



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

December 3, 2003

Contact: Andy Nielsen  
515/281-5834

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

Vaudt reported that the City's receipts totaled \$5,885,308 for the year ended June 30, 2003, an 8% increase from 2002. The receipts included \$2,091,215 in property tax, \$267,890 in tax increment financing collections, \$1,023,225 from other governments and interest on investments of \$73,844. The significant increase in receipts is due primarily to an increase of tax increment financing collections and receipt of a Federal Aviation Administration grant.

Disbursements for the year totaled \$6,057,054, a 15 percent decrease from the prior year, and included \$1,270,462 for business type activities, \$1,246,442 for public safety and \$998,489 for culture and recreation. The significant decrease in disbursements is due primarily to the substantial completion of a sanitary sewer capital project in the prior fiscal year.

This report contains recommendations to the City Council and other City officials. For example, the report recommends the City review control activities to better segregate duties, perform timely bank reconciliations, and develop written policies over computer based systems. The City has responded to the comments in the report.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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**CITY OF KNOXVILLE**

**INDEPENDENT AUDITOR'S REPORTS**  
**PRIMARY GOVERNMENT FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2003**

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**City of Knoxville**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jon Lenger	Mayor	Jan 2004
Jerilynn Uitermarkt	Mayor Pro tem	Jan 2004
Craig Kelley	Council Member	Jan 2004
Ron Robinson	Council Member	Jan 2004
Forrest Pearson	Council Member	Jan 2006
Dave Roozeboom	Council Member	Jan 2006
Jeffrey LaGarce	City Manager	Indefinite
Connie J. Stevens	City Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite

**City of Knoxville**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying primary government financial statements, listed as exhibits in the table of contents of this report, of the City of Knoxville, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Knoxville's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 opinion.

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.

As discussed in note 14, the City of Knoxville intends to implement Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, for the fiscal year ending June 30, 2004. The effects of these statements are expected to significantly impact the presentation of the City's financial statements and related notes in the year of implementation. The revised requirements will include an analytical overview of the City's financial activities in the Management's Discussion and Analysis introduction to the financial statements.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, the aforementioned primary government financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Knoxville as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

However, the primary government financial statements, because they do not include the financial data of component units of City of Knoxville, do not purport to, and do not present fairly the results of the cash transactions of the funds of the City of Knoxville as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, in accordance with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2003 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 and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned primary government financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the three years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

DAVID A. VAUDT, CPA  
Auditor of State

August 28, 2003

## **Financial Statements**

City of Knoxville  
 Combined Statement of Cash Transactions

All Fund Types

Year ended June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 1,316,580	403,424	371,211
Tax increment financing collections	-	267,890	-
Other city tax	112,629	14,783	4,035
Licenses and permits	54,796	-	-
Use of money and property	37,033	8,148	4,169
Intergovernmental	256,802	629,405	-
Charges for service	316,449	-	-
Special assessments	5,688	-	-
Miscellaneous	98,347	33,969	-
Total receipts	2,198,324	1,357,619	379,415
Disbursements:			
Public safety	1,121,169	80,143	-
Public works	113,976	602,826	-
Culture and recreation	944,423	-	-
Community and economic development	138,632	14,581	-
General government	371,990	22,577	-
Debt service	-	49,975	602,122
Capital projects	-	-	-
Business type activities	-	-	-
Non-program	-	-	-
Total disbursements	2,690,190	770,102	602,122
Excess (deficiency) of receipts over (under) disbursements	(491,866)	587,517	(222,707)
Other financing sources (uses):			
Operating transfers in	357,657	-	428,177
Operating transfers out	(9,258)	(502,067)	-
Total other financing sources (uses)	348,399	(502,067)	428,177
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(143,467)	85,450	205,470
Balance beginning of year	736,706	1,855,950	(496,593)
Balance end of year	\$ 593,239	1,941,400	(291,123)

See notes to financial statements.

