



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 17, 2010

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

The City's receipts totaled \$11,429,254 for the year ended June 30, 2010, a 17.6 percent decrease from the prior year. The receipts included \$2,880,773 in property tax, \$535,285 from tax increment financing, \$3,160,399 from charges for service, \$1,151,318 from operating grants, contributions and restricted interest, \$452,000 from capital grants, contributions and restricted interest, \$674,822 from local option sales tax, \$29,489 from unrestricted interest on investments, \$2,436,140 from sewer revenue bond proceeds and \$189,028 from other general receipts. The significant decrease in receipts is primarily due to less sewer revenue bond proceeds received during fiscal year 2010.

Disbursements for the year totaled \$13,974,819, a 38.1 percent increase over the prior year, and included \$1,974,144 for debt service, \$1,564,436 for public safety and \$1,334,631 for capital projects. Also, disbursements for business type activities totaled \$6,419,156. The significant increase in disbursements is due primarily to the refunding of a prior year sewer revenue bond.

A copy of the audit report is available for review at the City of Knoxville's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1020-0597-B00F.pdf>.

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CITY OF KNOXVILLE

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

JUNE 30, 2010

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	19
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	20
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	21
Notes to Financial Statements		22-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		36-37
Notes to Required Supplementary Information – Budgetary Reporting		38
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	40-41
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Internal Service Funds	2	43
Schedule of Indebtedness	3	44-45
Bond and Note Maturities	4	46-47
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	48-49
Schedule of Expenditures of Federal Awards	6	50
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 <u>Government Auditing Standards</u>		51-52
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		55-56
Schedule of Findings and Questioned Costs		57-66
Staff		67

City of Knoxville

Officials

(Before January 2010)

Harvey Sprafka	Mayor	Jan 2010
Bob Wims	Mayor Pro tem	Jan 2012
Lori Beary (Appointed)	Council Member	Nov 2009
Debra McClung (Appointed)	Council Member	Nov 2009
Elsie Kemp	Council Member	Jan 2010
Dave Roozeboom	Council Member	Jan 2010
Dick Schrad	City Manager	Indefinite
Jody J. Meyer	City Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite

(After January 2010)

Donald Zoutte, Sr.	Mayor	Jan 2012
Bob Wims	Mayor Pro tem	Jan 2012
Carolyn Formanek	Council Member	Jan 2012
April Verwers	Council Member	Jan 2012
Elsie Kemp	Council Member	Jan 2014
Dave Roozeboom	Council Member	Jan 2014
Dick Schrad	City Manager	Indefinite
Jody J. Meyer	City Clerk	Resigned Feb 2010
Heather Ussery (Appointed)	Interim City Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite

City of Knoxville



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Knoxville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

The financial statements referred to above include only the primary government of the City of Knoxville, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Knoxville as of June 30, 2010, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Knoxville as of June 30, 2010, and the respective changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2010 on our consideration of the City of Knoxville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Knoxville's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the seven years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organization, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 1, 2010

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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 3.4%, or approximately \$214,000, from fiscal year 2009 to fiscal year 2010. Capital grants, contributions and restricted interest increased approximately \$153,000 and operating grants, contributions and restricted interest decreased approximately \$118,000. Property and other city tax increased approximately \$161,000 and local option sales tax decreased approximately \$54,000.
- Disbursements for governmental activities increased 10.1%, or approximately \$691,000, in fiscal year 2010 from fiscal year 2009. Capital projects and public safety function disbursements increased approximately \$658,000 and \$103,000, respectively, while community and economic development function disbursements decreased approximately \$398,000.
- Receipts of the City's business type activities decreased 34.8 %, or approximately \$2,651,000, primarily due to the \$2,879,285 decrease in sewer revenue bond proceeds received during fiscal year 2010 compared to fiscal year 2009. Charges for service increased approximately \$458,000, while operating grants, contributions and restricted interest and capital grants, contributions and restricted interest decreased approximately \$74,000 and \$93,000, respectively.
- Disbursements for business type activities increased 97.3%, or approximately \$3,166,000, due to the refunding of a prior year sewer revenue bond.
- The City's total cash basis net assets decreased 28%, or approximately \$2,546,000, from June 30, 2009 to June 30, 2010. Of this amount, the net assets of the governmental activities decreased approximately \$841,000 and the net assets of the business type activities decreased approximately \$1,705,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

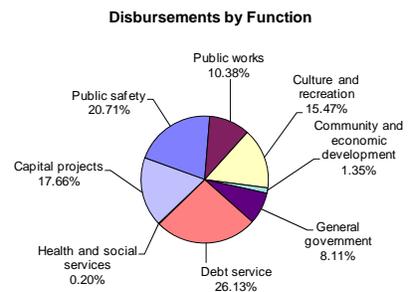
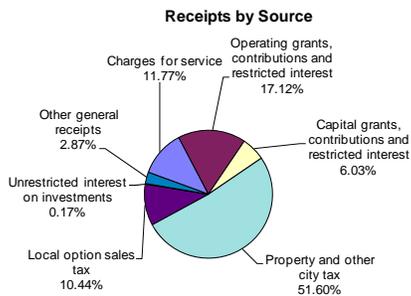
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$3.3 million to approximately \$2.4 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year Ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 761,130	757,395
Operating grants, contributions and restricted interest	1,106,804	1,225,039
Capital grants, contributions and restricted interest	389,774	237,126
General receipts:		
Property and other city tax	3,336,058	3,175,401
Local option sales tax	674,822	728,713
Unrestricted interest on investments	10,899	36,749
Other general receipts	185,343	90,806
Total receipts	6,464,830	6,251,229
Disbursements:		
Public safety	1,564,436	1,461,699
Public works	783,903	846,135
Health and social services	15,151	12,869
Culture and recreation	1,168,516	1,081,081
Community and economic development	102,266	500,686
General government	612,616	525,216
Debt service	1,974,144	1,760,500
Capital projects	1,334,631	676,191
Total disbursements	7,555,663	6,864,377
Deficiency of receipts under disbursements	(1,090,833)	(613,148)
Transfers, net	250,078	712,865
Increase (decrease) in cash basis net assets	(840,755)	99,717
Cash basis net assets beginning of year	3,265,581	3,165,864
Cash basis net assets end of year	\$ 2,424,826	3,265,581



