CITY OF KNOXVILLE

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

June 30, 2012

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CITY OF KNOXVILLE

OFFICIALS

Name	Title	Term Expires
(Before January 1, 2012)		
Donald Zoutte, Sr.	Mayor	Jan 2012
Elsie Kemp	Mayor Pro-Tem	Jan 2014
Carolyn Formanek	Council Member	Jan 2012
April Verwers	Council Member	Jan 2012
Bob Wims	Council Member	Jan 2012
Dave Roozeboom	Council Member	Jan 2014
Harold Stewart	City Manager	Indefinite
Heather Ussery	City Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite
(After January 1, 2012)		
Donald Zoutte, Sr	Mayor	Jan 2014
Elsie Kemp	Mayor Pro-Tem	Jan 2014
Dave Roozeboom	Council Member	Jan 2014
April Verwers	Council Member	Jan 2016
Carolyn Formanek	Council Member	Jan 2016
Tim Pitt	Council Member	Jan 2016
Harold Stewart	City Manager	Indefinite
Heather Ussery	City Clerk	Indefinite
Jodi Bassett	Deputy Clerk/Admin. Assistant	Indefinite
Robert Stuyvesant	Attorney	Indefinite

City of Knoxville

MARTENS & COMPANY, CPA, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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West Des Moines, Iowa 50266

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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, 2012, 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 basic 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 that 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, 2012, 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 of the primary government of the City of Knoxville as of June 30, 2012, and the respective changes in the 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 26, 2012 on our consideration of the City of Knoxville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of the City of Knoxville's basic financial statements. The financial statements for the nine years ended June 30, 2011 (none of which are presented herein) were audited by other auditors who 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 7, including the schedule of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of the City of Knoxville's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 36 through 38 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Martens & Company, CPA, LLP

West Des Moines, Iowa
November 26, 2012

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 34%, or approximately $3,709,000 from fiscal year 2011 to fiscal year 2012. The City issued $1,235,000 of general obligation refunding bonds during fiscal year 2012 while $4,290,668 in bonds and notes were issued during fiscal year 2011. Capital grants, contributions and restricted interest decreased approximately $689,000, operating grants, contributions and restricted interest decreased approximately $227,500 and charges for service increased approximately $96,200. Property tax decreased approximately $13,700, while tax increment financing decreased approximately $2,600 and local option sales tax increased approximately $78,600.

- Disbursements of the City's governmental activities decreased 20%, or approximately $1,811,000 in fiscal year 2012 over fiscal year 2011. Capital projects function disbursements and payments to refunding bond agent decreased approximately $1,127,000 and $980,000, respectively, while debt service and community and economic development function disbursements increased approximately $130,600 and $163,200, respectively.

- Receipts of the City's business type activities decreased 15%, or approximately $618,100, primarily due to the approximately $216,000 decrease in sewer revenue bond proceeds received during fiscal year 2012 compared to fiscal year 2011. Capital grants, contributions and restricted interest also decreased approximately $300,400 due to near completion of the construction project at the airport.

- Disbursements for business type activities decreased 14%, or approximately $605,000, due to the winding down of capital projects.

- The City's total cash basis net assets decreased .3% or approximately $23,400, from June 30, 2011 to June 30, 2012. Of this amount, the net assets of the governmental activities increased approximately $302,300 and net assets of the business type activities decreased approximately $325,800.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as 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 Statements consist 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 financial statement by providing information about the most significant funds.

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

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

Supplementary Information provides detailed information about nonmajor governmental and Internal Service funds, capital project 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, the 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 which 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 taxes 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, Local Option Sales Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The government 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 for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the airport and the sanitary sewer operations. The Sanitary 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.

Reconciliation between the government-wide financial 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 has increased from a year ago, increasing from approximately $4.639 million to $4.941 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	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	$ 966,453	$ 870,252
Operating grants, contributions and restricted interest	780,144	1,007,676
Capital grants, contributions and restricted interest	204,611	893,639
General receipts:		
Property	2,878,156	2,891,883
Tax increment financing	318,340	320,902
Local option sales tax	769,827	691,182
Unrestricted interest on investments	7,081	12,768
General obligation refunding bond proceeds	1,235,000	3,580,668
General obligation storm sewer improvement note proceeds	-	710,000
Other general receipts	111,629	835
Total receipts	7,271,241	10,979,805
Disbursements:		
Public safety	1,597,730	1,580,509
Public works	778,778	768,145
Health and social services	-	18,477
Culture and recreation	1,137,463	1,133,839
Community and economic development	218,464	55,290
General government	533,257	544,543
Debt service	1,376,919	1,246,308
Capital projects	1,532,554	2,659,133
Payment to refunding bond agent	-	980,000
Total disbursements	7,175,165	8,986,244

Excess (deficiency) of receipts over (under) disbursements	96,076	1,993,561
Transfers, net	206,255	220,696
Increase (decrease) in cash basis net assets	302,331	2,214,257
Cash basis net assets beginning of year	4,639,083	2,424,826
Cash basis net assets end of year	$4,941,414	$4,639,083

The City's total receipts for governmental activities decreased by 34% or approximately $3,709,000. The total cost of all programs and services decreased approximately $1,811,000 or 20% with no new programs added this year. The change in receipts is primarily attributable to a decrease in general obligation refunding bond proceeds of approximately $2,345,600 and general obligation storm sewer improvement note proceeds of $710,000. The major changes in disbursements were due to a decrease in capital projects of approximately $1,127,000 due to street improvement projects, and no payment to the refunding bond agent in fiscal year 2012.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	$2,301,983	$2,358,189
Operating grants, contributions and restricted interest	-	6,000
Capital grants, contributions and restricted interest	370,453	670,895
General receipts:		
Unrestricted interest on investments	6,397	9,542
General obligation refunding note proceeds	-	36,400
Sewer revenue bond proceeds	876,032	1,091,964
Total receipts	3,554,865	4,172,990
Disbursements:		
Sewer	3,205,508	3,750,735
Airport	468,879	528,622
Total disbursements	3,674,387	4,279,357
Excess (deficiency) of receipts over (under) disbursements	(119,522)	(106,357)
Transfers, net	(206,255)	(220,696)
Decrease in cash basis net assets	(325,777)	(327,063)
Cash basis net assets beginning of year, as restated	3,791,852	4,118,915
Cash basis net assets end of year	$3,466,075	$3,791,852

The total business type activities cash balance decreased $325,777 from the prior year to a year end balance of approximately $3,466,000. The decrease in the cash balance was due primarily to continued sewer construction projects and a decrease of approximately $215,900 in sewer revenue bond proceeds.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of $4,317,119, an increase of approximately $76,300 over last year's total of $4,240,866. 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 $4,452 from the prior year to a year-end balance of $405,932. Property tax receipts increased approximately $40,700, partially due to a 2% increase in valuations. Disbursements decreased approximately $11,800.