Capital Projects	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Trust	
-	-	-	-	2,091,215
-	-	-	-	267,890
-	-	-	-	131,447
-	-	-	-	54,796
1,856	57,258	10,889	7,834	127,187
137,018	-	-	-	1,023,225
-	1,245,473	338,038	-	1,899,960
-	-	-	-	5,688
1,518	29,998	87,084	32,984	283,900
<u>140,392</u>	<u>1,332,729</u>	<u>436,011</u>	<u>40,818</u>	<u>5,885,308</u>
-	-	-	45,130	1,246,442
-	-	-	-	716,802
-	-	-	54,066	998,489
-	-	-	-	153,213
-	-	-	-	394,567
-	-	-	-	652,097
580,020	-	-	-	580,020
-	1,270,462	-	-	1,270,462
-	-	44,962	-	44,962
<u>580,020</u>	<u>1,270,462</u>	<u>44,962</u>	<u>99,196</u>	<u>6,057,054</u>
<u>(439,628)</u>	<u>62,267</u>	<u>391,049</u>	<u>(58,378)</u>	<u>(171,746)</u>
2,127	177,939	38,281	-	1,004,181
(38,650)	(454,206)	-	-	(1,004,181)
<u>(36,523)</u>	<u>(276,267)</u>	<u>38,281</u>	<u>-</u>	<u>-</u>
(476,151)	(214,000)	429,330	(58,378)	(171,746)
<u>663,174</u>	<u>1,925,362</u>	<u>429,451</u>	<u>423,882</u>	<u>5,537,932</u>
<u>187,023</u>	<u>1,711,362</u>	<u>858,781</u>	<u>365,504</u>	<u>5,366,186</u>

City of Knoxville  
 Comparison of Receipts, Disbursements and Changes in Balances -  
 Actual to Budget  
 Year ended June 30, 2003

	Actual	Less Funds Not Required to be Budgeted
Receipts:		
Property tax	\$ 2,091,215	-
Tax increment financing collections	267,890	-
Other city tax	131,447	-
Licenses and permits	54,796	-
Use of money and property	127,187	11,180
Intergovernmental	1,023,225	-
Charges for service	1,899,960	338,038
Special assessments	5,688	-
Miscellaneous	283,900	92,379
Total receipts	<u>5,885,308</u>	<u>441,597</u>
Disbursements:		
Public safety	1,246,442	-
Public works	716,802	-
Culture and recreation	998,489	-
Community and economic development	153,213	-
General government	394,567	-
Debt service	652,097	-
Capital projects	580,020	-
Business type activities	1,270,462	-
Non-program	44,962	44,962
Total disbursements	<u>6,057,054</u>	<u>44,962</u>
Excess (deficiency) of receipts over (under) disbursements	(171,746)	396,635
Other financing sources, net	-	38,281
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(171,746)	434,916
Balance beginning of year	<u>5,537,932</u>	<u>603,901</u>
Balance end of year	<u>\$ 5,366,186</u>	<u>1,038,817</u>

See notes to financial statements.

Net	Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
2,091,215	2,091,739	(524)	100%
267,890	268,524	(634)	100%
131,447	142,505	(11,058)	92%
54,796	53,575	1,221	102%
116,007	123,950	(7,943)	94%
1,023,225	953,806	69,419	107%
1,561,922	1,534,156	27,766	102%
5,688	8,165	(2,477)	70%
191,521	159,150	32,371	120%
<u>5,443,711</u>	<u>5,335,570</u>	<u>108,141</u>	<u>102%</u>
1,246,442	1,178,676	(67,766)	106%
716,802	724,799	7,997	99%
998,489	1,034,543	36,054	97%
153,213	175,848	22,635	87%
394,567	399,179	4,612	99%
652,097	787,161	135,064	83%
580,020	-	(580,020)	
1,270,462	1,591,383	320,921	80%
-	-	-	
<u>6,012,092</u>	<u>5,891,589</u>	<u>(120,503)</u>	<u>98%</u>
(568,381)	(556,019)		
(38,281)	-		
(606,662)	(556,019)		
<u>4,934,031</u>	<u>3,011,314</u>		
<u>4,327,369</u>	<u>2,455,295</u>		