The City's total receipts for governmental activities increased 3.4%, or approximately \$214,000. The total cost of all programs and services increased approximately \$691,000, or 10.1%, with no new programs added this year. The change in receipts is mostly attributable to an increase in capital grants, contributions and restricted interest of approximately \$153,000. The City increased property tax rates for fiscal year 2010 by .95%. The major change in disbursements was an increase in capital projects of \$658,440 due to street improvement projects.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 2,399,269	1,941,228
Operating grants, contributions and restricted interest	44,514	118,586
Capital grants, contributions and restricted interest	62,226	155,422
General receipts:		
Unrestricted interest on investments	18,590	40,911
Sewer revenue bond proceeds	2,436,140	5,315,425
Other general receipts	3,685	44,132
Total receipts	<u>4,964,424</u>	<u>7,615,704</u>
Disbursements:		
Sewer	6,306,447	2,939,460
Airport	112,709	314,026
Total disbursements	<u>6,419,156</u>	<u>3,253,486</u>
Excess (deficiency) of receipts over (under) disbursements	(1,454,732)	4,362,218
Transfers, net	<u>(250,078)</u>	<u>(712,865)</u>
Increase (decrease) in cash basis net assets	(1,704,810)	3,649,353
Cash basis net assets beginning of year	<u>5,823,725</u>	<u>2,174,372</u>
Cash basis net assets end of year	<u>\$ 4,118,915</u>	<u>5,823,725</u>

The total business type activities cash balance decreased \$1,704,810 from the prior year to a year end balance of \$4,118,915. The decrease in the cash balance was due primarily to the refunding of \$1.68 million of sewer revenue bonds from a sewer revenue refunding bond issuance during the fiscal year. Disbursements also increased due to sewer construction projects.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$2,304,479, a decrease of approximately \$839,000 from last year's total of \$3,143,718. 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 \$29,104 from the prior year to a year-end balance of \$302,970. Miscellaneous receipts increased approximately \$130,000 due to a greater amount of contributions received from the sale of a fire department vehicle and donations received for streetscape projects. Also, disbursements decreased approximately \$446,000, primarily due to less community and economic development function disbursements related to a CEBA award from the Iowa Department of Economic Development in the prior year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$56,769 to a year-end balance of \$180,179, due primarily to increased road use tax receipts received from the Iowa Department of Transportation.

- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance increased \$85,891 to a year-end balance of \$847,323. The increase is due to no transfers being made to the Internal Service Fund for equipment replacement during fiscal year 2010.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$755,489 to a year-end balance of \$257,753. Tax increment financing receipts decreased approximately \$50,000 while disbursements increased \$856,809 due to the payment to Wal-Mart for the final cost on the project in the Wal-Mart tax increment financing urban renewal area.
- The Debt Service Fund cash balance increased \$147,701 to a year-end balance of \$374,608. Property tax increased \$22,735 over the prior year.
- The Capital Projects Fund cash balance decreased \$415,822 to a year-end deficit balance of \$296,364. Disbursements increased \$515,198 due to construction costs during the fiscal year for the Robinson street project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased \$1,697,489 to a year-end balance of \$3,688,799. Disbursements increased \$3,440,938, primarily due to constructing improvements and extensions to the municipal sanitary sewer system and refunding debt. In addition, receipts decreased \$2,537,203 due to less sewer revenue bond proceeds received during the year. The current year proceeds were from the sewer revenue refunding bond issue and sewer revenue bonds from the State Revolving Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget.

The City's receipts were \$4,823,822 less than budgeted. This was primarily due to the City anticipating receiving more charges for service receipts for the Sewer Fund due to increased sewer rates. The City also budgeted for the receipt of the State Revolving Funds as charges for service when it is actually reported as other financing sources.

Total disbursements were \$1,923,763 less than budgeted. However, the City exceeded the budget for the public safety, health and social services, general government and debt service functions for the year ended June 30, 2010. Actual disbursements were \$1,751,157 less than budgeted for the capital projects function as the progress on these projects is hard to estimate due to weather conditions or other outside factors beyond the control of the City or the contractors.

DEBT ADMINISTRATION

At June 30, 2010, the City had approximately \$11,072,000 in bonds and other long-term debt outstanding, compared to approximately \$ 12,131,000 last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
General obligation bonds	\$ 1,595,000	1,725,000
General obligation capital loan notes	2,210,000	2,775,000
Sewer revenue bonds	7,232,560	7,580,000
Capital lease purchase agreement	34,864	51,085
Total	\$ 11,072,424	12,131,085

Debt changed as a result the issuance of \$1,705,000 of sewer revenue bonds issued to refund \$1,680,000 of sewer revenue bonds issued March 1, 2002 and other principal payments of \$1,111,221.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,939,891 (including \$100,027 of development and rebate agreements) is below its constitutional debt limit of approximately \$16 million. However, the City also had \$2,052,124 of annual appropriation development and rebate agreements which are not subject to the constitutional debt limitation. Additional information about the City's long-term debt is presented in Notes 3, 4 and 16 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities. The City's fiscal year 2011 assessed value has increased approximately \$4.5 million from the fiscal year 2010 level, an increase of 2.7%. The City's General Fund receipts from property tax will increase slightly from the fiscal year 2010 level. As a result, there are new positions or services in the upcoming budget to replace current vacant positions.

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

Budgeted receipts are expected to be approximately \$811,000 greater than actual receipts and debt proceeds and total budgeted disbursements are expected to be similar to total actual fiscal year 2010 amounts.

The fiscal year 2011 levy is \$15.17334 per \$1,000 of taxable valuation, or an increase of \$0.13 per \$1,000 of taxable valuation over that of fiscal year 2010. The City has reached its General Fund levy limit of \$8.10 per \$1,000 of taxable valuation and its Emergency Fund levy limit of \$0.27 per \$1,000 of taxable valuation. Special Revenue Fund levies have long been in place to support employee benefit costs.

These parameters were taken into account when adopting the budget for fiscal year 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dick Schrad, City Manager, 305 S. Third Street, Knoxville, IA 50138.

Basic Financial Statements

City of Knoxville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,564,436	398,879	259,030	-
Public works	783,903	1,360	710,743	33,767
Health and social services	15,151	12,618	23,952	-
Culture and recreation	1,168,516	289,775	46,557	-
Community and economic development	102,266	10,618	44,881	27,720
General government	612,616	47,880	21,641	-
Debt service	1,974,144	-	-	-
Capital projects	1,334,631	-	-	328,287
Total governmental activities	7,555,663	761,130	1,106,804	389,774
Business type activities:				
Sewer	6,306,447	2,354,633	44,514	-
Airport	112,709	44,636	-	62,226
Total business type activities	6,419,156	2,399,269	44,514	62,226
Total	\$ 13,974,819	3,160,399	1,151,318	452,000
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Sewer revenue refunding bond proceeds (including premium of \$8,511)				
Sewer revenue bond proceeds (net of \$27,560 initiation fee)				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Permanent funds				
Expendable:				
Streets				
Local option sales tax				
Urban renewal tax increment				
Debt service				
Capital projects				
Customer deposits				
Senior Citizen Center				
Cemetery care				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(906,527)	-	(906,527)
(38,033)	-	(38,033)
21,419	-	21,419
(832,184)	-	(832,184)
(19,047)	-	(19,047)
(543,095)	-	(543,095)
(1,974,144)	-	(1,974,144)
(1,006,344)	-	(1,006,344)
(5,297,955)	-	(5,297,955)
-	(3,907,300)	(3,907,300)
-	(5,847)	(5,847)
-	(3,913,147)	(3,913,147)
(5,297,955)	(3,913,147)	(9,211,102)
2,229,437	-	2,229,437
571,336	-	571,336
535,285	-	535,285
674,822	-	674,822
10,899	18,590	29,489
-	1,713,511	1,713,511
-	722,629	722,629
185,343	3,685	189,028
250,078	(250,078)	-
4,457,200	2,208,337	6,665,537
(840,755)	(1,704,810)	(2,545,565)
3,265,581	5,823,725	9,089,306
\$ 2,424,826	4,118,915	6,543,741
\$ 218,435		218,435
180,179	-	180,179
847,323	-	847,323
257,753	-	257,753
374,608	1,571,579	1,946,187
-	1,120,803	1,120,803
-	36,392	36,392
173,892	-	173,892
17,153	-	17,153
443,511	-	443,511
(88,028)	1,390,141	1,302,113
\$ 2,424,826	4,118,915	6,543,741