- The Special Revenue, Road Use Tax Fund cash balance decreased $92,313 to a year-end deficit of ($584), due primarily to operating transfers

- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance decreased $3,342 to a year-end balance of $768,430. The decrease is due to decreased capital projects.

- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased $58,896 to a year-end balance of $223,282. Tax increment financing receipts decreased $5,171 and disbursements increased $78,025 due to increased debt service payments.

- The Debt Service Fund cash balance increased $1,080,128 to a year-end balance of $1,330,830. Refunding bonds of $1,235,000 were issued and debt service function disbursements increased $13,715. $1,198,798 of these funds are being held in escrow until the 2005 bonds can be recalled on June 1, 2013.

- The Capital Projects Fund cash balance decreased $857,779 to a year-end balance of $856,668. Disbursements decreased $1,056,816 due to reduced construction costs. Bond and note proceeds decreased approximately $3,300.000.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased $492,123 to a year-end balance of $3,080,311. Disbursements decreased $442,755, primarily due to reduced costs in constructing improvements and extensions to the municipal sanitary sewer system. In addition, receipts decreased $618,124 due to less sewer revenue bond proceeds received during the year and capital project reimbursements received in prior year. The current year bond proceeds were primarily from the State Revolving Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 7, 2012 and resulted in an increase in disbursements of $725,178.

The City's receipts were $381,080 less than budgeted. Other city taxes were $114,963 less than budgeted. Intergovernmental receipts were $70,636 less than budgeted.

Total disbursements were $1,673,680 less than budgeted. However, the City exceeded the budget for the public works, community and economic development, and general government functions for the year ended June 30, 2012. Actual disbursements were less than budgeted for the public safety, culture and recreation and business type activities functions by approximately $79,685, $17,815 and $687,082, respectively.

DEBT ADMINISTRATION

At June 30, 2012, the City had $15,823,000 in bonds, notes and other long-term debt outstanding, compared to $13,905,000 last year. The chart below segregates the City's debt into its component parts.

Outstanding Debt at Year-End (Expressed in Thousands)	June 30	
	2012	2011
General obligation bonds	$ 5,205	$ 4,610
General obligation capital loan notes	1,675	1,820
Sewer revenue bonds	8,943	7,457
Capital lease purchase agreement	-	17
Total	$ 15,823	$ 13,905

Debt changed as a result of the issuance of $1,235,000 of general obligation corporate purpose and refunding bonds for a refunding of the general obligation corporate purpose series 2005A bonds and additional draw downs on the sewer series 2010 A revenue bonds..

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 $7,139,226 (including $259,226 of development and rebate agreements) is below its constitutional debt limit of approximately $13 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 5.8% versus 4.9% a year ago. This compares with the State's unemployment rate of 5.1%.

The U.S. Consumer Price Index (CPI) is a measure of the change in retail prices of a fixed market grouping of consumer goods and services. The CPI-U for July 2011 was 226.889. For the 12 month period that ended in July, 2012 the CPI-U increased 3.90 percent.

The fiscal year 2013 levy is $15.89874 per $1,000 of taxable valuation, an increase of $0.10 per $1,000 of taxable valuation over that of fiscal year 2012. 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 2013.

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 Harold Stewart, 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, 2012

	Disbursements	Program Receipts: Charges for Service	Program Receipts: Operating Grants Contributions and Restricted Interest	Program Receipts: Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	$ 1,597,730	$ 500,382	$ 7,859	$ -
Public works	778,778	4,652	693,646	-
Health and social services	-	28,309	-	
Culture and recreation	1,137,463	315,207	53,058	-
Community and economic development	218,464	5,708	25,581	-
General government	533,257	112,195	-	-
Debt service	1,376,919	-	-	-
Capital projects	1,532,554	-	-	204,611
Total governmental activities	7,175,165	966,453	780,144	204,611
Business type activities:				
Sanitary sewer	3,205,508	2,232,043	-	-
Airport	468,879	69,940	-	370,453
Total business type activities	3,674,387	2,301,983	-	370,453
Total	$ 10,849,552	$3,268,436	$ 780,144	$ 575,064

General receipts and transfers:
- Property and other city tax levied for:
  - General purposes
  - Debt service
  - Special assessments
- Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- General obligation refunding bond proceeds
- Sewer revenue bonds proceeds
- Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets, beginning of year, as restated

Cash basis net assets, end of year

Cash Basis Net Assets
- Restricted:
  - Nonexpendable:
    - Permanent funds
  - Expendable:
    - Streets
    - Local option sales tax
    - Urban renewal purposes
    - Debt service
    - Capital projects
    - Customer deposits
    - Senior Citizen Center
    - Other purposes
- Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
$ (1,089,489)	$ -	$(1,089,489)
(80,480)	-	(80,480)
28,309	-	28,309
(769,198)	-	(769,198)
(187,175)	-	(187,175)
(421,062)	-	(421,062)
(1,376,919)	-	(1,376,919)
(1,327,943)	-	(1,327,943)
(5,223,957)	-	(5,223,957)
-	(973,465)	(973,465)
-	(28,486)	(28,486)
-	(1,001,951)	(1,001,951)
(5,223,957)	(1,001,951)	(6,225,908)
2,314,351	-	2,314,351
561,049	-	561,049
2,756	-	2,756
318,340	-	318,340
769,827	-	769,827
7,081	6,397	13,478
1,235,000	-	1,235,000
-	876,032	876,032
111,629	-	111,629
206,255	(206,255)	-
5,526,288	676,174	6,202,462
302,331	(325,777)	(23,446)
4,639,083	3,791,852	8,430,935
$ 4,941,414	$ 3,466,075	$ 8,407,489
$ 247,133	$ -	$ 247,133
-	-	-
768,430	-	768,430
223,282	-	223,282
1,330,830	793,827	2,124,657
856,668	342,837	1,199,505
-	55,072	55,072
166,709	-	166,709
491,034	-	491,034
857,328	2,274,339	3,131,667
$ 4,941,414	$ 3,466,075	$ 8,407,489

