 |
| Private equity/debt | 11 | 11.32 |
| Real estate | 8 | 3.48 |
| Credit opportunities | 5 | 3.63 |
| U.S. TIPS | 5 | 1.91 |
| Other real assets | 2 | 6.24 |
| Cash | 1 | (0.71) |
| Total | 100% | |

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability | \$ 1,642,407 | 851,085 | 183,345 |

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Municipal Fire and Police Retirement System of Iowa (MFPRSI)

Plan Description – MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at www.mfprsi.org.

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66% of the member's average final compensation. Members who perform more than 22 years of service receive an additional 2% of the member's average final compensation for each additional year of service, up to a maximum of 8 years. Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen, plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50% surviving spouse benefit.

Active members at least 55 years of age with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4 or 5 year DROP period. When electing to participate in DROP, the member signs a contract stating the member will retire at the end of the selected DROP period. During the DROP period, the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to

52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

Disability and Death Benefits – Disability benefits may be either accidental or ordinary. Accidental disability is defined as a permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50% of the member's average final compensation for those with 5 or more years of service or the member's service retirement benefit calculation amount and 25% of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50% of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40% of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50% of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased annually in accordance with Chapter 411.6 of the Code of Iowa, which provides a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

Contributions – Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2016.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa, the City's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 27.77% for the year ended June 30, 2016.

The City's contributions to MFPRSI for the year ended June 30, 2016 totaled \$208,282.

If approved by the State Legislature, state appropriations may further reduce the City's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State of Iowa, therefore, is considered to be a nonemployer contributing entity in accordance with the provisions of Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans.

There were no state appropriations to MFPRSI during the year ended June 30, 2016.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$1,198,788 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s share of contributions to the MFPRSI relative to the contributions of all MFPRSI participating employers. At June 30, 2015, the City’s proportion was 0.255162%, which was an increase of 0.000462% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City pension expense, collective deferred outflows of resources and collective deferred inflows totaled \$111,287, \$325,128 and \$328,147, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Rate of inflation | 3.00%. |
| Salary increases | 4.50 to 15.00% including inflation. |
| Investment rate of return | 7.50% net of investment expense including inflation. |

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2002 through June 30, 2012.

Mortality rates were based on weighting equal to 1/12 of the 1971 GAM table and 11/12 of the 1994 GAM table with no projection of future mortality improvement.

The long-term expected rate of return on MFPRSI investments was determined using a building-block method in which best-estimate ranges of expected future real rates (i.e., expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------------------|-------------------|--|
| Core plus fixed income | 7.0% | 3.8% |
| Emerging markets debt | 3.0 | 6.5 |
| Domestic equities | 12.5 | 6.0 |
| Master limited partnerships (MLP) | 5.0 | 8.5 |
| International equities | 12.5 | 7.0 |
| Core investments | | 40.0% |
| Tactical asset allocation | | 35.0 |
| Private equity | | 15.0 |
| Private non-core real estate | 5.0 | 9.3 |
| Private core real estate | 5.0 | 6.8 |
| Real estate | | 10.0 |
| Total | | 100% |

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed contributions will be made at 9.40% of covered payroll and the City's contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, the MFPRSI's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on MFPRSI's investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability | \$ 2,087,125 | 1,198,788 | 460,683 |

MFPRSI's Fiduciary Net Position - Detailed information about MFPRSI's fiduciary net position is available in the separately issued MFPRSI financial report which is available on MFPRSI's website at www.mfprsi.org.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 49 active and 1 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$393 for single coverage and \$754 for family coverage. For the year ended June 30, 2016, the City contributed \$375,015 and plan members eligible for benefits contributed \$51,464 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused holiday and vacation hours for subsequent use or for payment upon termination, retirement or death. City employees may also accumulate a limited amount of earned but unused sick leave hours for payment of subsequent health benefit cost upon retirement. The City 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, 2016, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-------------------|-------------------|
| Holiday | \$ 28,000 |
| Vacation | 142,000 |
| Sick leave | 18,000 |
| Compensatory time | 42,000 |
| Total | <u>\$ 230,000</u> |

This liability has been computed based on rates of pay in effect at June 30, 2016.

(8) Interfund Receivable/Payable

In prior years, the Enterprise, Sewer Fund loaned the Special Revenue, Urban Renewal Tax Increment Fund \$321,321 to pay project costs prior to the collection of tax increment financing receipts. The loan is to be repaid, with interest of 2% annually, as tax increment financing receipts are collected. During the year ended June 30, 2016, no payments were made. The remaining \$125,092 will be repaid as receipts are collected.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

| Transfer to | Transfer from | Amount |
|--|--|---------------------|
| General | Enterprise: Sewer | \$ 35,000 |
| Special Revenue: Local Option Sales Tax | Capital Projects | 310,193 |
| Debt Service | Special Revenue: Local Option Sales Tax | 357,540 |
| Capital Projects | Special Revenue: Road Use Tax Local Option Sales Tax | 110,029 306,190 |
| | Internal Service: Equipment Replacement Building Replacement | 643,893 65,229 |
| Enterprise: Sewer | Internal Service: Equipment Replacement | 721,975 |
| Airport | General | 74,000 |
| Total | | <u>\$ 2,624,049</u> |

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

(10) Healthcare Facilities Revenue Bonds

In August 2014, the City issued a total of \$6,527,480 of revenue bonds and \$2,122,520 of revenue refunding bonds for the Knoxville Community Hospital under the provisions of Chapter 419 of the Code of Iowa, of which \$8,590,614 is outstanding at June 30, 2016. The bonds and related interest are payable solely from the revenues of the Knoxville Community Hospital and Clinic and the bond principal and interest do not constitute liabilities of the City.