City of Knoxville  
Statement of Indebtedness  
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
General corporate purpose	Jun 1, 1994	5.10 - 5.20%	\$ 605,000
Corporate purpose	Apr 1, 1997	4.65 - 5.30	1,875,000
General corporate purpose	May 1, 2000	5.05 - 5.70	3,230,000
Total			
Revenue bonds:			
Sewer	Jun 1, 1993	4.62%	\$ 1,592,000
Sewer	Mar 1, 2002	3.875 - 4.70	3,000,000
Total			
Urban renewal tax increment financing (TIF) revenue bonds	Dec 1, 1997	6.25%	\$ 183,600
Capital lease purchase agreement: Fire equipment	Aug 9, 2000	7.59%	\$ 21,393

See notes to financial statements.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
270,000	65,000	205,000	13,975
1,815,000	85,000	1,730,000	95,850
2,995,000	185,000	2,810,000	156,397
<u>\$ 5,080,000</u>	<u>335,000</u>	<u>4,745,000</u>	<u>266,222</u>
1,047,000	75,000	972,000	48,371
3,000,000	115,000	2,885,000	160,350
<u>\$ 4,047,000</u>	<u>190,000</u>	<u>3,857,000</u>	<u>208,721</u>
127,598	14,636	112,962	7,339
16,617	5,139	11,478	1,261

**City of Knoxville**

City of Knoxville

Notes to Financial Statements

June 30, 2003

**(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, culture and recreation, community and economic development, general government and business type activities.

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

Excluded Component Unit

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

Jointly Governed Organizations

The City also 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 Joint E911 Service Board, Marion County Emergency Management Commission, Marion County/Warren County Drug Task Force, and Central Iowa Regional Transportation Planning Alliance.

## B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

### Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 through other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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

Capital Projects Funds – The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

### Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Internal Service Funds – The Internal Service Funds are utilized to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

### Fiduciary Funds

Trust Funds – The Trust Funds are used to account for monies and properties received and held by the City in a trustee capacity. These include Expendable Trust Funds and Non-expendable Trust Funds.

C. Basis of Accounting

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

D. Budgets and Budgetary Accounting

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

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These 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.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2003 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$56,612 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

**(3) Long-term Debt**

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

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 355,000	249,145	234,000	168,730	589,000	417,875
2005	380,000	230,930	242,000	158,880	622,000	389,810
2006	405,000	211,425	251,000	148,692	656,000	360,117
2007	435,000	190,638	260,000	138,119	695,000	328,757
2008	450,000	168,260	269,000	127,160	719,000	295,420
2009	480,000	144,997	284,000	115,818	764,000	260,815
2010	500,000	120,058	298,000	103,659	798,000	223,717
2011	365,000	94,077	313,000	90,808	678,000	184,885
2012	385,000	74,898	328,000	77,311	713,000	152,209
2013	120,000	54,607	343,000	62,953	463,000	117,560
2014	125,000	48,308	240,000	47,658	365,000	95,966
2015	135,000	41,620	250,000	36,858	385,000	78,478
2016	140,000	34,262	265,000	25,483	405,000	59,745
2017	150,000	26,563	280,000	13,160	430,000	39,723
2018	155,000	18,162	-	-	155,000	18,162
2019	165,000	9,405	-	-	165,000	9,405
Total	\$ 4,745,000	1,717,355	3,857,000	1,315,289	8,602,000	3,032,644

Sewer Revenue Bonds

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 separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of an amount equal to that required to be made to the Sewer Revenue Bond Sinking account shall be made to a Sewer Revenue Reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying at maturity principal or interest on the bonds for which insufficient money shall be available in the sinking accounts.
- (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 amount of principal and interest on the bonds falling due in the same year.

The City has not made sufficient monthly transfers to the 2002 Sewer Revenue Bond Sinking account in accordance with the sewer revenue bond resolution.

Urban Renewal Tax Increment Financing (TIF) Revenue Bonds

TIF revenue bonds totaling \$183,600 were issued for the purpose of defraying a portion of the costs to carry out urban renewal projects of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment

Highway 14 South Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax financing increment revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The urban renewal tax increment revenue bond development agreement requires semi-annual payments beginning December 1, 1999 equal to 75% of the incremental property taxes attributable to the Urban Renewal Area which have been received by the City prior to that date. Payments will continue until all principal and interest have been paid, provided that no payments shall be made after June 1, 2011. All payments shall be credited to accrued interest first and then to unpaid principal. To the extent that on any payment date there are insufficient funds to make a required payment of accrued interest, such accrued interest shall be added to the then existing unpaid principal amount of the bond. A payment schedule has not been prepared since the amounts payable each year are dependent upon the tax increment financing collections received. During the year ended June 30, 2003, principal of \$14,636 and interest of \$7,339 were paid on these bonds.