CITY OF KNOXVILLE

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

As of and for the year ended June 30, 2012

		Special Revenue		
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	$1,628,887	$ -	$ -	$ -
Tax increment financing	-	-	-	318,340
Other City tax	40,173	-	692,840	-
Licenses and permits	42,818	-	-	-
Uses of money and property	1,200	-	-	1,630
Intergovernmental	60,918	693,646	-	-
Charges for service	873,937	-	-	-
Special assessments	2,756	-	-	-
Miscellaneous	142,480	12,619	-	-
Total receipts	2,793,169	706,265	692,840	319,970
Disbursements:				
Operating:				
Public safety	1,205,116	-	-	-
Public works	57,021	798,578	-	-
Culture and recreation	893,648	-	-	-
Community and economic development	184,075	-	-	-
General government	503,370	-	-	-
Debt service	-	-	-	354,984
Capital projects	-	-	696,182	-
Total disbursements	2,843,230	798,578	696,182	354,984
Excess (deficiency) of receipts over (under) disbursements	(50,061)	(92,313)	(3,342)	(35,014)
Other financing sources (uses):				
General obligation refunding bond proceeds	-	-	-	-
Operating transfers in	141,431	-	-	-
Operating transfers out	(86,918)	-	-	(23,882)
Total other financing sources (uses)	54,513	-	-	(23,882)
Net change in cash balances	4,452	(92,313)	(3,342)	(58,896)
Cash balances, beginning of year	401,480	91,729	771,772	282,178
Cash balances, end of year	$ 405,932	$ (584)	$ 768,430	$ 223,282
Cash Basis Fund Balances				
Non spendable	$ -	$ -	$ -	$ -
Restricted for:				
Senior Citizen Center	166,709	-	-	-
Debt service	-	-	-	-
Other purposes	-	-	768,430	223,282
Unassigned	239,223	(584)	-	-
Total cash basis fund balances	$ 405,932	$ (584)	$ 768,430	$ 223,282

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
$ 561,049	$ -	$ 685,464	$ 2,875,400
-	-	-	318,340
16,315	-	20,499	769,827
-	-	-	42,818
-	30	1,024	3,884
-	185,377	-	939,941
-	-	-	873,937
-	-	-	2,756
-	19,204	31,838	206,141
577,364	204,611	738,825	6,033,044
-	-	382,034	1,587,150
-	-	128,699	984,298
-	-	152,204	1,045,852
-	-	30,869	214,944
-	-	52,959	556,329
1,021,935	-	-	1,376,919
-	936,372	-	1,632,554
1,021,935	936,372	746,765	7,398,046
(444,571)	(731,761)	(7,940)	(1,365,002)
1,235,000	-	-	1,235,000
289,699	-	11,943	443,073
-	(126,018)	-	(236,818)
1,524,699	(126,018)	11,943	1,441,255
1,080,128	(857,779)	4,003	76,253
250,702	1,714,447	728,558	4,240,866
$ 1,330,830	$ 856,668	$ 732,561	$ 4,317,119
$ -	$ -	$ 247,133	$ 247,133
-	-	-	166,709
1,330,830	-	-	1,330,830
-	856,668	491,034	2,339,414
-	-	(5,606)	233,033
$ 1,330,830	$ 856,668	$ 732,561	$ 4,317,119

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, 2012

Total governmental funds cash balances (pages 16-17)	$ 4,317,119
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health and property insurance and equipment and building replacement to individual funds. A portion of the assets of the Internal Service Fund are included in governmental activities in the Statement of Activities and Net Assets.	624,295
Cash basis net assets of governmental activities (pages 14-15)	$ 4,941,414
Net change in cash balances (pages 16-17)	76,253
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
The Internal Service Fund is used by management to charge the costs of health and property insurance and equipment and building replacement to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with government activities.	226,078
Change in cash basis net assets of governmental activities (pages 14-15)	$ 302,331

See notes to financial statements.

CITY OF KNOXVILLE

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

As of and for the year ended June 30, 2012

	Enterprise			
	Sewer	Nonmajor Airport	Total	Internal Service
Operating receipts:				
Charges for service	$ 2,232,043	$ 69,940	$ 2,301,983	$ 700,527
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	60,580
Public works	-	-	-	55,506
Culture and recreation	-	-	-	91,611
Community and economic development	-	-	-	3,520
General Government	-	-	-	129,693
Business type activities:	1,344,590	95,017	1,439,607	16,879
Net operating disbursements	1,344,590	95,017	1,439,607	357,789
Excess (deficiency) of operating receipts over (under) operating disbursements	887,453	(25,077)	862,376	342,738
Non-operating receipts (disbursements):				
Intergovernmental	-	370,453	370,453	-
Interest on investments	6,397	-	6,397	3,197
Revenue bond proceeds	876,033	-	876,033	-
Capital projects	(1,100,629)	(373,862)	(1,474,491)	-
Debt service	(880,147)	-	(880,147)	-
Net non-operating receipts (disbursements)	(1,098,346)	(3,409)	(1,101,755)	3,197
Excess (deficiency) of receipts over (under) disbursements	(210,893)	(28,486)	(239,379)	345,935
Transfers:				
Operating transfers in	-	74,975	74,975	-
Operating transfers (out)	(281,230)	-	(281,230)	-
Net transfers	(281,230)	74,975	(206,255)	-
Net change in cash balances	(492,123)	46,489	(445,634)	345,935
Cash balances, beginning of year, as restated	3,572,434	(339,361)	3,233,073	956,996
Cash balances, end of year	$ 3,080,311	$(292,872)	$ 2,787,439	$ 1,302,931
Cash Basis Fund Balances				
Restricted for:				
Debt service	$ 793,827	$ -	$ 793,827	$ -
Sewer project construction	342,837	-	342,837	-
Customer deposits	55,072	-	55,072	-
Unrestricted	1,888,575	(292,872)	1,595,703	1,302,931
Total cash basis fund balances	$3,080,311	$(292,872)	$2,787,439	$1,302,931

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, 2012

Total enterprise funds cash balances (page 19)	$ 2,787,439
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 and property insurance and equipment and building replacement to individual funds. A portion of the assets of the Internal Service Funds is included in business type activities in the Statement of Activities and Net Assets.	678,636
Cash basis net assets of business type activities (page 15)	$ 3,466,075
Net change in cash balances (page 19)	$ (445,634)
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health and property insurance and equipment and building replacement to individual funds. A portion of the assets of the Internal Service Funds is included in business type activities in the Statement of Activities and Net Assets.	119,857
Change in cash balance of business type activities (page 15)	$ (325,777)

See notes to financial statements.

(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 and airport services 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 some of 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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 Statements - 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 the 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 services.

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 that do not meet 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 that are 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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 other 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 that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax and related construction projects authorized by 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 property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

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

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's wastewater 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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the community and economic development, and general government functions.

(2) CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2012 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 and the Treasurer of the State of Iowa; 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, 2012, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of $1,158,801 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in Iowa Public Agency Investment Trust is unrated.

(3) BONDS AND NOTES PAYABLE

The following is a summary of the changes in the outstanding long-term debt of the City for the year ended June 30, 2012:

	Balance June 30, 2011	Issued	Redeemed	Balance June 30, 2012
Governmental activities:				
General obligation bonds	$4,610,000	$1,235,000	$640,000	$ 5,205,000
General obligation notes	1,820,000	-	145,000	1,675,000
Capital lease	17,849	-	17,849	-
Total	$6,447,849	$1,235,000	$802,849	$6,880,000
Business type activities:				
Revenue bonds	$8,627,153	$ 876,032	$560,000	$8,943,185

Interest rates range from .70% to 4.30% on the general obligation bonds and notes. The revenue bond interest rates are from 2.00% to 4.85%. The City paid $480,766 in interest on debt obligations for the year ended June 30, 2012.