(11) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 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 casualty 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 estimated for the fiscal 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 at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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 Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$121,859.

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 through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and 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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

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

(12) Deficit Balances

The Special Revenue, K-9 Unit Program and Enterprise, Airport Funds had deficit balances of \$8,045 and \$396,456 at June 30, 2016, respectively. The deficit balance in the Airport fund was a result of project costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of grant reimbursements.

(13) Construction Contracts

At June 30, 2016, the City had entered into construction contracts of approximately \$1,925,000 for various projects. At June 30, 2016, these projects will require future payments of approximately \$1,133,000 upon completion.

(14) Development and Rebate Agreements

The City has entered into four development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental property tax paid by the developers in exchange for infrastructure improvements, rehabilitation and development of commercial projects constructed by the developers as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for a period ranging from five to fifteen years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. Certain agreements include provisions for payment of interest.

During the year ended June 30, 2016, the City rebated \$454,898 of incremental property tax to the developers. The outstanding principal balance on these agreements at June 30, 2016 is \$2,376,994.

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

These agreements are not a general obligation of the City. However, the debt payments in the succeeding year on three agreements with annual appropriation clauses and all of the amount to be rebated for the remaining agreement are subject to the constitutional debt limitation of the City.

(15) Employee Health Insurance Plan

The Internal Service, Self Insurance Fund was established to account for the partial self-funding of the City's health insurance benefit plan. The plan is funded by both employee and City contributions and is administered through a service agreement with Group Services. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitation of \$5,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Internal Service, Self Insurance Fund are recorded as disbursements from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Group Services from the Internal Service, Self Insurance Fund. The City contribution for the year ended June 30, 2016 was \$145,068.

(16) New Accounting Pronouncement

The City of Knoxville adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

City of Knoxville

Other 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

Other Information

Year ended June 30, 2016

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted |
|---|---------------------------------|--------------------------------|---|
| Receipts: | | | |
| Property tax | \$ 3,163,894 | - | - |
| Tax increment financing | 516,947 | - | - |
| Other city tax | 1,037,181 | - | - |
| Licenses and permits | 661,710 | - | - |
| Use of money and property | 35,683 | 109,970 | 225 |
| Intergovernmental | 1,196,943 | 725,075 | - |
| Charges for service | 964,298 | 2,465,350 | 178,915 |
| Special assessments | 6,279 | - | - |
| Miscellaneous | 245,553 | 48,220 | - |
| Total receipts | 7,828,488 | 3,348,615 | 179,140 |
| Disbursements: | | | |
| Public safety | 2,351,445 | 57,653 | 57,653 |
| Public works | 1,190,738 | 20,003 | 20,003 |
| Culture and recreation | 1,153,498 | 32,298 | 32,298 |
| Community and economic development | 588,485 | 881 | 881 |
| General government | 544,330 | 14,307 | 14,307 |
| Debt service | 1,510,074 | - | - |
| Capital projects | 1,544,971 | - | - |
| Business type activities | - | 4,565,347 | - |
| Total disbursements | 8,883,541 | 4,690,489 | 125,142 |
| Excess (deficiency) of receipts over (under) disbursements | (1,055,053) | (1,341,874) | 53,998 |
| Other financing sources, net | 2,978,567 | (2,823,575) | (1,431,097) |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 1,923,514 | (4,165,449) | (1,377,099) |
| Balances beginning of year | 4,133,573 | 6,946,301 | 1,495,891 |
| Balances end of year | \$ 6,057,087 | 2,780,852 | 118,792 |

See accompanying independent auditor's report.

| Total | Budgeted Amounts | | Final to |
|-------------|------------------|-------------|-------------------|
| | Original | Final | Total Variance |
| 3,163,894 | 3,130,935 | 3,130,935 | 32,959 |
| 516,947 | 500,000 | 500,000 | 16,947 |
| 1,037,181 | 1,601,176 | 1,601,176 | (563,995) |
| 661,710 | 39,600 | 42,150 | 619,560 |
| 145,428 | 139,290 | 146,000 | (572) |
| 1,922,018 | 1,203,856 | 1,203,856 | 718,162 |
| 3,250,733 | 3,000,594 | 3,028,094 | 222,639 |
| 6,279 | 9,500 | 9,500 | (3,221) |
| 293,773 | 184,500 | 368,600 | (74,827) |
| 10,997,963 | 9,809,451 | 10,030,311 | 967,652 |
| 2,351,445 | 2,062,038 | 2,062,038 | (289,407) |
| 1,190,738 | 741,545 | 918,382 | (272,356) |
| 1,153,498 | 1,136,435 | 1,136,435 | (17,063) |
| 588,485 | 347,601 | 654,476 | 65,991 |
| 544,330 | 481,019 | 571,583 | 27,253 |
| 1,510,074 | 1,554,426 | 1,554,426 | 44,352 |
| 1,544,971 | 4,436,334 | 4,436,334 | 2,891,363 |
| 4,565,347 | 2,474,564 | 4,600,306 | 34,959 |
| 13,448,888 | 13,233,962 | 15,933,980 | 2,485,092 |
| (2,450,925) | (3,424,511) | (5,903,669) | 3,452,744 |
| 1,586,089 | 3,500,000 | 3,500,000 | (1,913,911) |
| (864,836) | 75,489 | (2,403,669) | 1,538,833 |
| 9,583,983 | 6,945,712 | 10,777,653 | (1,193,670) |
| 8,719,147 | 7,021,201 | 8,373,984 | 345,163 |