City of Knoxville

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

As of and for the year ended June 30, 2010

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 1,487,505	-	-	-
Tax increment financing	-	-	-	535,285
Other city tax	154,768	-	674,822	-
Licenses and permits	15,678	-	-	-
Use of money and property	61,406	-	-	10,157
Intergovernmental	84,655	710,349	-	-
Charges for service	639,917	-	-	-
Special assessments	10,874	-	-	-
Miscellaneous	280,111	394	-	-
Total receipts	2,734,914	710,743	674,822	545,442
Disbursements:				
Operating:				
Public safety	1,218,775	-	-	-
Public works	47,317	653,974	-	-
Health and social services	15,151	-	-	-
Culture and recreation	963,065	-	-	-
Community and economic development	79,514	-	-	-
General government	429,594	-	-	-
Debt service	-	-	-	1,109,205
Capital projects	-	-	588,931	-
Total disbursements	2,753,416	653,974	588,931	1,109,205
Excess (deficiency) of receipts over (under) disbursements	(18,502)	56,769	85,891	(563,763)
Other financing sources (uses):				
Operating transfers in	47,606	-	-	-
Operating transfers out	-	-	-	(191,726)
Total other financing sources (uses)	47,606	-	-	(191,726)
Net change in cash balances	29,104	56,769	85,891	(755,489)
Cash balances beginning of year	273,866	123,410	761,432	1,013,242
Cash balances end of year	\$ 302,970	180,179	847,323	257,753
Cash Basis Fund Balances				
Reserved for:				
Senior Citizen Center	\$ 173,892	-	-	-
Debt service	-	-	-	-
Permanent funds	-	-	-	-
Unreserved:				
General fund	129,078	-	-	-
Special revenue funds	-	180,179	847,323	257,753
Capital projects fund	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 302,970	180,179	847,323	257,753

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
554,771	-	569,087	2,611,363
-	-	-	535,285
16,565	-	18,077	864,232
-	-	-	15,678
-	83	5,699	77,345
-	308,021	33,767	1,136,792
-	-	-	639,917
-	-	-	10,874
-	21,774	77,775	380,054
571,336	329,878	704,405	6,271,540
-	-	287,511	1,506,286
-	-	82,612	783,903
-	-	-	15,151
-	-	178,028	1,141,093
-	-	22,752	102,266
-	-	73,789	503,383
864,939	-	-	1,974,144
-	745,700	-	1,334,631
864,939	745,700	644,692	7,360,857
(293,603)	(415,822)	59,713	(1,089,317)
441,304	-	130,728	619,638
-	-	(177,834)	(369,560)
441,304	-	(47,106)	250,078
147,701	(415,822)	12,607	(839,239)
226,907	119,458	625,403	3,143,718
374,608	(296,364)	638,010	2,304,479
-	-	-	173,892
374,608	-	-	374,608
-	-	218,435	218,435
-	-	-	129,078
-	-	402,422	1,687,677
-	(296,364)	-	(296,364)
-	-	17,153	17,153
374,608	(296,364)	638,010	2,304,479

City of Knoxville

City of Knoxville

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

As of and for the year ended June 30, 2010

Total governmental funds cash balances (page 17) \$ 2,304,479

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

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

120,347

Cash basis net assets of governmental activities (page 15) \$ 2,424,826

Net change in cash balances (page 17) \$ (839,239)

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

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

(1,516)

Change in cash basis net assets of governmental activities (page 15) \$ (840,755)

See notes to financial statements.

Exhibit D

City of Knoxville

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

As of and for the year ended June 30, 2010

	Enterprise			Internal Service
	Sewer	Nonmajor Airport	Total	
Operating receipts:				
Charges for service	\$ 2,355,081	44,636	2,399,717	183,752
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	58,150
Culture and recreation	-	-	-	27,423
General government	-	-	-	109,233
Business type activities	822,702	112,709	935,411	1,000
Total operating disbursements	822,702	112,709	935,411	195,806
Excess (deficiency) of operating receipts over (under) operating disbursements	1,532,379	(68,073)	1,464,306	(12,054)
Non-operating receipts (disbursements):				
Intergovernmental	39,180	62,226	101,406	-
Interest on investments	18,590	-	18,590	9,538
Miscellaneous	8,545	26	8,571	-
Capital projects	(3,013,794)	-	(3,013,794)	-
Debt service	(2,468,951)	-	(2,468,951)	-
Revenue bond proceeds (including premium of \$8,511)	1,713,511	-	1,713,511	-
Revenue bond proceeds (net of \$27,650 initiation fee)	722,629	-	722,629	-
Total non-operating receipts (disbursements)	(2,980,290)	62,252	(2,918,038)	9,538
Deficiency of receipts under disbursements	(1,447,911)	(5,821)	(1,453,732)	(2,516)
Operating transfers out	(249,578)	(500)	(250,078)	-
Net change in cash balances	(1,697,489)	(6,321)	(1,703,810)	(2,516)
Cash balances beginning of year	5,386,288	(164,797)	5,221,491	724,097
Cash balances end of year	\$ 3,688,799	(171,118)	3,517,681	721,581
Cash Basis Fund Balances				
Reserved for:				
Debt service	\$ 1,571,579	-	1,571,579	-
Sewer project construction	1,120,803	-	1,120,803	-
Customer deposits	36,392	-	36,392	-
Unreserved	960,025	(171,118)	788,907	721,581
Total cash basis fund balances	\$ 3,688,799	(171,118)	3,517,681	721,581

See notes to financial statements.

City of Knoxville

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

As of and for the year ended June 30, 2010

Total enterprise funds cash balances (page 20) \$ 3,517,681

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

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

601,234

Cash basis net assets of business type activities (page 15) \$ 4,118,915

Net change in cash balances (page 20) \$ (1,703,810)

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

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

(1,000)

Change in cash basis net assets of business type activities (page 15) \$ (1,704,810)

See notes to financial statements.