(3) BONDS AND NOTES PAYABLE - CONTINUED

Debt service requirements for general obligations, capital loan notes and revenue bonds are as follows:

Year Ending June 30,	Bonds		General Obligation Capital Loan Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	$1,625,000	$121,538	$ 155,000	$ 57,696	$ 341,000	$ 310,082	$2,121,000	$ 489,316
2014	470,000	65,240	160,000	52,073	455,000	300,700	1,085,000	418,013
2015	480,000	60,750	155,000	46,226	480,000	285,889	1,115,000	392,865
2016	390,000	54,965	210,000	40,421	495,000	268,962	1,095,000	364,348
2017	405,000	49,525	220,000	33,001	510,000	250,964	1,135,000	333,490
2018-2022	1,835,000	128,480	690,000	52,451	2,343,000	984,718	4,868,000	1,165,649
2026-2027	-	-	85,000	2,296	2,669,185	461,916	2,754,185	464,212
2028	-	-	-	-	480,000	11,640	480,000	11,640
	$5,205,000	$480,498	$1,675,000	$284,164	$7,773,185 (1)	$2,874,871	$14,653,185	$3,639,533

(1) Total does not include sewer series 2010 forgivable loan of $1,170,000.

Crossover Refunding Bonds

On May 15, 2012, the City issued $1,235,000 of general obligation corporate purpose and refunding bonds, with interest rates ranging from .70% to 1.80% per annum, for a crossover refunding of the general obligation corporate purpose series 2005A Bonds with interest rates ranging between 3.50% and 4.30%. The amount in the escrow account will be invested in non-callable direct obligations of the Department of Treasury of the United States of America on which the timely payment of principal and interest is fully guaranteed by the United State of America and which shall mature in such amounts and at such times to (i) pay interest due on the Bonds to and including June 1, 2013; (ii) prepay the principal amount of the Refunded Bonds called for redemption on June 1, 2013.

The refunding was undertaken to reduce total debt service payments over the next four years by $43,666 and resulted in an economic gain of $43,256.

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 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 and withheld during the year ended June 30, 2010. At June 30, 2012, the City had drawn down $1,543,185 of the authorized amount. A final repayment schedule has not yet been adopted. However, during the year ended June 30, 2012, the City paid $5,000 on principal and $34,429 of interest on these bonds.

(3) BONDS AND NOTES PAYABLE - CONTINUED

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 50% of net receipts. Excluding the principal and interest on revenue bonds issued in February 2010 which are not included since a repayment schedule has not been adopted, the total principal and interest remaining to be paid on the bonds is $10,648,056. For the current year, principal and interest paid and total customer net receipts were $861,731 and $1,024,189 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 or principal and interest on the bonds falling due in the same year.

Forgivable Loan

On February 16, 2010, the City also 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 (ARRA) 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, 2012, the City had drawn down $1,170,000 of the authorized amount.

(3) BONDS AND NOTES PAYABLE - CONTINUED

Notwithstanding any provision of this Agreement to the contrary, and provided that the Participant proceeds with diligence to completion of the Project, (i) no payments of the interest, principal, Servicing Fee or Initiation Fee shall be due under the Loan during construction of the Project and (ii) following completion of the Project and receipt by the Issuer of a certificate of completion from the Participant, the Loan shall be forgiven, in full, by the Issuer, and no payments of principal or interest shall be due hereunder. The Issuer will provide written notification to the Participant of the forgiveness of the Loan.

(4) PENSION AND RETIREMENT BENEFITS

Iowa Public Employees Retirement System

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011 and 2010 were $110,421, $100,520 and $91,320, 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 that 24.76% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2012, 2011, and 2010 were $143,063, $112,321 and $97,137, respectively, which met the required contribution for each year.

(5) 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 47 active and 4 retired members in the plan. Retired 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 benefit 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 $443 for single coverage and $1,076.49 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed $266,244 and plan members eligible for benefits contributed $48,777 to the plan.

(6) COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and compensation 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 these earned holiday, vacation, sick leave and compensatory time payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	$ 77,338
Sick leave	828,655
Compensatory time	36,586
Total	$942,579

This liability has been computed based on rates of pay as of June 30, 2012.

(7) INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Capital Projects	$104,981
	Enterprise:	
	Sewer	36,450
		141,431
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	23,882

(7) INTERFUND TRANSFERS - CONTINUED

Transfer to	Transfer from	Amount
	Enterprise:	
	Sewer	244,780
	Capital Projects	21,037
		289,699
Enterprise:		
Airport	General	74,975
Special Revenue:		
Employee Benefits	General	7,130
Police Retirement	General	4,813
		11,943
Total		$518,048

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

(8) RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 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 150 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, 2012 were $125,388.

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. For members requiring specific coverage from $3,000,000 to $12,000,000, 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, 2012, 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 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.

(9) DEFICIT BALANCES

The City had deficit balances at June 30, 2012 as follows:

Fund	Amount
Enterprise:	
Airport	$292,872
Special Revenue:	
Road Use Tax	584
K-9 Unit Program	5,606
Employee Benefits	9,999

(9) DEFICIT BALANCES - CONTINUED

Fund	Amount
Capital Projects:	
Sidewalks and alleys	1
2007 CD13G Housing Rehab	32,347
2009 CDBG NSP Grant	21,304

(10) CONSTRUCTION CONTRACTS

At June 30, 2012, the City had entered into construction contracts of approximately $6,199,827 for various projects. At June 30, 2012 these projects will require future payments of approximately $218,651 upon completion.

(11) INTERFUND RECEIVABLE/PAYABLE

In prior years, the General Fund loaned the Special Revenue, Urban Renewal Tax Increment Fund $85,251 to pay principal and interest due on general obligation bonds prior to the collection of tax increment financing receipts. The loan is to be repaid, without interest, as tax increment financing receipts are collected. During the year ended June 30, 2012, no payments were made. The remaining $68,801 will be written off in 2013 as the City's window of authority for collecting TIF has closed.

(12) ECONOMIC DEVELOPMENT LOAN

On February 2, 2000, the City loaned $25,000 to the Knoxville Chamber of Commerce to assist in funding a local business expansion. The interest free loan is to be repaid over five years. During the year ended June 30,2012 $3,000 was received on the loan. The loan balance at June 30, 2012 was $19,000.

(13) COMMUNITY ECONOMIC BETTERMENT ACCOUNT 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, 2012 was $17,250. At the project completion date, if the business has fulfilled at least 50% of its job creation/retention requirement, a pro rate 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.

(14) IOWA DEPARTMENT OF ECONOMIC DEVELOPMENT

On April 1, 2009, the city entered into a contract with the Iowa Department of Economic Development (IDED) for the Neighborhood Stabilization Program. The award amount of $973,903 is for the purpose of benefitting low, moderate and middle income individuals for the redevelopment of abandoned and foreclosed homes and residential properties and the stabilization and revitalization of neighborhoods. On July 15, 2010, the award was reduced to $779,542. As of June 30, 2012, the City received $746,488 funds from the award.