City of Knoxville

Notes to Other Information – Budgetary Reporting

June 30, 2016

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,700,018. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, public works and culture and recreation functions.

City of Knoxville

Schedule of the City's Proportionate Share of the Net Pension Liability

For the Last Two Years*
(In Thousands)

Other Information

Iowa Public Employees' Retirement System

| | 2016 | 2015 |
|--|------------|------------|
| City's proportion of the net pension liability | 0.0172268% | 0.0162957% |
| City's proportionate share of the net pension liability | \$ 851 | 646 |
| City's covered-employee payroll | \$ 1,469 | 1,457 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 57.93% | 44.34% |
| IPERS' net position as a percentage of the total percentage of the total pension liability | 85.91% | 87.61% |

Municipal Fire and Police Retirement System of Iowa

| | 2016 | 2015 |
|--|-----------|-----------|
| City's proportion of the net pension liability | 0.255162% | 0.254700% |
| City's proportionate share of the net pension liability | \$ 1,199 | 923 |
| City's covered-employee payroll | \$ 668 | 647 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 179.49% | 142.66% |
| MFPRSI's net position as a percentage of the total percentage of the total pension liability | 83.04% | 86.27% |

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Knoxville
Schedule of City Contributions

For the Last Ten Years
(In Thousands)

Other Information

Iowa Public Employees' Retirement System

| | 2016 | 2015 | 2014 | 2013 |
|---|----------|-------|-------|-------|
| Statutorily required contribution | \$ 142 | 134 | 133 | 118 |
| Contributions in relation to the statutorily required contribution | (142) | (134) | (133) | (118) |
| Contribution deficiency (excess) | \$ - | - | - | - |
| City's covered-employee payroll | \$ 1,563 | 1,469 | 1,457 | 1,324 |
| Contributions as a percentage of covered-employee payroll | 9.09% | 9.12% | 9.13% | 8.91% |

Municipal Fire and Police Retirement System of Iowa

| | 2016 | 2015 | 2014 | 2013 |
|---|--------|--------|--------|--------|
| Statutorily required contribution | \$ 208 | 203 | 195 | 157 |
| Contributions in relation to the statutorily required contribution | (208) | (203) | (195) | (157) |
| Contribution deficiency (excess) | \$ - | - | - | - |
| City's covered-employee payroll | \$ 750 | 668 | 647 | 601 |
| Contributions as a percentage of covered-employee payroll | 27.73% | 30.39% | 30.14% | 26.12% |

See accompanying independent auditor's report.

| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|-------|-------|-------|-------|-------|-------|
| 110 | 101 | 91 | 91 | 73 | 62 |
| (110) | (101) | (91) | (91) | (73) | (62) |
| - | - | - | - | - | - |
| 1,322 | 1,453 | 1,368 | 1,433 | 1,207 | 1,078 |
| 8.32% | 6.95% | 6.65% | 6.35% | 6.05% | 5.75% |

| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|--------|--------|--------|--------|--------|--------|
| 143 | 112 | 97 | 103 | 131 | 137 |
| (143) | (112) | (97) | (103) | (131) | (137) |
| - | - | - | - | - | - |
| 578 | 562 | 570 | 549 | 514 | 494 |
| 24.74% | 19.93% | 17.02% | 18.76% | 25.49% | 27.73% |

City of Knoxville

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Iowa Public Employees' Retirement System

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Municipal Fire and Police Retirement System

Changes of benefit terms: There were no significant changes of benefit terms.

Changes of assumptions: One additional step was taken to phase in the 1994 Group Annuity Mortality Table for post-retirement mortality. The one additional step results in a weighting of 1/12 of the 1971 Group Annuity Mortality Table and 11/12 of the 1994 Group Annuity Mortality Table.