City of Knoxville

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Knoxville is a political subdivision of the State of Iowa located in Marion County. It was first incorporated in 1853 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

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

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

Excluded Component Units

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

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

Jointly Governed Organizations

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

Related Organization

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

B. Basis of Presentation

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

The City reports the following major proprietary fund:

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

The City also reports the following proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, health and social services, general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,157,820 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		Capital Loan Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 130,000	61,485	460,000	83,196	420,000	302,794	1,010,000	447,475
2012	135,000	57,260	475,000	67,115	440,000	281,720	1,050,000	406,095
2013	145,000	52,670	215,000	50,040	450,000	268,385	810,000	371,095
2014	150,000	47,595	225,000	41,898	445,000	254,585	820,000	344,078
2015	155,000	42,045	235,000	33,250	460,000	240,073	850,000	315,368
2016 - 2020	880,000	113,295	600,000	61,675	1,820,000	958,837	3,300,000	1,133,807
2021 - 2025	-	-	-	-	1,805,000	592,488	1,805,000	592,488
2026 - 2028	-	-	-	-	1,365,000	134,160	1,365,000	134,160
Total	\$ 1,595,000	374,350	2,210,000	337,174	7,205,000	3,033,042	11,010,000	3,744,566

Refunding Bonds

On March 18, 2010, the City issued \$1,705,000 of sewer revenue refunding bonds, with interest rates ranging from 2.00% to 3.00% per annum, for a current refunding of the sewer revenue bonds issued March 1, 2002.

Sewer Revenue Bonds

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

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$10,826,000 of sewer revenue bonds issued in November 2003, December 2008, February 2010 and March 2010. Proceeds from the bonds provided financing for the construction of improvements to the municipal sanitary sewer system of the City and refunded the City's outstanding Series 2002 sewer revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2028. Annual principal and interest payments on the bonds are expected to require less than 49 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$10,238,042. The revenue bonds issued in February 2010 are not included since a repayment schedule has not been adopted. For the current year, principal and interest paid and total customer net receipts were \$743,963 and \$1,532,379, respectively.

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

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

Forgivable Loan

On February 16, 2010, the City entered into a forgivable loan agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, Iowa N.A. for the issuance of \$1,170,000 of sewer revenue bonds. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Reinvestment Act of 2009 for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal sanitary sewer system of the City. If the requirements of ARRA, including but not limited to satisfaction of applicable timing requirements, are not met and the loan is not forgiven, the City will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2010, the City had drawn down \$722,629 of the authorized amount. Since the loan is considered forgivable, it is not included on the Schedule of Indebtedness.

(4) Capital Lease Purchase Agreement

The City entered into a capital lease purchase agreement to lease a rescue vehicle. The following is a schedule of the future minimum lease payments, including interest at 4.8% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2010:

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Amount</u>
2011	\$ 18,724
2012	<u>18,723</u>
Total minimum lease payments	37,447
Less amount representing interest	<u>(2,583)</u>
Present value of net minimum lease payments	<u>\$ 34,864</u>

Payments under the capital lease purchase agreement totaled \$18,724 during the year ended June 30, 2010.

(5) Pension and Retirement Benefits

Iowa Public Employees Retirement System

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$91,320, \$90,606 and \$73,328, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa

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

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2010, 2009 and 2008 were \$97,137, \$102,635 and \$130,647, respectively, which met the required contribution for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 48 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$470 for single coverage and \$1,245 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$285,644 and plan members eligible for benefits contributed \$36,354 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused holiday and vacation hours for subsequent use or for payment upon termination, retirement or death. City employees may also accumulate a limited amount of earned but unused sick leave hours for payment of subsequent health benefit costs upon retirement. The City also allows employees to accumulate compensatory time during the fiscal year in lieu of overtime pay. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned holiday, vacation, sick leave and compensatory time payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Holiday	\$ 22,000
Vacation	105,000
Sick leave	39,000
Compensatory time	<u>16,000</u>
Total	<u>\$ 182,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Emergency	\$ 47,106
	Enterprise:	
	Airport	500
		<u>47,606</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	191,726
	Enterprise:	
	Sewer	249,578
		<u>441,304</u>
Special Revenue:	Special Revenue:	
Police Retirement	Employee Benefits	130,728
		<u>130,728</u>
Total		<u>\$ 619,638</u>

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

(9) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2010 were \$108,719.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

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

(10) Deficit Balances

At June 30, 2010, the Special Revenue, K-9 Unit Program, Special Revenue, I-Jobs, Capital Projects and Enterprise, Airport Funds had deficit balances of \$3,095, \$37,994, \$296,364 and \$117,118, respectively. The City is reviewing alternatives to eliminate these deficits.

(11) Construction Commitments

The City has entered into construction contracts totaling \$9,259,266. As of June 30, 2010, costs of \$4,763,304 had been paid on the contracts. The remaining \$4,495,962 will be paid as work on these projects progresses.

(12) Interfund Receivable/Payable

In prior years, the General Fund loaned the Special Revenue, Urban Renewal Tax Increment Fund \$85,251 to pay principal and interest due on general obligation bonds prior to the collection of tax increment financing receipts. The loan is to be repaid, without interest, as tax increment financing receipts are collected. During the year ended June 30, 2010, no payments were made. The remaining \$68,801 will be repaid as receipts are collected.

(13) Economic Development Loan

On February 2, 2000, the City loaned \$25,000 to the Knoxville Chamber of Commerce to assist in funding a local business expansion. The interest free loan is to be repaid over five years. During the year ended June 30, 2010, no payment was received on the loan. The loan balance at June 30, 2010 was \$15,000.

(14) Community Economic Betterment Account Loans

On December 16, 2004, the City was awarded a \$200,000 Community Economic Betterment Account loan on behalf of Ultimate Truck Body from the Iowa Department of Economic Development (IDED). The loan consists of a \$50,000 conventional interest free loan and a \$150,000 forgivable loan. Repayment of the conventional loan is to be made in 48 equal monthly payments of \$1,042, with the first payment due on August 1, 2006. Payments are made directly to IDED by Ultimate Truck Body. The balance outstanding on the conventional loan at June 30, 2010 was \$1,042. At the project completion date, if the business has fulfilled at least 50% of its job creation/retention requirement, \$3,409 will be forgiven for each new job created/retained for at least ninety days past the project completion date. Any balance will be amortized over a two year period in equal monthly payments, with 6% per annum interest. All criteria have been met for the forgiveness of the forgivable loan.

On June 19, 2008, the City was awarded a \$90,000 Community Economic Betterment Account loan on behalf of Five Star Industries, Inc. from the Iowa Department of Economic Development (IDED). The loan consists of a \$45,000 conventional interest free loan and a \$45,000 forgivable loan. Repayment of the conventional loan is to be made in 60 equal monthly payments of \$750, with the first payment due on June 1, 2009. Payments are made directly to IDED by Five Star Industries, Inc. The balance outstanding on the conventional loan at June 30, 2010 was \$35,250. At the project completion date, if the business has fulfilled at least 50% of its job creation/retention requirement, a pro rata percentage will be forgiven for each new FTE job created/retained at the time the repayment amount is calculated. Any balance will be amortized over a two year period in equal monthly payments, with 6% per annum interest.