(15) DEVELOPMENT AND REBATE AGREEMENTS

In prior years, the City entered into 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. Certain agreements include provisions for payment of interest.

During the year ended June 30, 2012, the City rebated $344,332 of incremental property tax to the developers, consisting of $259,226 for principal and $85,106 for interest. The outstanding principal balance on these agreements at June 30, 2012 is $2,306,207.

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.

(16) 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 are recorded as disbursements by the operating funds. Payments to Group Services, Inc. For service fees and medical claims for the year ended June 30, 2012 were $117,531.

(17) SEVERANCE AGREEMENT

Effective March 30, 2011, the City entered into an agreement with the City Manager which formally identifies the financial obligation of the City to its City Manager in the event of an employment termination.

The City Manager will serve at the will of the Council and may be terminated with or without cause at any time. Any of the following will constitute termination with cause and would result in no severance:

a. Willful neglect of duty.

b. Gross inefficiency or incompetence in office that is not corrected after a reasonable written notice.

c. Malfeasance in office.

Should the City terminate the employment of the City Manager without cause, the City Manager will receive six months severance pay and benefits.

If the City Manager decides to terminate employment, the City Manager will provide the City a minimum of 45 days notice of his intent to terminate.

(18) ACCOUNTING CHANGE/RESTATEMENT

Balance June 30, 2011, as previously reported did not agree with the June 30, 2011 City treasurer's report in five instances. The effect of these variances, deemed immaterial are as follows:

	Employee Benefits-Health	Police Retirement	Self Insurance	Sewer	Airport
Balances June 30, 2011, as previously reported	$ 34,226	$ 211,867	$272,264	$3,572,354	$(339,379)
Difference	(34,218)	34,649	(362)	80	18
Balances June 30, 2011, as restated	$ 8	$ 246,516	$271,902	$3,572,434	$(339,361)

(19) SUBSEQUENT EVENTS

The city has evaluated subsequent events through November 26, 2012, the date the financial statements were available to be issued.

Other Information

CITY OF KNOXVILLE

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Other Information
Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to Be Budgeted	Total
Receipts:				
Property tax	$ 2,875,400	$ -	$ -	$ 2,875,400
Tax increment financing	318,340	-	-	318,340
Other City tax	769,827	-	-	769,827
Licenses and permits	42,818	-	-	42,818
Uses of money and property	3,884	9,594	3,197	10,281
Intergovernmental	939,941	370,453	-	1,310,394
Charges for service	873,937	3,002,510	700,527	3,175,920
Special assessments	2,756	-	-	2,756
Miscellaneous	206,141	-	-	206,141
Total receipts	6,033,044	3,382,557	703,724	8,711,877
Disbursements:				
Public safety	1,587,150	60,580	60,580	1,587,150
Public works	984,298	55,506	55,506	984,298
Culture and recreation	1,045,852	91,611	91,611	1,045,852
Community and economic development	214,944	3,520	3,520	214,944
General government	556,329	129,693	129,693	556,329
Debt service	1,376,919	-	-	1,376,919
Capital projects	1,632,554	-	-	1,632,554
Business type activities	-	3,811,124	16,879	3,749,245
Total disbursements	7,398,046	4,152,034	357,789	11,192,291
Excess (deficiency) of receipts over (under) disbursements	(1,365,002)	(769,477)	345,935	(2,480,414)
Other financing sources, net	1,441,255	669,778	-	2,111,033
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing sources	76,253	(99,699)	345,935	(369,381)
Balances beginning of year	4,240,866	4,190,069	956,996	7,473,939
Balances end of year	$ 4,317,119	$ 4,090,370	$ 1,302,931	$ 7,104,558

See accompanying independent auditor's report.

Budgeted Amounts		Final to Actual Variance-Positive (Negative)
Original	Final	
$ 2,835,531	$ 2,835,531	$ 39,869
288,550	288,550	29,790
811,675	884,790	(114,963)
14,274	26,372	16,446
108,675	125,227	(114,946)
1,017,456	1,381,030	(70,636)
3,110,552	3,143,044	32,876
7,500	10,400	(7,644)
317,643	398,013	(191,872)
8,511,856	9,092,957	(381,080)
1,638,988	1,666,835	79,685
709,757	726,464	(257,834)
1,080,325	1,063,667	17,815
509,391	183,810	(31,134)
411,867	500,261	(56,068)
1,008,781	1,628,381	251,462
2,566,672	2,615,226	982,672
4,215,012	4,481,327	687,082
12,140,793	12,865,971	1,673,680
(3,628,937)	(3,773,014)	1,292,600
1,407,564	2,197,350	(86,317)
(2,221,373)	(1,575,664)	1,206,283
5,168,190	4,811,680	2,662,259
$ 2,946,817	$ 3,236,016	$ 3,868,542

CITY OF KNOXVILLE

Required Supplemental Information

Notes To Other Information - Budgetary Reporting

June 30, 2012

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 and 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 or fund type. 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, special revenue funds, debt service fund, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased disbursements by $725,178. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the general government, community and economic development, and public works functions.

Supplementary Information

CITY OF KNOXVILLE

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

As of and for the year ended June 30, 2012

	Employee Benefits-Health	Police Retirement	Urban Revitalization	Revolving Loan	Self-Supported Municipal Improvement District
Receipts:					
Property tax	$486,399	$183,010	$ -	$ -	$ 16,055
Other city tax	14,886	5,613	-	-	-
Use of money and property	55	160	-	-	-
Miscellaneous	-	-	-	-	-
Total receipts	501,340	188,783	-	-	16,055
Disbursements:					
Operating:					
Public safety	183,078	143,165	-	-	-
Public works	128,699	-	-	-	-
Culture and recreation	139,113	-	-	-	-
Community and economic development	14,628	-	-	-	16,241
General government	52,959	-	-	-	-
Total disbursements	518,477	143,165	-	-	16,241
Excess (deficiency) of receipts over (under) disbursements	(17,137)	45,618	-	-	(186)
Other financing uses:					
Operating transfers in	7,130	4,813	-	-	-
Net change in cash balances	(10,007)	50,431	-	-	(186)
Cash balances beginning of year, as restated	8	246,085	3,906	115,745	186
Cash balances end of year	$ (9,999)	$296,516	$ 3,906	$115,745	$ -
Cash Basis Fund Balances					
Nonspendable:					
Cemetery Perpetual Care	$ -	$ -	$ -	$ -	$ -
Reaver Trust	-	-	-	-	-
Restricted for Other purposes	(9,999)	296,516	3,906	115,745	-
Unassigned	-	-	-	-	-
Total cash basis fund balances	$ (9,999)	$296,516	$ 3,906	$115,745	$ -