Supplementary Information

City of Knoxville

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

As of and for the year ended June 30, 2016

| | Employee Benefits | Police Retirement | Urban Revitalization | Revolving Loan | Self Supported Municipal Improvement District | Police Trust |
|------------------------------------|----------------------|----------------------|-------------------------|-------------------|---|-----------------|
| Receipts: | | | | | | |
| Property tax | \$ 627,735 | 243,136 | - | - | 17,933 | - |
| Other city tax | 18,914 | 7,131 | - | - | - | - |
| Use of money and property | - | - | - | - | - | - |
| Intergovernmental | 33,868 | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - | 4,397 |
| Total receipts | 680,517 | 250,267 | - | - | 17,933 | 4,397 |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public safety | 266,150 | 208,281 | - | - | - | 2,304 |
| Public works | 124,601 | - | - | - | - | - |
| Cultures and recreation | 185,390 | - | - | - | - | - |
| Community and economic development | 10,817 | - | - | - | 18,067 | - |
| General government | 72,862 | - | - | - | - | - |
| Total disbursements | 659,820 | 208,281 | - | - | 18,067 | 2,304 |
| Change in cash balances | 20,697 | 41,986 | - | - | (134) | 2,093 |
| Cash balances beginning of year | 131,694 | 301,638 | 3,906 | 115,745 | 134 | 8,922 |
| Cash balances end of year | \$ 152,391 | 343,624 | 3,906 | 115,745 | - | 11,015 |
| Cash Basis Fund Balances | | | | | | |
| Nonspendable | | | | | | |
| Cemetery perpetual care | \$ - | - | - | - | - | - |
| Reaver Trust | - | - | - | - | - | - |
| Restricted for other purposes | 152,391 | 343,624 | 3,906 | 115,745 | - | 11,015 |
| Unassigned | - | - | - | - | - | - |
| Total cash basis fund balances | \$ 152,391 | 343,624 | 3,906 | 115,745 | - | 11,015 |

See accompanying independent auditor's report.

| Special Revenue | | | | | | | Permanent | | |
|-----------------------------|--------------------------------|-------------------------|----------------------------------|---------------------|--------|-------------------------------|-----------------|---------|--|
| Fire Rescue Donations | Library Gifts/ Memorials | Recreation Donations | Auld Park Playground Trust | K-9 Unit Program | I-Jobs | Cemetery Perpetual Care | Reaver Trust | Total | |
| - | - | - | - | - | - | - | - | 888,804 | |
| - | - | - | - | - | - | - | - | 26,045 | |
| - | - | - | 39 | - | - | 127 | - | 166 | |
| - | - | - | - | - | - | - | - | 33,868 | |
| 2,805 | 3,066 | - | - | - | - | 6,448 | - | 16,716 | |
| 2,805 | 3,066 | - | 39 | - | - | 6,575 | - | 965,599 | |
| 3,611 | - | - | - | - | - | - | - | 480,346 | |
| - | - | - | - | - | - | - | - | 124,601 | |
| - | 3,669 | - | - | - | - | - | - | 189,059 | |
| - | - | - | - | - | - | - | - | 28,884 | |
| - | - | - | - | - | - | - | - | 72,862 | |
| 3,611 | 3,669 | - | - | - | - | - | - | 895,752 | |
| (806) | (603) | - | 39 | - | - | 6,575 | - | 69,847 | |
| 10,477 | 14,284 | 4,832 | 34,148 | (8,045) | 3,091 | 262,583 | 500 | 883,909 | |
| 9,671 | 13,681 | 4,832 | 34,187 | (8,045) | 3,091 | 269,158 | 500 | 953,756 | |
| - | - | - | - | - | - | 269,158 | - | 269,158 | |
| - | - | - | - | - | - | - | 500 | 500 | |
| 9,671 | 13,681 | 4,832 | 34,187 | - | 3,091 | - | - | 692,143 | |
| - | - | - | - | (8,045) | - | - | - | (8,045) | |
| 9,671 | 13,681 | 4,832 | 34,187 | (8,045) | 3,091 | 269,158 | 500 | 953,756 | |

City of Knoxville

City of Knoxville

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

As of and for the year ended June 30, 2016

| | Equipment Replacement | Building Replacement | Self Insurance | Total |
|---|--------------------------|-------------------------|-------------------|-------------|
| Operating receipts: | | | | |
| Charges for service | \$ - | - | 178,915 | 178,915 |
| Operating disbursements: | | | | |
| Governmental activities: | | | | |
| Public safety | - | - | 57,653 | 57,653 |
| Public works | - | - | 20,003 | 20,003 |
| Culture and recreation | - | - | 32,298 | 32,298 |
| Community and economic development | - | - | 881 | 881 |
| General government | - | - | 14,307 | 14,307 |
| Total operating disbursements | - | - | 125,142 | 125,142 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | - | - | 53,773 | 53,773 |
| Non-operating receipts: | | | | |
| Interest on investments | - | - | 225 | 225 |
| Excess of receipts over disbursements | - | - | 53,998 | 53,998 |
| Transfers out | (1,365,868) | (65,229) | - | (1,431,097) |
| Change in cash balances | (1,365,868) | (65,229) | 53,998 | (1,377,099) |
| Cash balances beginning of year | 1,365,868 | 65,229 | 64,794 | 1,495,891 |
| Cash balances end of year | \$ - | - | 118,792 | 118,792 |
| Cash Basis Fund Balances | | | | |
| Unrestricted | \$ - | - | 118,792 | 118,792 |

See accompanying independent auditor's report.