Capital Lease Purchase Agreement

The City entered into a capital lease purchase agreement to lease fire equipment. The following is a schedule of the future minimum lease payments, including interest at 7.59% per annum, and the present value of net minimum lease payments under the agreements in effect at June 30, 2003:

Year Ending June 30,	Amount
2004	\$ 6,400
2005	<u>6,400</u>
Total minimum lease payments	12,800
Less amount representing interest	<u>(1,322)</u>
Present value of net minimum lease payments	<u><u>\$ 11,478</u></u>

During fiscal year ended June 30, 2003, \$6,400 was paid under the capital lease purchase agreement.

**(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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2003, 2002, and 2001 were \$66,335, \$63,885 and \$58,254, 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 which are 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, 2836 104<sup>th</sup> St., Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2003, 2002, and 2001 were \$80,143, \$73,507, and \$72,363, respectively, which met the required minimum contribution for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused holiday and vacation hours for subsequent use or for payment upon termination, retirement or death. City employees may also accumulate a limited amount of earned but unused sick leave hours for payment of subsequent health benefit costs upon retirement. The City also allows employees to accumulate compensatory time during the fiscal year in lieu of overtime pay. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned holiday, vacation, sick leave and compensatory time termination payments payable to employees at June 30, 2003, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Holiday	\$ 14,000
Vacation	94,000
Sick leave	13,000
Compensatory time	<u>19,000</u>
Total	<u>\$ 140,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2003.

**(6) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2003, disbursements in the public safety and capital projects functions exceeded the amounts budgeted.

**(7) Related Party Transactions**

The City had business transactions totaling \$2,538 between the City and City officials during the year ended June 30, 2003.

## **(8) Risk Management**

The City of Knoxville 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 475 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 members' 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 300 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 annual contributions to the Pool for the year ended June 30, 2003 were \$122,882.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

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 that 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, 2003, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation, employee blanket bond, boiler and machinery, and aviation liability. The City assumes liability for any deductibles and claims in excess of coverage limitations. The City assumes responsibility for workers compensation, employee blanket bond, and aviation liability claims in excess of \$1,000,000, \$50,000 and \$3,000,000, respectively. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Deficit Balances**

At June 30, 2003, the City had deficit balances in the following funds:

Fund	Balance June 30, 2003
Special Revenue:	
Urban Renewal Tax Increment Park Lane	\$ (7,203)
Debt Service:	
1997 General Obligation	(89,887)
2000 General Obligation	(293,782)
Capital Projects:	
CDBG Housing Rehabilitation	(5,435)
2001 Southside Sanitary Sewer	(14,943)
West Pleasant and Highway 14	(714)
2000 Reno Street Sewer	(10,254)
2001 Storm Sewer	(110,575)
Snail Removal	(53,096)
Ramp Exterior and Repair	(8,192)
Enterprise:	
Airport	(77,178)
2002 Sewer Revenue Bond Sinking	(275,725)
Expendable Trust:	
Aquatic Park Trust	(60)

The City is reviewing possible alternatives. The deficit balances will be eliminated through closing some of the completed capital project funds, receipt of grant proceeds and moving any available positive balances to deficit or current projects.

**(10) Construction Commitments**

The City has entered into construction contracts totaling approximately \$779,000. As of June 30, 2003, costs of approximately \$175,000 had been paid on the contracts. The remaining \$604,000 will be paid as work on these projects progresses.

**(11) Interfund Receivable/Payable**

The General Fund has loaned the Special Revenue, Urban Renewal Tax Increment Westridge Fund \$85,251 through the year ended June 30, 2002 for principal and interest due on the general obligation bonds prior to the collection of tax increment financing receipts. The funds are to be repaid, without interest, as tax increment financing revenues are collected. No payments were made during the year ended June 30, 2003.