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

Additionally, the Chamber of Commerce and Verista entered into an agreement under which the City loaned Verista \$100,800. This was funded through the City's revolving loan fund, which is a partnership between the City and the Chamber of Commerce. Repayment of the interest free loan is to be made in 36 equal monthly installments of \$2,800, with the first payment made on July 1, 2008. After Verista filed for bankruptcy on February 25, 2010, the Chamber of Commerce entered into a settlement agreement with Verista under which the remaining balance as of

June 30, 2009 of \$92,400 was to be repaid in ten monthly payments of \$9,240. The outstanding balance of this loan at June 30, 2010 was \$64,680. During the year, \$27,720 was paid on the loan.

(15) Iowa Department of Economic Development

On April 1, 2009, the City entered into a contract with the Iowa Department of Economic Development (IDED) for the Neighborhood Stabilization Program. The award amount of \$973,903 is for the purposes of benefiting low, moderate and middle income individuals for the redevelopment of abandoned and foreclosed homes and residential properties and the stabilization and revitalization of neighborhoods. As of June 30, 2010, the City has expended \$78,139 for the above purposes, but has not received any funds from the award.

(16) Development and Rebate Agreements

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

During the year ended June 30, 2010, the City rebated \$284,243 of incremental property tax to the developers, consisting of \$173,569 for principal and \$110,674 for interest. The outstanding principal balance on these agreements at June 30, 2010 is \$2,152,151, which includes \$2,052,124 subject to annual appropriation.

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

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

(17) Employee Health Insurance Plan

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

Payments to the Internal Service, Self Insurance Fund were recorded as disbursements by the operating funds. Payments to Group Services, Inc. for service fees and medical claims for the year ended June 30, 2010 were \$109,233.

(18) Subsequent Event

In August 2010, the City issued \$3,640,000 of general obligation corporate purpose and refunding bonds for the purpose of paying the costs of planning, designing and constructing street improvements, sidewalk improvements, sanitary sewer improvements, storm sewer improvements, water system improvements, infrastructure and receiving vault improvements. Additionally, the bonds were issued to refund \$520,000 of the City's outstanding general obligation refunding notes, Series 2005B, originally issued May 1, 2005, and \$460,000 of the general obligation capital loan notes, Series 2005C, originally issued May 1, 2005.

City of Knoxville

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted
Receipts:			
Property tax	\$ 2,611,363	-	-
Tax increment financing	535,285	-	-
Other city tax	864,232	-	-
Licenses and permits	15,678	-	-
Use of money and property	77,345	28,128	9,538
Intergovernmental	1,136,792	101,406	-
Charges for service	639,917	2,583,469	183,752
Special assessments	10,874	-	-
Miscellaneous	380,054	8,571	-
Total receipts	6,271,540	2,721,574	193,290
Disbursements:			
Public safety	1,506,286	58,150	58,150
Public works	783,903	-	-
Health and social services	15,151	-	-
Culture and recreation	1,141,093	27,423	27,423
Community and economic development	102,266	-	-
General government	503,383	109,233	109,233
Debt service	1,974,144	-	-
Capital projects	1,334,631	-	-
Business type activities	-	6,419,156	1,000
Total disbursements	7,360,857	6,613,962	195,806
Deficiency of receipts under disbursements	(1,089,317)	(3,892,388)	(2,516)
Other financing sources, net	250,078	2,186,062	-
Deficiency of receipts and other financing sources under disbursements and other financing uses	(839,239)	(1,706,326)	(2,516)
Balances beginning of year	3,143,718	5,945,588	724,097
Balances end of year	\$ 2,304,479	4,239,262	721,581

See accompanying independent auditor's report.

Total	<u>Budgeted Amounts</u> Original and Final	Final to Total Variance
2,611,363	2,612,666	(1,303)
535,285	424,000	111,285
864,232	898,555	(34,323)
15,678	43,500	(27,822)
95,935	190,054	(94,119)
1,238,198	2,232,019	(993,821)
3,039,634	6,726,998	(3,687,364)
10,874	500	10,374
388,625	495,354	(106,729)
<u>8,799,824</u>	<u>13,623,646</u>	<u>(4,823,822)</u>
1,506,286	1,401,889	(104,397)
783,903	943,279	159,376
15,151	-	(15,151)
1,141,093	1,224,657	83,564
102,266	241,649	139,383
503,383	424,485	(78,898)
1,974,144	1,609,761	(364,383)
1,334,631	3,085,788	1,751,157
6,418,156	6,771,268	353,112
<u>13,779,013</u>	<u>15,702,776</u>	<u>1,923,763</u>
(4,979,189)	(2,079,130)	(2,900,059)
2,436,140	-	2,436,140
(2,543,049)	(2,079,130)	(463,919)
8,365,209	8,601,693	(236,484)
<u>5,822,160</u>	<u>6,522,563</u>	<u>(700,403)</u>

City of Knoxville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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

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

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

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, health and social services, general government and debt service functions.

Other Supplementary Information

City of Knoxville

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

As of and for the year ended June 30, 2010

	Special Revenue						
	Employee Benefits -		Police Retirement	Emergency	Urban Revitalization	Revolving Loan	Self-Supported Municipal Improvement District
	Health						
Receipts:							
Property tax	\$ 407,830	98,792	45,645	-	-	16,820	
Other city tax	13,352	3,234	1,491	-	-	-	
Use of money and property	497	503	-	-	-	-	
Intergovernmental	-	-	-	-	-	-	
Miscellaneous	-	-	-	-	27,720	-	
Total receipts	421,679	102,529	47,136	-	27,720	16,820	
Disbursements:							
Operating:							
Public safety	165,534	97,140	-	-	-	-	
Public works	10,851	-	-	-	-	-	
Culture and recreation	132,083	-	-	-	-	-	
Community and economic development	-	-	-	-	-	22,752	
General government	73,789	-	-	-	-	-	
Total disbursements	382,257	97,140	-	-	-	22,752	
Excess (deficiency) of receipts over (under) disbursements	39,422	5,389	47,136	-	27,720	(5,932)	
Other financing sources (uses):							
Operating transfers in	-	130,728	-	-	-	-	
Operating transfers out	(130,728)	-	(47,106)	-	-	-	
Total other financing sources (uses)	(130,728)	130,728	(47,106)	-	-	-	
Net change in cash balances	(91,306)	136,117	30	-	27,720	(5,932)	
Cash balances beginning of year	133,966	58,557	-	3,906	24,956	5,932	
Cash balances end of year	\$ 42,660	194,674	30	3,906	52,676	-	
Cash Basis Fund Balances							
Reserved for permanent funds	\$ -	-	-	-	-	-	
Unreserved:							
Special revenue funds	42,660	194,674	30	3,906	52,676	-	
Permanent funds	-	-	-	-	-	-	
Total cash basis fund balances	\$ 42,660	194,674	30	3,906	52,676	-	

See accompanying independent auditor's report.