City of Knoxville
Schedule of Indebtedness
Year ended June 30, 2016

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|--|---------------|----------------|--------------------------|
| General obligation bonds: | | | |
| Corporate purpose and refunding series 2010C | Sep 20, 2010 | 1.70 - 3.00% | \$ 3,640,000 |
| Refunding series 2012A | May 15, 2012 | 1.00 - 1.80 | 1,235,000 |
| Corporate purpose series 2013A | Jun 19, 2013 | 0.50 - 1.85 | 3,360,000 |
| Corporate purpose and refunding series 2016A | Jun 1, 2016 | 2.00 | 2,715,000 |
| Total | | | |
| General obligation capital loan notes: | | | |
| Refunding series 2007A | Sep 19, 2007 | 3.95 - 4.05% | \$ 1,765,000 |
| Sewer improvement series 2010D | Nov 18, 2010 | 2.70 | 710,000 |
| Total | | | |
| Revenue bonds and notes: | | | |
| Sewer series 2008 | Dec 10, 2008 | 4.50 - 4.85% | \$ 5,370,000 |
| Sewer series 2010A | *Feb 16, 2010 | 3.00 | 2,216,056 |
| Sewer refunding series 2010B | Mar 18, 2010 | 3.00 | 1,705,000 |
| Sewer refundings series 2015A | Apr 23, 2015 | 0.90 - 3.00 | 3,180,000 |
| Sewer SRF wasterwater treatment | *Jun 19, 2015 | 1.75 | 2,297,000 |
| Total | | | |
| Capital Lease: | | | |
| Ambulance | Jun 16, 2016 | 3.40% | \$ 186,110 |

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

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|-------------------------------|
| 1,735,000 | - | 220,000 | 1,515,000 | 42,355 | - |
| 895,000 | - | 170,000 | 725,000 | 12,610 | - |
| 2,720,000 | - | 325,000 | 2,395,000 | 32,040 | - |
| - | 2,715,000 | - | 2,715,000 | - | - |
| \$ 5,350,000 | 2,715,000 | 715,000 | 7,350,000 | 87,005 | - |
| 600,000 | - | 600,000 | - | 24,585 | - |
| 605,000 | - | 70,000 | 535,000 | 16,336 | - |
| \$ 1,205,000 | - | 670,000 | 535,000 | 40,921 | - |
| 4,460,000 | - | 4,460,000 | - | 207,848 | - |
| 2,175,000 | - | 25,000 | 2,150,000 | 65,250 | - |
| 530,000 | - | 260,000 | 270,000 | 15,900 | - |
| 3,180,000 | - | - | 3,180,000 | 72,491 | - |
| 200,453 | 2,096,547 | 1,000 | 2,296,000 | 29,644 | - |
| \$ 10,545,453 | 2,096,547 | 4,746,000 | 7,896,000 | 391,133 | - |
| \$ - | 186,110 | - | 186,110 | - | - |

City of Knoxville
Bond and Note Maturities
June 30, 2016

| General Obligation Bonds | | | | | | | | | | |
|----------------------------|-----------------------|---------------------|---------------------|-------------------|---------------------|---------------------|---------------------------------|---------------------|--|--|
| Year Ending June 30, | Corporate | | Series 2012A | | Series 2013A | | Series 2016A | | | |
| | Purpose and Refunding | | Refunding | | Corporate Purpose | | Corporate Purpose and Refunding | | | |
| | Issued Sep 20, 2010 | | Issued May 15, 2012 | | Issued Jun 19, 2013 | | Issued Jun 1, 2016 | | | |
| | Interest | | Interest | | Interest | | Interest | | | |
| | Rates | Amount | Rates | Amount | Rates | Amount | Rates | Amount | | |
| 2017 | 1.95% | \$ 230,000 | 1.20% | \$ 175,000 | 0.70% | \$ 330,000 | 2.00% | \$ 220,000 | | |
| 2018 | 2.25 | 235,000 | 1.40 | 180,000 | 0.85 | 330,000 | 2.00 | 220,000 | | |
| 2019 | 2.50 | 245,000 | 1.60 | 185,000 | 1.20 | 335,000 | 2.00 | 160,000 | | |
| 2020 | 2.65 | 255,000 | 1.80 | 185,000 | 1.20 | 340,000 | 2.00 | 215,000 | | |
| 2021 | 2.80 | 270,000 | | - | 1.50 | 345,000 | 2.00 | 220,000 | | |
| 2022 | 3.00 | 280,000 | | - | 1.70 | 355,000 | 2.00 | 225,000 | | |
| 2023 | | - | | - | 1.85 | 360,000 | 2.00 | 230,000 | | |
| 2024 | | - | | - | | - | 2.00 | 235,000 | | |
| 2025 | | - | | - | | - | 2.00 | 240,000 | | |
| 2026 | | - | | - | | - | 2.00 | 245,000 | | |
| 2027 | | - | | - | | - | 2.00 | 250,000 | | |
| 2028 | | - | | - | | - | 2.00 | 255,000 | | |
| Total | | <u>\$ 1,515,000</u> | | <u>\$ 725,000</u> | | <u>\$ 2,395,000</u> | | <u>\$ 2,715,000</u> | | |