**(12) Economic Development Loans**

On February 2, 2000, the City loaned \$25,000 to the Knoxville Chamber of Commerce to assist in funding for a local business expansion. The interest free loan is to be repaid over five years. During the year ended June 30, 2003, \$5,000 was received on the loan. The loan balance at June 30, 2003 was \$15,000.

On February 28, 2000, the City loaned \$150,000 to a local business to assist in its expansion. The loan bears interest at 5% per annum and is to be repaid in monthly installments of \$2,831 beginning April 27, 2000 and ending March 27, 2005. During the year ended June 30, 2003, principal of \$30,301 and interest of \$3,668 was received on the loan. The loan balance at June 30, 2003 was \$56,805.

**(13) Development and Rebate Agreements**

In prior years, the City entered into three development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental taxes 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 taxes 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 taxes on the completed value of the improvements are first paid. The total amount that will be rebated under the development and rebate agreement is not to exceed amounts ranging from \$85,931 to \$2,097,811. Certain of the agreements include provisions for payment of interest.

During the year ended June 30, 2003, the City rebated \$28,000 of incremental taxes to the developers for interest. The outstanding principal balance on these agreements at June 30, 2003 is \$2,633,742.

No bonds or notes were issued for these projects. To the extent that on any payment date there are insufficient tax increment revenues available 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 is subject to the constitutional debt limitation of the City.

**(14) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. These statements will be implemented for the fiscal year ending June 30, 2004. The effects are expected to significantly impact the presentation of governmental financial statements in the year of implementation. The revised requirements include Management’s Discussion and Analysis to introduce the financial statements and to provide an analytical overview of the City’s financial activities.

**City of Knoxville**

**Supplemental Information**

**Schedule 1**

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City of Knoxville  
Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2003

Receipts:	
Property tax	\$ 1,316,580
Other city tax:	
Mobile home tax	8,999
Utility tax replacement excise tax	42,674
Cable franchise fees	60,956
	<u>112,629</u>
Licenses and permits	<u>54,796</u>
Use of money and property:	
Interest on investments	14,863
Rent	22,170
	<u>37,033</u>
Intergovernmental:	
State allocation	92,404
Bank franchise tax	20,491
Liquor licenses	5,783
State library grants	5,635
County library	30,050
Public Safety Partnership and Community Policing grant	55,786
Governor's Traffic Safety Bureau grant	12,294
School liaison	16,100
Local grants and reimbursements	18,259
	<u>256,802</u>
Charges for service:	
Rescue service	118,290
Cemetery	24,818
Recreation fees	161,306
Miscellaneous	12,035
	<u>316,449</u>
Special assessments	<u>5,688</u>
Miscellaneous:	
Fines and fees	71,407
Contributions	1,000
Fuel tax refunds	3,326
Sale of cemetery lots	8,611
Sale of equipment	2,265
Sale of commodities	11,738
	<u>98,347</u>
Total receipts	<u>2,198,324</u>

City of Knoxville  
 Schedule of Cash Transactions  
 General Fund  
 Year ended June 30, 2003

Disbursements:	
Public safety:	
Police:	
Personal services	607,522
Services and commodities	65,452
Capital outlay	36,630
	<u>709,604</u>
Dispatchers:	
Personal services	177,795
Services and commodities	5,048
	<u>182,843</u>
Fire department:	
Personal services	15,383
Services and commodities	25,606
Capital outlay	61,035
	<u>102,024</u>
Rescue services:	
Personal services	46,549
Services and commodities	33,045
Capital outlay	28,790
	<u>108,384</u>
Animal control:	
Services and commodities	18,314
	<u>1,121,169</u>
Public works:	
Roads, bridges and sidewalks:	
Personal services	26,032
Services and commodities	9,742
Capital outlay	5,540
	<u>41,314</u>
Street lighting:	
Services and commodities	72,662
	<u>113,976</u>

**Schedule 1**

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City of Knoxville  
Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2003

## Disbursements (continued):

## Culture and recreation:

## Library:

Personal services	151,755
Services and commodities	96,440
Capital outlay	510
	<u>248,705</u>