See accompanying independent auditor's reports

Special Revenue							Permanent		
Police Department Trust	Fire Rescue Donations	Library Gifts/ Memorials	Recreation Donations	Auld Park Playground Trust	K-9 Unit Program	I-Jobs	Cemetery Perpetual Care	Reaver Trust	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$685,464
-	-	-	-	-	-	-	-	-	20,499
40	45	115	-	150	-	-	459	-	1,024
10,510	5,346	10,404	-	-	84	-	5,494	-	31,838
10,550	5,391	10,519	-	150	84	-	5,953	-	738,825
36,144	18,513	-	-	-	1,134	-	-	-	382,034
-	-	-	-	-	-	-	-	-	128,699
-	-	13,091	-	-	-	-	-	-	152,204
-	-	-	-	-	-	-	-	-	30,869
-	-	-	-	-	-	-	-	-	52,959
36,144	18,513	13,091	-	-	1,134	-	-	-	746,765
(25,594)	(13,122)	(2,572)	-	150	(1,050)	-	5,953	-	(7,940)
-	-	-	-	-	-	-	-	-	11,943
(25,594)	(13,122)	(2,572)	-	150	(1,050)	-	5,953	-	4,003
41,413	28,772	14,067	4,832	33,829	(4,556)	3,091	240,680	500	728,558
$15,819	$15,650	$11,495	$4,832	$33,979	$(5,606)	3,091	246,633	$ 500	$732,561
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$246,633	$ -	$246,633
-	-	-	-	-	-	-	-	500	500
15,819	15,650	11,495	4,832	33,979	-	3,091	-	-	491,034
-	-	-	-	-	(5,606)	-	-	-	(5,606)
$15,819	$15,650	$11,495	$4,832	$33,979	$(5,606)	$3,091	$246,633	$ 500	$732,561

CITY OF KNOXVILLE

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

As of and for the year ended June 30, 2012

	Equipment Replacement	Building Replacement	Self Insurance	Self Insured Property Insurance	Total
Operating receipts:					
Charges for service	$547,762	$20,000	$132,765	$ -	$ 700,527
Operating disbursements:					
Governmental activities:					
Public safety	60,580	-	-	-	60,580
Public works	55,506	-	-	-	55,506
Culture and recreation	91,611	-	-	-	91,611
Community and Economic Development	3,520	-	-	-	3,520
General government	12,524	-	117,169	-	129,693
Business type activities:					
Sewer	16,879	-	-	-	16,879
Total operating disbursements	240,620	-	117,169	-	357,789
Excess of operating receipts over operating disbursements	307,142	20,000	15,596	-	342,738
Non-operating receipts:					
Interest on investments	1,634	18	1,545	-	3,197
Net change in cash balances	308,776	20,018	17,141	-	345,935
Cash balances beginning of year, as restated	634,611	50,170	271,902	313	956,996
Cash balances end of year	$943,387	$70,188	$289,043	$ 313	$1,302,931
Cash Basis Fund Balances					
Unrestricted	$943,387	$70,188	$289,043	$ 313	$1,302,931

See accompanying independent auditor's reports.

City of Knoxville

CITY OF KNOXVILLE

Schedule of Indebtedness

Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential corporate purpose Series 2005A	Jan 15, 2005	3.50 -4.30%	$ 2,200,000
Corporate and refunding Series 2010C	Sept 20, 2010	1.00 - 3.00	3,640,000
Refunding Series 2012A	May 15, 2012	.70 - 1.80	1,235.000
Total			
General obligation capital loan notes:			
Refunding Series 2007A	Sep 19, 2007	3.85- 4.05%	$ 1,765,000
Sewer improvement Series 2010D	Nov 18, 2010	2.70	710,000
Total			
Revenue Bonds:			
Sewer refunding Series 2003	Nov 17,2003		$ 995,000
Sewer Series 2008	Dec 10, 2008	4.50 - 4.85%	5,370,000
Sewer Series 2010A	*Feb 16, 2010	3.00	2,756,000
Sewer Series 2010 - Forgivable Loan	*Feb 16, 2010	3.00	1,170,000
Sewer refunding Series 2010B	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.

(1) $1,198,798 being held in escrow to recall bonds on June 1, 2013.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
$ 1,465,000	$ -	$ 135,000	$ 1,330,000 (1)	$ 57,260
3,145,000	-	505,000	2,640,000	57,995
-	1,235,000	-	1,235,000	-
$ 4,610,000	1,235,000	$ 640,000	$ 5,205,000	$115,255
$ 1,110,000	$ -	$ 120,000	$ 990,000	$ 43,760
710,000	-	25,000	685,000	19,145
$ 1,820,000	$ -	$ 145,000	$ 1,675,000	$ 62,905
$ 225,000	$ -	$ 225,000	$ -	$ 4,418
5,070,000	-	100,000	4,970,000	225,297
672,153	876,032	5,000	1,543,185	34,429
1,170,000	-	-	1,170,000	-
1,490,000	-	230,000	1,260,000	37,587
$ 8,627,153	$ 876,032	$ 560,000	$ 8,943,185	$ 301,731
$ 17,849	$ -	$ 17,849	$ -	$ 875

CITY OF KNOXVILLE

Bond and Note Maturities

June 30, 2012

Year Ending June 30,	General Obligation Bonds						
	Series 2005A Corporate Purpose Issued October 20, 2003		Series 2010C Corporate and Refunding Issued February 15, 2005		Series 2012A Refunding Issued December 15, 2005		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2013	3.50%	$ 1,330,000	1.00%	$ 295,000	- %	$ -	$ 1,625,000
2014	-	-	1.10	300,000	.70	170,000	470,000
2015	-	-	1.40	310,000	.85	170,000	480,000
2016	-	-	1.70	220,000	1.00	170,000	390,000
2017	-	-	1.95	230,000	1.20	175,000	405,000
2018	-	-	2.25	235,000	1.40	180,000	415,000
2019	-	-	2.50	245,000	1.60	185,000	430,000
2020	-	-	2.65	255,000	1.80	185,000	440,000
2021	-	-	2.80	270,000	-	-	270,000
2022	-	-	3.00	280,000	-	-	280,000
2023	-	-	-	-	-	-	-
Total		$ 1,330,000		$ 2,640,000		$ 1,235,000	$ 5,205,000

Year Ending June 30,	Revenue Bonds						
	Series 2008 Sewer Issued December 10, 2008		Series 2010A Sewer Issued March 18, 2010		Series 2010B Sewer Refunding Issued March 18, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2013	4.50%	$ 100,000	3.00%	$ 6,000	2.00%	$ 235,000	$ 341,000
2014	4.50	200,000	3.00	10,000	2.25	245,000	455,000
2015	4.50	210,000	3.00	20,000	2.75	250,000	480,000
2016	4.50	210,000	3.00	25,000	3.00	260,000	495,000
2017	4.50	215,000	3.00	25,000	3.00	270,000	510,000
2018	4.50	275,000	3.00	153,000	-	-	428,000
2019	4.50	285,000	3.00	158,000	-	-	443,000
2020	4.50	305,000	3.00	164,000	-	-	469,000
2021	4.55	320,000	3.00	169,000	-	-	489,000
2022	4.60	340,000	3.00	174,000	-	-	514,000
2023	4.65	360,000	3.00	180,000	-	-	540,000
2024	4.70	380,000	3.00	186,000	-	-	566,000
2025	4.75	405,000	3.00	192,000	-	-	597,000
2026	4.80	430,000	3.00	81,185	-	-	511,185
2027	4.80	455,000	-	-	-	-	455,000
2028	4.85	480,000	-	-	-	-	480,000
Total		$ 4,970,000		$ 1,543,185		$ 1,260,000	$ 7,773,185

See accompanying independent auditor's report.