								Permanent		
Police Department Trust	Rescue Donations	Library Gifts/Memorials	Recreation Donations	Auld Park Playground Trust	K-9 Unit Program	I-Jobs	Cemetery Perpetual Care	Reaver Trust	Total	
-	-	-	-	-	-	-	-	-	569,087	
-	-	-	-	-	-	-	-	-	18,077	
236	264	525	-	164	-	-	3,510	-	5,699	
-	-	-	-	-	-	33,767	-	-	33,767	
18,025	16,985	8,196	-	-	1,000	-	5,849	-	77,775	
18,261	17,249	8,721	-	164	1,000	33,767	9,359	-	704,405	
14,287	7,950	-	-	-	2,600	-	-	-	287,511	
-	-	-	-	-	-	71,761	-	-	82,612	
-	-	45,945	-	-	-	-	-	-	178,028	
-	-	-	-	-	-	-	-	-	22,752	
-	-	-	-	-	-	-	-	-	73,789	
14,287	7,950	45,945	-	-	2,600	71,761	-	-	644,692	
3,974	9,299	(37,224)	-	164	(1,600)	(37,994)	9,359	-	59,713	
-	-	-	-	-	-	-	-	-	130,728	
-	-	-	-	-	-	-	-	-	(177,834)	
-	-	-	-	-	-	-	-	-	(47,106)	
3,974	9,299	(37,224)	-	164	(1,600)	(37,994)	9,359	-	12,607	
32,311	31,974	68,957	4,832	35,278	(1,495)	-	225,729	500	625,403	
36,285	41,273	31,733	4,832	35,442	(3,095)	(37,994)	235,088	500	638,010	
-	-	-	-	-	-	-	217,935	500	218,435	
36,285	41,273	31,733	4,832	35,442	(3,095)	(37,994)	-	-	402,422	
-	-	-	-	-	-	-	17,153	-	17,153	
36,285	41,273	31,733	4,832	35,442	(3,095)	(37,994)	-	235,088	500	638,010

City of Knoxville

City of Knoxville

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

As of and for the year ended June 30, 2010

	Equipment Replacement	Building Replacement	Self Insurance	Total
Operating receipts:				
Charges for service	\$ -	-	183,752	183,752
Operating disbursements:				
Governmental activities:				
Public safety	58,150	-	-	58,150
Culture and recreation	27,423	-	-	27,423
General government	-	-	109,233	109,233
Business type activities:				
Sewer	1,000	-	-	1,000
Total operating disbursements	86,573	-	109,233	195,806
Excess (deficiency) of operating receipts over (under) operating disbursements	(86,573)	-	74,519	(12,054)
Non-operating receipts:				
Interest on investments	6,746	32	2,760	9,538
Net change in cash balances	(79,827)	32	77,279	(2,516)
Cash balances beginning of year	584,615	30,106	109,376	724,097
Cash balances end of year	\$ 504,788	30,138	186,655	721,581
Cash Basis Fund Balances				
Unreserved	\$ 504,788	30,138	186,655	721,581

See accompanying independent auditor's report.

City of Knoxville
Schedule of Indebtedness
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential corporate purpose	Jan 15, 2005	2.25 - 4.30%	\$ 2,200,000
General obligation capital loan notes:			
General corporate purpose	May 1, 2005	2.70 - 3.90%	\$ 700,000
General obligation refunding	May 1, 2005	3.10 - 3.50	1,525,000
General obligation refunding	Sep 19, 2007	3.70 - 4.05	1,765,000
Total			
Revenue bonds:			
Sewer	Mar 1, 2002	3.875 - 4.70%	\$ 3,000,000
Sewer refunding	Nov 17, 2003	1.50 - 4.00	995,000
Sewer	Dec 10, 2008	4.50 - 4.85	5,370,000
Sewer	Feb 16, 2010 *	3.00	2,756,000
Sewer refunding	Mar 18, 2010	2.00-3.00	1,705,000
Total			
Capital lease purchase agreement:			
Rescue vehicle	Aug 24, 2004	4.80%	\$ 108,737

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 1,725,000	-	130,000	1,595,000	65,515
510,000	-	50,000	460,000	18,730
765,000	-	245,000	520,000	25,844
1,500,000	-	270,000	1,230,000	58,250
\$ 2,775,000	-	565,000	2,210,000	102,824
1,875,000	-	1,875,000	-	83,239
435,000	-	105,000	330,000	16,185
5,270,000	-	100,000	5,170,000	244,298
-	27,560	-	27,560	241
-	1,705,000	-	1,705,000	-
\$ 7,580,000	1,732,560	2,080,000	7,232,560	343,963
51,085	-	16,221	34,864	2,503

City of Knoxville
Bond and Note Maturities
June 30, 2010

Year Ending June 30,	General Obligation Bonds		General Obligation Capital				
	Essential		General		General Obligation		
	Corporate Purpose		Corporate Purpose		Refunding		
	Issued Jan 15, 2005		Issued May 1, 2005		Issued May 1, 2005		
	Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount		
2011	3.25%	\$ 130,000	3.50%	\$ 85,000	3.375%	\$ 255,000	
2012	3.40	135,000	3.60	90,000	3.500	265,000	
2013	3.50	145,000	3.70	90,000		-	
2014	3.70	150,000	3.80	95,000		-	
2015	3.80	155,000	3.90	100,000		-	
2016	3.90	160,000		-		-	
2017	4.00	170,000		-		-	
2018	4.10	175,000		-		-	
2019	4.20	185,000		-		-	
2020	4.30	190,000		-		-	
Total		<u>\$ 1,595,000</u>		<u>\$ 460,000</u>		<u>\$ 520,000</u>	

Year Ending June 30,	Revenue Bonds			
	Sewer Revenue Refunding		Issued Dec 10, 2008	
	Issued Nov 17, 2003		Issued Dec 10, 2008	
	Interest		Interest	
Rates	Amount	Rates	Amount	
2011	3.60%	\$ 105,000	4.50%	\$ 100,000
2012	3.85	110,000	4.50	100,000
2013	4.00	115,000	4.50	100,000
2014		-	4.50	200,000
2015		-	4.50	210,000
2016		-	4.50	210,000
2017		-	4.50	215,000
2018		-	4.50	275,000
2019		-	4.50	285,000
2020		-	4.50	305,000
2021		-	4.55	320,000
2022		-	4.60	340,000
2023		-	4.65	360,000
2024		-	4.70	380,000
2025		-	4.75	405,000
2026		-	4.80	430,000
2027		-	4.80	455,000
2028		-	4.85	480,000
Total		<u>\$ 330,000</u>		<u>\$ 5,170,000</u>

See accompanying independent auditor's report.