| Revenue Bonds | | | | | | | |
|----------------------------|---------------------|---------------------|---------------------|-------------------|---------------------|---------------------|--|
| Year Ending June 30, | Series 2010A | | Series 2010B | | Series 2015A | | |
| | Sewer | | Sewer Refunding | | Sewer Refunding | | |
| | Issued Feb 16, 2010 | | Issued Mar 10, 2010 | | Issued Apr 23, 2015 | | |
| | Interest | | Interest | | Interest | | |
| | Rates | Amount | Rates | Amount | Rates | Amount | |
| 2017 | 3.00% | \$ 25,000 | 3.00% | \$ 270,000 | 0.90% | \$ 210,000 | |
| 2018 | 3.00 | 122,000 | | - | 1.10 | 260,000 | |
| 2019 | 3.00 | 126,000 | | - | 1.35 | 260,000 | |
| 2020 | 3.00 | 130,000 | | - | 1.60 | 270,000 | |
| 2021 | 3.00 | 135,000 | | - | 1.80 | 275,000 | |
| 2022 | 3.00 | 139,000 | | - | 2.00 | 290,000 | |
| 2023 | 3.00 | 144,000 | | - | 2.20 | 300,000 | |
| 2024 | 3.00 | 148,000 | | - | 2.40 | 310,000 | |
| 2025 | 3.00 | 153,000 | | - | 2.60 | 320,000 | |
| 2026 | 3.00 | 158,000 | | - | 2.80 | 335,000 | |
| 2027 | 3.00 | 163,000 | | - | 3.00 | 350,000 | |
| 2028 | 3.00 | 168,000 | | - | | - | |
| 2029 | 3.00 | 174,000 | | - | | - | |
| 2030 | 3.00 | 180,000 | | - | | - | |
| 2031 | | 185,000 | | - | | - | |
| Total | | <u>\$ 2,150,000</u> | | <u>\$ 270,000</u> | | <u>\$ 3,180,000</u> | |

See accompanying independent auditor's report.

General Obligation Notes
Series 2010D
Sewer Improvement Note

| Interest | | |
|----------|-------------------|------------------|
| Rates | Amount | Total |
| 2.70% | \$ 70,000 | 1,025,000 |
| 2.70 | 70,000 | 1,035,000 |
| 2.70 | 75,000 | 1,000,000 |
| 2.70 | 75,000 | 1,070,000 |
| 2.70 | 80,000 | 915,000 |
| 2.70 | 80,000 | 940,000 |
| 2.70 | 85,000 | 675,000 |
| | - | 235,000 |
| | - | 240,000 |
| | - | 245,000 |
| | - | 250,000 |
| | - | 255,000 |
| | <u>\$ 535,000</u> | <u>7,885,000</u> |

Sewer
Wastewater Treatment
Issued Jun 19, 2015

| Interest | | |
|----------|---------------------|------------------|
| Rates | Amount | Total |
| 1.75% | \$ 133,000 | 638,000 |
| 1.75 | 135,000 | 517,000 |
| 1.75 | 138,000 | 524,000 |
| 1.75 | 141,000 | 541,000 |
| 1.75 | 144,000 | 554,000 |
| 1.75 | 147,000 | 576,000 |
| 1.75 | 149,000 | 593,000 |
| 1.75 | 152,000 | 610,000 |
| 1.75 | 156,000 | 629,000 |
| 1.75 | 159,000 | 652,000 |
| 1.75 | 162,000 | 675,000 |
| 1.75 | 165,000 | 333,000 |
| 1.75 | 168,000 | 342,000 |
| 1.75 | 172,000 | 352,000 |
| 1.75 | 175,000 | 360,000 |
| | <u>\$ 2,296,000</u> | <u>7,896,000</u> |

City of Knoxville

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

| | 2016 | 2015 | 2014 | 2013 |
|------------------------------------|---------------------|------------------|------------------|------------------|
| Receipts: | | | | |
| Property tax | \$ 3,163,894 | 2,952,466 | 2,908,791 | 2,822,795 |
| Tax increment financing | 516,947 | 531,120 | 354,277 | 242,252 |
| Other city tax | 1,037,181 | 1,684,688 | 1,576,472 | 1,220,128 |
| Licenses and permits | 661,710 | 84,821 | 29,897 | 20,168 |
| Use of money and property | 35,683 | 36,753 | 50,721 | 5,753 |
| Intergovernmental | 1,196,943 | 951,196 | 825,512 | 999,335 |
| Charges for service | 964,298 | 969,587 | 872,637 | 909,812 |
| Special assessments | 6,279 | 7,497 | 7,693 | 6,247 |
| Miscellaneous | 245,553 | 370,466 | 267,730 | 286,362 |
| Total | <u>\$ 7,828,488</u> | <u>7,588,594</u> | <u>6,893,730</u> | <u>6,512,852</u> |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$ 2,351,445 | 2,274,531 | 1,839,305 | 1,744,882 |
| Public works | 1,190,738 | 748,405 | 776,841 | 787,203 |
| Health and social services | - | - | - | - |
| Culture and recreation | 1,153,498 | 1,095,737 | 1,070,274 | 1,032,710 |
| Community and economic development | 588,485 | 351,878 | 193,813 | 222,805 |
| General government | 544,330 | 523,097 | 458,176 | 506,108 |
| Debt service | 1,510,074 | 1,558,643 | 1,511,847 | 878,514 |
| Capital projects | 1,544,971 | 1,425,184 | 2,282,626 | 1,579,394 |
| Total | <u>\$ 8,883,541</u> | <u>7,977,475</u> | <u>8,132,882</u> | <u>6,751,616</u> |

See accompanying independent auditor's report.

| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| 2,875,400 | 2,711,600 | 2,611,363 | 2,497,122 | 2,315,591 | 2,170,476 |
| 318,340 | 320,902 | 535,285 | 485,945 | 436,811 | 403,700 |
| 769,827 | 871,465 | 864,232 | 921,047 | 874,009 | 945,409 |
| 42,818 | 21,320 | 15,678 | 25,294 | 30,932 | 51,121 |
| 3,884 | 65,552 | 77,345 | 94,747 | 156,478 | 144,598 |
| 939,941 | 1,690,173 | 1,136,792 | 1,082,430 | 927,964 | 1,067,614 |
| 873,937 | 745,648 | 639,917 | 627,050 | 552,542 | 467,204 |
| 2,756 | 7,433 | 10,874 | 5,231 | 3,796 | - |
| 206,141 | 203,690 | 380,054 | 411,077 | 152,616 | 109,627 |
| 6,033,044 | 6,637,783 | 6,271,540 | 6,149,943 | 5,450,739 | 5,359,749 |
| 1,587,150 | 1,589,674 | 1,506,286 | 1,403,437 | 1,278,799 | 1,140,287 |
| 984,298 | 860,317 | 783,903 | 766,763 | 711,474 | 667,084 |
| - | 18,477 | 15,151 | 12,869 | 17,776 | 14,846 |
| 1,045,852 | 1,124,962 | 1,141,093 | 1,081,081 | 973,213 | 908,901 |
| 214,944 | 55,290 | 102,266 | 500,686 | 420,046 | 274,588 |
| 556,329 | 577,811 | 503,383 | 498,032 | 329,067 | 433,227 |
| 1,376,919 | 1,246,308 | 1,974,144 | 1,760,500 | 1,272,801 | 976,788 |
| 1,632,554 | 2,759,921 | 1,334,631 | 676,191 | 864,294 | 867,751 |
| 7,398,046 | 8,232,760 | 7,360,857 | 6,699,559 | 5,867,470 | 5,283,472 |

**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**



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

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 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, the 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, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 11, 2016. Our report expressed unmodified opinions on the financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Knoxville's internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Knoxville's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Finding as items (D) through (I) to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 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 the Findings

The City of Knoxville's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Knoxville's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.


MARY MOSIMAN, CPA
Auditor of State

November 11, 2016

City of Knoxville

Schedule of Findings

Year ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:
- (1) Cash – handling petty cash and reconciling.
 - (2) Investments – recording, custody and record-keeping.
 - (3) Long-term debt – recording and reconciling, including compensated absences.
 - (4) Disbursements – preparing disbursements, check signing, recording and reconciling.
 - (5) Payroll – preparing and recording payroll, control of undistributed warrants and maintaining personnel files. In addition, there is no independent review of pay rates and payroll tax rates entered on the City’s accounting system or electronic fund transfers made for payroll tax.
 - (6) Journal entries – independent review of non-recurring entries.
 - (7) Receipts – opening mail, collecting receipts and recording receipts with independent reconciliation of recorded receipts to the deposit.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response – Staff will continue to work on segregating of duties where possible.

Conclusion – Response accepted.

- (B) Service Organizations – The Knoxville Municipal Waterworks provides billing and collection services for the City’s sewer fees. The sewer receipts are remitted to the City. The Waterworks provides a reconciliation of billings, collections and receivable balances to the City, but the City does not review the reconciliation.

The City contracts with an outside company to bill and collect rescue receipts. The rescue receipts are remitted to the City. A reconciliation of billings, collections and receivable balances is not prepared. The City does not perform procedures to ensure the accuracy and completeness of the rescue receipts remitted to the City.

City of Knoxville

Schedule of Findings

Year ended June 30, 2016

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

The City should request a reconciliation of rescue billings, collections and receivable balances for rescue fees.

Response – Staff will begin reviewing reconciliations provided.

Conclusion – Response accepted.

- (C) 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 – Staff will continue to work on segregating duties where possible.

Conclusion – Response accepted.

- (D) Records of Account – The Recreation Center maintained a checking account separate from the City Clerk's records. The transactions are reported to the City monthly and balances periodically transferred into the City's checking account. However, the balance of the checking account of \$19,143 at the end of the fiscal year was not included in the City's records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." The year-end balance of the separate checking account maintained by the Recreation Center should be included in the City records.

Response – By the end of fiscal year, staff will make sure balance is reported in City ledger and accounted for.

Conclusion – Response accepted.

- (E) 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 City does not have a written disaster recovery plan. In addition, the City has not been performing backups and an anti-virus program was not being used.

City of Knoxville

Schedule of Findings

Year ended June 30, 2016

Recommendation – The City should develop a written disaster recovery plan and ensure backups and anti-virus software are utilized.

Response – The backups and anti-virus program issues were just recently brought to the City’s attention. This should have been done by former IT Company. Both have now been resolved and are being done regularly. The City will work towards a written disaster recovery plan.

Conclusion – Response accepted.

- (F) Investment Interest – Interest of \$8,273 earned on eight certificate of deposits held during the year were not recorded in the City’s general ledger.

Recommendation – The City should record timely any interest received from investments in the general ledger.

Response – Staff has requested regular statements from financial institution so reporting of interest can be completed.