General Obligation Bonds Capital Loan Notes				
Refunding Series 2007A Issued May 1, 2007		Sewer Improvement Series 2007B Issued October 1, 2007		
Interest Rates	Amount	Interest Rates	Amount	Total
3.850%	$ 125,000	2.70%	$ 30,000	$ 155,000
3.875	130,000	2.70	30,000	160,000
3.900	135,000	2.70	20,000	155,000
3.950	140,000	2.70	70,000	210,000
4.000	150,000	2.70	70,000	220,000
4.050	150,000	2.70	70,000	220,000
4.050	160,000	2.70	75,000	235,000
-	-	2.70	75,000	75,000
-	-	2.70	80,000	80,000
-	-	2.70	80,000	80,000
-	-	2.70	85,000	85,000
	$ 990,000		$ 685,000	$1,675,000

CITY OF KNOXVILLE

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

For the Last Ten Years

	Years ended June 30,				
	2012	2011	2010	2009	2008
Receipts:					
Property tax	$2,875,400	$2,711,600	$2,611,363	$2,497,122	$2,315,591
Tax increment financing	318,340	320,902	535,285	485,945	436,811
Other city tax	769,827	871,465	864,232	921,047	874,009
Licenses and permits	42,818	21,320	15,678	25,294	30,932
Use of money and property	3,884	65,552	77,345	94,747	156,478
Intergovernmental	939,941	1,690,173	1,136,792	1,082,430	927,964
Charges for service	873,937	745,648	639,917	627,050	552,542
Special assessments	2,756	7,433	10,874	5,231	3,796
Miscellaneous	206,141	203,690	380,054	411,077	152,616
Total	$6,033,044	$6,637,783	$6,271,540	$6,149,943	$5,450,739
Disbursements:					
Operating:					
Public safety	$1,587,150	$1,589,674	$1,506,286	$1,403,437	$1,278,799
Public works	984,298	860,317	783,903	766,763	711,474
Health and social services	-	18,477	15,151	12,869	17,776
Culture and recreation	1,045,852	1,124,962	1,141,093	1,081,081	973,213
Community and economic development	214,944	55,290	102,266	500,686	420,046
General government	556,329	577,811	503,383	498,032	329,067
Debt service	1,376,919	1,246,308	1,974,144	1,760,500	1,272,801
Capital projects	1,632,554	2,759,921	1,334,631	676,191	864,294
Total	$7,398,046	$8,232,760	$7,360,857	$6,699,559	$5,867,470

See accompanying independent auditor's report.

2007	2006	2005	2004	2003
$2,170,476	$2,129,393	$1,981,319	$2,069,054	$2,091,215
403,700	368,655	390,497	327,032	267,890
945,409	833,292	746,387	286,303	131,447
51,121	49,200	36,614	44,374	54,796
144,598	191,752	48,159	42,281	59,040
1,067,614	1,390,093	1,502,408	805,600	1,023,225
467,204	439,924	467,822	423,250	316,449
-	-	-	14,329	5,688
109,627	101,254	130,398	93,178	166,818
$5,359,749	$5,503,563	$5,303,604	$4,105,401	$4,116,568

$1,140,287	$1,087,731	$1,173,206	$1,143,333	$1,246,442
667,084	757,366	713,930	728,691	716,802
14,846	14,307	-	-	-
908,901	865,491	963,405	954,891	998,489
274,588	145,002	325,700	197,729	153,213
433,227	417,467	414,694	423,033	394,567
976,788	2,507,606	913,064	777,558	652,097
867,751	1,479,908	1,059,329	99,340	580,020
$5,283,472	$7,274,878	$5,563,328	$4,324,575	$4,741,630

CITY OF KNOXVILLE

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Capital Projects

As of and for the year ended June 30, 2012

	Cemetery Roads	Bike Trail Project	Sidewalks and Alleys	GO Bond Projects
Receipts:				
Use of money and property:				
Interest on investments	$ -	$ -	$ -	$ -
Intergovernmental	-	-	-	-
Miscellaneous	1,167	-	-	-
Total receipts	1,167	-	-	-
Disbursements:				
Capital projects	-	-	-	678,316
Total disbursements	-	-	-	678,316
Excess (deficiency) of receipts over (under) disbursements	1,167	-	-	(678,316)
Other financing (uses):				
Operating transfers out	-	-	-	(126,018)
Total other financing (uses)	-	-	-	(126,018)
Net change in cash balances	1,167	-	-	(804,334)
Cash balances beginning of year	48,465	253,767	(1)	1,389,788
Cash balances end of year	$49,632	$253,767	$ (1)	$ 585,454
Cash Basis Fund Balances				
Restricted for:				
Other purposes	$49,632	$253,767	$ (1)	$ 585,454
Total cash basis fund balances	$49,632	$253,767	$ (1)	$ 585,454

See accompanying independent auditor's reports.

Entrance Signs	2007 CDBG Housing Rehab	2009 CDBG NSP Grant	Capital Project Library	Total
$ 30	$ -	$ -	$ -	$ 30
-	94,430	90,947		185,377
-	-	-	18,037	19,204
30	94,430	90,947	18,037	204,611
3,979	126,723	127,354	-	936,372
3,979	126,723	127,354	-	936,372
(3,949)	(32,293)	(36,407)	18,037	(731,761)
-	-	-	-	(126,018)
-	-	-	-	(126,018)
(3,949)	(32,293)	(36,407)	18,037	(857,779)
7,379	(54)	15,103	-	1,714,447
$ 3430	$(32,347)	$(21,304)	$ 18,03	$ 856,668
$ 3,430	$(32,347)	$(21,304)	$ 18,037	$ 856,668
$ 3,430	$(32,347)	$(21,304)	$ 18,037	$ 856,668

CITY OF KNOXVILLE

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Airport	20.106	03-19-0051-11	$ 42,363
		03-19-0051-12	142,120
		03-19-0051-12	248,746
Total Direct			433,229
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	127,354
U.S. Department of Transportation:			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	PAP 12-410,Task 44	4,121
Occupant Protection Incentive Grants	20.602	PAP 11-03, Task 0500	294
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468	CSO248R	876,033
Total indirect			1,007,802
Total			$1,441,031

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Knoxville an dis presented in conformity with an other comprehensive basis of accounting. The information in 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 basis financial statements

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville, Iowa as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 26, 2012. 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

The management of the City of Knoxville is responsible for establishing and maintaining effective 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, 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 the 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 as items II-A-12 through II-E-12 and II-J-12 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-F-12 through II-I-12 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 that are required to be reported under *Government Auditing Standards.* However, we noted an instance of non-compliance that is described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

Martens & Company, CPA, LLP

West Des Moines, Iowa
November 26, 2012

Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

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Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on 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 primary government of the City of Knoxville, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Knoxville's major federal programs for the year ended June 30, 2012. The primary government of the City of Knoxville's major federal programs are identified in Part 1 of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the primary government of the City of Knoxville's management. Our responsibility is to express an opinion on the primary government of 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 primary government of 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 primary government of the City of Knoxville complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the primary government 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 primary government of 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 primary government 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.