<u>Loan Notes</u>		
<u>General Obligation</u>		
<u>Refunding</u>		
<u>Issued September 19, 2007</u>		
Interest		
<u>Rates</u>	<u>Amount</u>	<u>Total</u>
3.750%	\$ 120,000	460,000
3.800	120,000	475,000
3.850	125,000	215,000
3.875	130,000	225,000
3.900	135,000	235,000
3.950	140,000	140,000
4.000	150,000	150,000
4.050	150,000	150,000
4.050	160,000	160,000
	-	-
	<u>\$ 1,230,000</u>	<u>\$ 2,210,000</u>

<u>Sewer Revenue Refunding</u>		
<u>Issued Mar 13, 2010</u>		
Interest		
<u>Rates</u>	<u>Amount</u>	<u>Total</u>
2.00%	\$ 215,000	420,000
2.00	230,000	440,000
2.00	235,000	450,000
2.25	245,000	445,000
2.75	250,000	460,000
3.00	260,000	470,000
3.00	270,000	485,000
	-	275,000
	-	285,000
	-	305,000
	-	320,000
	-	340,000
	-	360,000
	-	380,000
	-	405,000
	-	430,000
	-	455,000
	-	480,000
	<u>\$ 1,705,000</u>	<u>\$ 7,205,000</u>

City of Knoxville

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

For the Last Eight Years

	2010	2009	2008	2007
Receipts:				
Property tax	\$ 2,611,363	2,497,122	2,315,591	2,170,476
Tax increment financing	535,285	485,945	436,811	403,700
Other city tax	864,232	921,047	874,009	945,409
Licenses and permits	15,678	25,294	30,932	51,121
Use of money and property	77,345	94,747	156,478	144,598
Intergovernmental	1,136,792	1,082,430	927,964	1,067,614
Charges for service	639,917	627,050	552,542	467,204
Special assessments	10,874	5,231	3,796	-
Miscellaneous	380,054	411,077	152,616	109,627
Total	\$ 6,271,540	6,149,943	5,450,739	5,359,749
Disbursements:				
Operating:				
Public safety	\$ 1,506,286	1,403,437	1,278,799	1,140,287
Public works	783,903	766,763	711,474	667,084
Health and social services	15,151	12,869	17,776	14,846
Culture and recreation	1,141,093	1,081,081	973,213	908,901
Community and economic development	102,266	500,686	420,046	274,588
General government	503,383	498,032	329,067	433,227
Debt service	1,974,144	1,760,500	1,272,801	976,788
Capital projects	1,334,631	676,191	864,294	867,751
Total	\$ 7,360,857	6,699,559	5,867,470	5,283,472

See accompanying independent auditor's report.

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

Schedule 6

City of Knoxville

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		\$ 960
U.S. Department of Transportation:			
Airport Improvement Program	20.106		<u>62,226</u>
Total direct			<u>63,186</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	08-NSP-011	<u>78,139</u>
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	ESL-4040(606)--7S-63	37,931
ARRA-Highway Planning and Construction	20.205	ESL-4040(606)--7S-63	<u>296,950</u>
			<u>334,881</u>
Iowa Department of Public Safety:			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	PAP 09-410, Task 41	<u>7,704</u>
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
ARRA-Capitalization Grants for Drinking Water State Revolving Funds	66.468	CS0248R	<u>722,629</u>
U.S. Department of Education:			
Iowa Department of Transportation:			
ARRA – State Fiscal Stabilization Fund (SFSF)- Government Services, Recovery Act	84.397		<u>9,232</u>
Total indirect			<u>1,152,585</u>
Total			<u>\$1,215,771</u>

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

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 1, 2010. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Knoxville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10, II-C-10, II-D-10, II-E-10, II-F-10, II-I-10 and II-J-10 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-10, II-G-10 and II-H-10 to be significant deficiencies.

Compliance and Other Matters

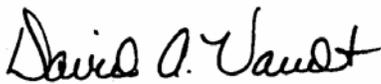
As part of obtaining reasonable assurance about whether the City of Knoxville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 1, 2010

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

City of Knoxville



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Knoxville, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2010. The City of Knoxville's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Knoxville's management. Our responsibility is to express an opinion on the City of Knoxville's compliance based on our audit.

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

In our opinion, the City of Knoxville complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program which is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part III of the accompanying Schedule of Findings and Questioned Costs as items III-B-10 and III-C-10 to be significant deficiencies.

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 1, 2010

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness and two significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - o CFDA Number 20.205 – Highway Planning and Construction and ARRA-Highway Planning and Construction.
 - o CFDA Number 66.468 – ARRA-Capitalization Grants for Drinking Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Knoxville did not qualify as a low-risk auditee.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-10 Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:

- (1) Cash – handling petty cash, reconciling and signing checks.
- (2) Investments – recording, custody and record-keeping.
- (3) Bank reconciliations – preparation and independent approval.
- (4) Receipts – opening mail, collecting receipts and recording receipts without independent reconciliation of recorded receipts to the deposit.
- (5) Disbursements – preparing disbursements, recording disbursements and reconciling.
- (6) Payroll – preparing disbursements, recording payroll, control of undistributed warrants and custody of personnel files.

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

Response – We are segregating as much as possible, but still improving.

Conclusion – Response accepted.

II-B-10 Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- A disaster recovery plan.
- Use of passwords.
- Logging off terminals.

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

Response – We will prepare a written policy on logging off terminals and password usage. Disaster recovery plan have offsite data storage. We don't have a written plan but have identified relocation and recovery options.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- II-C-10 Rescue Billings – One employee is responsible for collecting receipts, recording receipts, opening mail and maintaining the accounts receivable records. Also, write-offs of delinquent rescue billings are not approved by an independent person. In addition, an initial listing of receipts is not prepared.

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

Response – This is under review by the City.

Conclusion – Response accepted.

- II-D-10 Rescue Billings Reconciliation – The Rescue Department provides billing and collection services for the City's rescue fees. The City does not prepare a reconciliation of rescue billings, collections and delinquencies.

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

Response – This is under review by the City.

Conclusion – Response accepted.

- II-E-10 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 – This is under review by the City.

Conclusion – Response accepted.

- II-F-10 Knoxville Senior Citizens Center – One employee is responsible for collecting receipts, recording receipts, deposit preparation, opening mail and disbursements. Also, deposits are not made intact and timely. In addition, an initial listing of receipts is not prepared.

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

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

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

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

Response – The City will be requesting bank reconciliations and investment register from the Knoxville Senior Center. We will also research possible segregation of duties options with the Knoxville Senior Center.

Conclusion – Response accepted.

- II-G-10 Records of Account – The Knoxville Senior Citizens Center and the Knoxville Friends of the Library maintained checking and savings accounts separate from the City Clerk’s records. The transactions and the resulting balances were not reported to the City Council each month and the transactions were not recorded in the City Clerk’s records. Also, the Knoxville Senior Citizens Center and the Knoxville Friends of the Library were not included in the City’s budget.