Conclusion – Response accepted.

- (G) Disbursements – During our review of disbursements, seven of thirty-three disbursements tested were not approved by the City Council prior to being paid, one disbursement did not have appropriate supporting documentation and fourteen disbursements did not include proper cancellation of supporting documentation to prevent reuse.

Recommendation – The City should ensure disbursements are approved by the City Council prior to being paid. All disbursements need to have supporting documentation and the documentation should be cancelled to prevent reuse.

Response – Staff will work on a written policy for payment of specific disbursements prior to approval and review all disbursements for proper supporting documentation and cancellation.

Conclusion – Response accepted.

- (H) Employee Benefit Levy - The City levies taxes for both police and fire retirement and other employee benefits. The amounts received from the County are not divided between the two levies so the City allocates the receipts between the Special Revenue, Police Retirement and Employee Benefits Funds. The allocation should be calculated using the amounts budgeted for each levy. For the year ended June 30, 2016, \$24,273 more than the amount calculated using the amounts budgeted for each levy was recorded in the Special Revenue, Police Retirement Fund.

Recommendation – The City should make a corrective transfer of \$24,273 from the Special Revenue, Police Retirement Fund to the Special Revenue, Employee Benefits Fund.

City of Knoxville

Schedule of Findings

Year ended June 30, 2016

Response – Staff has requested the County split the employee benefits and police retirement receipts for accurate reporting. Staff will make a transfer of \$24,273.

Conclusion – Response accepted.

- (I) Check Held – In June 2016, the City issued a check for \$28,325 to a contractor which was held by the City until September 2016 when the work was completed by the contractor.

Recommendation – Checks should not be written until the goods or services have been received.

Response – Staff will ensure checks are not written until goods or services are received.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, public works and culture and recreation functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – Staff will monitor the need for amendments in the future more closely and complete amendments as needed prior to exceeding budgeted amounts.

Conclusion – Response accepted.

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

| <u>Paid to</u> | <u>Purpose</u> | <u>Amount</u> |
|-----------------------|---|---------------|
| Mastercard | Retirement gift | \$ 100 |
| Candi's Flowers | Blooming plant for funeral | 90 |
| Mastercard | Food and supplies for public works BBQ | 80 |
| Bob's Custom Trophies | Recognition trophies | 260 |
| HyVee | Cookies and punch for insurance meeting | 37 |

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

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

Response – Staff understands the opinion regarding public purpose and will follow for future disbursements.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2016

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|--|-------------------------|--------|
| Central Iowa Fastener, owned by City Council Member, Craig Kelley | Bolts and washers | \$ 235 |

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member does not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year.

- (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) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for two meetings tested were not published within fifteen days. In addition, the City did not publish a summary of receipts, as required by Chapter 372.13(6) of the Code of Iowa. Also, City Council meeting minutes have not been signed by the City Clerk or the Mayor since June 15, 2015, as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days, as required. In addition, the City should publish a summary or receipts as required by the Code of Iowa and the Attorney General’s opinion. Also, the City should ensure City Council meeting minutes are signed as required.

Response – Although difficult at times (newspaper publication once per week), staff tries to meet the publication requirement. In the future, receipts will also be published. Minutes are now being signed by Mayor and Clerk.

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/Notes – No instances of non-compliance with the revenue bond/note resolutions were noted.
- (9) Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1.

City of Knoxville

Schedule of Findings

Year ended June 30, 2016

The following exceptions were noted:

The amount reported by the City as TIF debt outstanding was overstated by partially due to reporting the balance at June 30, 2015 rather than June 30, 2014.

Recommendation – The City should ensure debt amounts reported on the Levy Authority Summary agree with the City’s records.

Response – Staff was not aware of the error. They will review for accuracy in the future.

Conclusion – Response accepted.

- (10) Notice of Public Hearing for Public Improvements – The City did not publish a notice of bidding or public hearing for the 2016 Sidewalk project or 2016 Paving project as required by Chapters 26.3 and 26.12 of the Code of Iowa.

Recommendation – Before entering into a contract for a public improvement with an estimated cost in excess of the competitive bid threshold of \$50,000, the City Council should hold a public hearing and give notice at least four but not more than twenty days prior to the hearing. In addition, the City should publish notice to bidders at least four and not more than forty-five days before the date for filing the bids.

Response – All notices will be published in the future.

Conclusion – Response accepted.

- (11) Financial Condition – the City had deficit balances at June 30, 2016 as follows:

- Special Revenue, K-9 Unit Program (\$8,045)
- Enterprise, Airport (\$396,456)

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The K-9 program deficit will be resolved in fiscal year 2017. The airport deficit is a result of timing of grants. The City is working on minimizing the deficit with annual budgeted transfers.

Conclusion – Response accepted.

- (12) Unclaimed Property – Chapters 556.8 and 556.11 of the Code of Iowa require each City to report and remit obligations, including checks, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State as required.

Response – Staff will look into the Great Iowa Treasure Hunt and remit outstanding checks as needed.

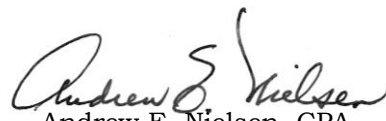
Conclusion – Response accepted.

City of Knoxville

Staff

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