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 a 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 as item III-A-12 to be a material weakness.

The primary government of the City of Knoxville's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the primary government of 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.

Mertens & Company, CPA, LLP

West Des Moines, Iowa
November 26, 2012

CITY OF KNOXVILLE

Schedule of Findings

Year ended June 30, 2012

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

(a) Unqualified opinion was issued on the primary government 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 in internal control over major programs was 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 .501(a).

(g) The major programs were as follows:

- CFDA Number 20.106 - Airport Improvement Program.
- 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.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the following functions are not entirely segregated: cash receipts, general ledger posting, reconciliations and investment control and custody.

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

Response - We will consider this.

Conclusion - Response acknowledged.

II-B-12 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, collections 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 for sewer fees received from the Waterworks.

Response -Staff will prepare a monthly reconciliation which will be reviewed by the City Manager.

Conclusion - Response accepted.

II-C-12 Recreation Center - One employee is responsible for opening the mail, collecting receipts, recording receipts and preparing the deposit. In addition, an initial listing of receipts is not prepared.

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

Response - The City has a small full time staff. Will do better in the future with cross training these duties with other staff members.

Conclusion - Response accepted.

II-D-12 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 reconciliation or an investment register.

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 intact and timely.

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.

Response - The city will discuss this matter with Senior Center staff to resolve this issue.

Conclusion - Response accepted.

II-E-12 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 was not included in the City's budget.

In addition, the Recreation Center maintained a checking account separate from the City Clerk's records. The transactions are reported to the City monthly and balances periodically transferred into the City's checking account. However, the balance of the checking account at the end of the fiscal year was not included in the City's records.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." 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.

The year end balance of the separate checking account maintained by the Recreation Center should be included in the City's records.

Response - City Manager will discuss this issue with the Library and Senior Center Directors to resolve this issue.

Conclusion - Response accepted.

II-F-12 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.

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 - The City will look into creating a disaster recovery plan.

Conclusion - Response accepted.

II-G-12 Petty Cash and Change Funds - The Library, Police Department and Recreation Center maintain petty cash or change funds. The funds at the Library and the Police Department are not maintained on an imprest basis. The Police Department's change/petty cash was also co-mingled with employee funds used for such items as greeting cards. In addition, the City's records do not accurately reflect the balance of all cash on hand at the end of the fiscal year.

Recommendation - Petty cash and change funds should be maintained on an imprest basis. Employee personal funds should be maintained separately from the City's change funds an petty cash funds. In addition, the City should ensure all change funds and petty cash funds are included in the financial records.

Conclusion - Response accepted.

Response - The city was not aware of this issue until found during the audit process. We will discuss matters with the various Department's and include balances in the financial records.

II-H-12 Travel Policy - The City has not adopted a travel reimbursement policy, including an approved mileage rate. Additionally, the city is not monitoring when withholding is required for taxable travel.

Recommendation - The city should adopt a travel reimbursement policy, including a requirement all reimbursement expenses be itemized. The policy should also specify lodging, meals and mileage reimbursement rates. In addition, the City should ensure taxes are withheld when appropriate.

Response - The City will look into creating a travel policy, including withholding taxes as appropriate. Approved mileage rate used has always been the Internal Revenue Service approved amount.

Conclusion - Response accepted.

II-I-12 Travel Disbursements and Payroll of City Officials - The City Manager and other Department heads periodically travel. Travel costs are generally charged to a City credit card. The detailed credit card charges and receipts are not reviewed by anyone to ensure travel disbursements are appropriate.

Recommendation - The City should review travel expenses in enough detail to ensure charges are appropriate.

Response - The monthly credit card statements will be reviewed and signed by the City Manager.

Conclusion - Response accepted.

II-J-12 Financial Reporting - During the audit, we identified a material amount of bond revenue not recorded on the City's books. We also identified a material amount misposted to the Capital Projects Fund rather than the Debt Service Fund. A material amount of revenue was not transferred from the Recreation Department to general checking. Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

Recommendation - The City should implement procedures to ensure that the City's financial statements are recorded properly and complete.

Response - We will double check this in the future to avoid posting errors and to provide complete financial statements.

Conclusion - Response accepted.

CITY OF KNOXVILLE

Schedule of Findings - Continued

Year ended June 30, 2012

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 20.106: Airport Improvement Program
Agency Number: 03-19-0051-12, 03-19-0051-11
Federal Award Year: 2011, 2012
U.S. 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-12 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-12.

CITY OF KNOXVILLE

Schedule of Findings - Continued

Year ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the community and economic development, general government, and public works 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 - In the future the City will amend the budget prior to disbursements exceeding budgeted amounts.

Conclusion - Response accepted.

IV-B-12 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-12 Travel Expenses - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 Business Transactions -No business transactions between the City and City officials or employees were noted.

IV-E-12 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 that the coverage is adequate for current operations.

IV-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council Minutes but were not.

The City did not provide the code section when entering into closed session. The minutes of several meetings have not been signed. Publication dates were missed. The vote of each council member were not listed.

Recommendation - The City should comply with chapter 372.13 of the code of Iowa.

Response - Staff will review all the requirements of chapter 372.13 of the code of Iowa and make the necessary adjustments.

Conclusion - Response accepted.

IV-G-12 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

CITY OF KNOXVILLE

Schedule of Findings - Continued

Year ended June 30, 2012

IV-H-12 Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.

IV-I-12 Financial Condition - the city had deficit balances at June 30, 2012 as follows:

Fund	Amount
Enterprises:	
Airport	$292,872
Special Revenue:	
Road Use Tax	584
K-9 Unit Program	5,606
Employee Benefits	9,999
Capital Projects:	
Sidewalks and alleys	1
2007 CDBG Housing Rehab	32,347
2009 CDBG NSF Grant	21,304

Recommendation - The City should continue in their efforts of returning these funds to a sound financial position.

Response - The City agrees that deficit fund balances are not desirable. The City will look into why these funds have deficits and make necessary adjustments.

Conclusion - Response accepted.