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

Response – We will include the FY 10-11 budget.

Conclusion – Response accepted.

- II-H-10 Investment Register – An investment register is not maintained to include detailed information for all investments on hand and interest received on each investment. Also, the City did not account for all interest earned on investments in the financial statements.

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

Response – The City Clerk will update spreadsheets to include requested information.

Conclusion – Response accepted.

- II-I-10 Knoxville Municipal Waterworks – The Waterworks provides billing and collection services for the City’s sewer and water fees. The sewer receipts are remitted to the City. The Waterworks provides a reconciliation of billings, collection and receivable balances to the City, but the City does not review the reconciliation.

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

Response – We will set up an independent review.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

II-J-10 Financial Reporting – During the audit, we identified material amounts of receipts and disbursements which were either not properly recorded in the proper fund or were not properly classified in the City’s financial statements. Adjustments were subsequently made by the City to properly report these amounts in the financial statements. These matters were resolved for audit purposes.

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

Response – The City will try to properly record in the future.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 20.205: Highway Planning and Construction and ARRA - Highway Planning and Construction

Agency Number: ESL-4040(606)—75-63

Federal Award Year: 2010

U.S. Department of Transportation

Passed-through the Iowa Department of Transportation

CFDA Number 66.468: ARRA - Capitalization Grants for Drinking Water State Revolving Funds

Pass-through Agency Number: CS0248R

Federal Award Year: 2010

U.S. Environment Protection Agency

Passed through the Iowa Department of Natural Resources

III-A-10 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-10.

CFDA Number 66.468: ARRA - Capitalization Grants for Drinking Water State Revolving Funds

Pass-through Agency Number: CS0248R

Federal Award Year: 2010

U.S. Environment Protection Agency

Passed through the Iowa Department of Natural Resources

III-B-10 Reimbursement Request – The City entered into a forgivable loan agreement with the Iowa Finance Authority, the Department of Natural Resources and Wells Fargo Bank, Iowa N.A. The City requests reimbursement from the Iowa Finance Authority for actual costs incurred.

In one instance, the City requested reimbursement of funds prior to disbursing the funds.

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

Response and Corrective Action Plan – This was an error made by City Clerks. The City realizes the mistake and it will not happen in the future.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

III-C-10 Suspension and Debarment – OMB Circular A-133 states the City is prohibited from contracting with or making awards under covered transactions to parties who are suspended or debarred. The City has not established policies and procedures to ensure transactions are with contractors who are not suspended or debarred.

Recommendation – The City should establish and implement policies and procedures to ensure transactions are with contractors who are not suspended or debarred.

Response and Corrective Action Plan – The City will create and implement a policy on prohibiting suspended or debarred parties.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public safety, health and social services, general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City realizes an amendment should have been done. Issues within the City occurred making this difficult to complete by the deadline. We will amend the budget in the future, if applicable.

Conclusion – Response accepted.

IV-B-10 Questionable Disbursements – A disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented was noted. This disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Mastercard	Sandwiches and pizza for budget session meeting	\$80

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

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

Response – The City will write a policy directed towards this issue.

Conclusion – Response accepted.

IV-C-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-10 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-10 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.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- IV-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-H-10 Revenue Bonds – Sewer revenue bond payments were made from the Debt Service Fund rather than the Sewer Fund. This was resolved for audit purposes since the Sewer Fund has reimbursed the Debt Service Fund.

Recommendation – The City should make principal and interest payments from the sewer revenue bond sinking account rather than the Debt Service Fund.

Response – This will be done for future payments.

Conclusion – Response accepted.

- IV-I-10 Financial Condition – The Special Revenue, K-9 Unit Program, Special Revenue, I-Jobs, Capital Projects and Enterprise, Airport Funds had deficit balances of \$3,095, \$37,994, \$296,364 and \$117,118, respectively, at June 30, 2010.

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

Response – Will address in the fiscal year 2011 budget.

Conclusion – Response accepted.

- IV-J-10 Capital Projects Compliance – The City held public hearings to review an application for the 2009 Sewer Rehab Project and the 2009 South 2nd and South 3rd Street Storm Sewer Project. However, notice of the public hearings was not published not less than four nor more than 20 days before the hearings as required by Chapter 362.3 of the Code of Iowa. The notice of public hearings was published 24 days prior to the public hearings.

Also, the affidavit of publication for the notice of public hearing could not be located for the 2009 Library Demolition project. Therefore, it could not be determined whether the notice of the public hearing was not published not less than four nor more than 20 days before the hearing as required by Chapter 362.3 of the Code of Iowa.

Capital projects disbursements exceeded the contract for the 2009 Sidewalk Project. There were no change orders to increase the cost of the contract.

In addition, capital projects were completed for the 2008 Paving Contract Project and the 2008 Wastewater Treatment Plan Roof Project. However, these capital projects were not formally approved as finalized capital projects by the City Council.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation – The City should give notice at least four but not more than 20 days prior to the hearing as provided in Chapter 362.3 of the Code of Iowa. The City should also retain all affidavits of publication as supporting documentation. The City Council should ensure change orders are used for all capital projects when the contract will be exceeded and these change orders should be approved before the contract is exceeded. In addition, the City Council should approve all capital projects once the projects are finalized.

Response – It is difficult to comply with since the local paper only publishes one day a week. The City will look at alternative options of publication requirements. The City Council will also require and approve change orders prior to the contract being exceeded and will approve all capital projects once the projects are finalized.

Conclusion – Response accepted.

IV-K-10 Tax Increment Financing – The City’s tax increment financing (TIF) certification includes the Knoxville School – Westridge of \$50,635. However, the City has sufficient cash on hand to pay the TIF indebtedness outstanding and does not need additional TIF increment property tax from the County Treasurer to repay the TIF debt outstanding.

The City reduced the amount of TIF indebtedness for the Knoxville Wal-Mart TIF debt by \$108,368. However, the City still has a surplus of cash on hand.

Also, during the year, the City did not make transfers from the Special Revenue, Urban Renewal Tax Increment Fund to the Debt Service Fund for its share of debt for Westridge TIF and Wal-Mart TIF. This was resolved for audit purposes and the required transfers were made.

Recommendation – The City should complete Form 3 on the TIF Indebtedness Certification to the County Auditor to reduce the TIF indebtedness outstanding by the amount of cash on hand at June 30, 2010 in the Special Revenue, Urban Renewal Tax Increment Fund. The City should also make the transfer from the Special Revenue, Urban Renewal Tax Increment Fund to the Debt Service Fund for the debt related to TIF timely.

Response – The City will complete TIF certification form 3 to reduce outstanding indebtedness and will make the transfers from the TIF fund to the Debt Service Fund timely.

Conclusion – Response accepted.

City of Knoxville

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Tracy L. Daugherty, CPA, Senior Auditor
Daniel W. Henaman, Assistant Auditor
Gabriel M. Stafford, CPA, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State