## Parks:

Personal services	68,104
Services and commodities	20,172
Capital outlay	5,511
	<u>93,787</u>

## Swimming pool:

Personal services	<u>83,673</u>
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## Cemetery:

Personal services	133,419
Contractual services	17,341
Capital outlay	13,155
	<u>163,915</u>

## Recreation:

Personal services	178,873
Services and commodities	157,031
Capital outlay	18,439
	<u>354,343</u>
	<u>944,423</u>

## Community and economic development:

## Economic development:

Contractual services	<u>36,848</u>
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## Planning and zoning:

Personal services	48,954
Services and commodities	52,380
Capital outlay	450
	<u>101,784</u>
	<u>138,632</u>

City of Knoxville  
 Schedule of Cash Transactions  
 General Fund  
 Year ended June 30, 2003

Disbursements (continued):	
General government:	
Mayor and Council Members:	
Personal services	4,757
Services and commodities	2,784
	<u>7,541</u>
City Manager:	
Personal services	62,503
Services and commodities	3,892
	<u>66,395</u>
City Clerk:	
Personal services	62,116
Services and commodities	13,550
	<u>75,666</u>
Legal services:	
Services and commodities	14,424
	<u>14,424</u>
Elections:	
Services and commodities	3,052
	<u>3,052</u>
City Hall and general buildings:	
Personal services	71,797
Services and commodities	86,858
Capital outlay	6,777
	<u>165,432</u>
Tort liability:	
Services and commodities	39,480
	<u>39,480</u>
	<u>371,990</u>
Total disbursements	<u>2,690,190</u>
Deficiency of receipts under disbursements	<u>(491,866)</u>
Other financing sources (uses):	
Operating transfers in (out):	
Special Revenue:	
Emergency	16,104
Revolving Loan	5,000
FICA and IPERS Benefits	113,753
Employee Health Benefits	192,800

**Schedule 1**

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City of Knoxville  
Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2003

Other financing sources (uses) (continued):	
Operating transfers in (out):	
Capital Projects:	
Downtown Streetscape	(1,758)
Enterprise:	
Sewer Utility	30,000
Airport	(7,500)
Total other financing sources (uses)	<u>348,399</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(143,467)
Balance beginning of year	<u>736,706</u>
Balance end of year	<u>\$ 593,239</u>

See accompanying independent auditor's report.

**City of Knoxville**

City of Knoxville  
Combining Schedule of Cash Transactions  
Special Revenue Funds  
Year ended June 30, 2003

	Road Use Tax	Self- Supported Municipal Improvement District	Police and Fire Retirement	Emergency	Urban Revita- lization	Revolving Loan
Receipts:						
Property tax	\$ -	14,582	77,706	16,855	-	-
Tax increment financing collections	-	-	-	-	-	-
Other city tax:						
Mobile home tax	-	-	421	-	-	-
Utility tax replacement excise tax	-	-	2,667	-	-	-
	-	-	3,088	-	-	-
Use of money and property:						
Interest on investments	-	-	8,148	-	-	-
Intergovernmental:						
Road use tax allocation	629,405	-	-	-	-	-
Miscellaneous:						
Public enterprise contributions	-	-	-	-	-	33,969
Total receipts	629,405	14,582	88,942	16,855	-	33,969
Disbursements:						
Public safety:						
Police:						
Personal services	-	-	80,143	-	-	-
Public works:						
Roads, bridges and sidewalks:						
Personal services	280,435	-	-	-	-	-
Services and commodities	124,325	-	-	-	-	-
Capital outlay	138,639	-	-	-	-	-
	543,399	-	-	-	-	-
Public works director:						
Personal services	33,241	-	-	-	-	-
Traffic control and safety:						
Services and commodities	26,186	-	-	-	-	-
	602,826	-	-	-	-	-

Urban Renewal Tax Increment Highway 14 South	Urban Renewal Tax Increment Westridge	Urban Renewal Tax Increment Wal-Mart	Urban Renewal Tax Increment Five Star	Urban Renewal Tax Increment Park Lane	FICA and IPERS Benefits	Employee Health Benefits	Total
-	-	-	-	-	101,411	192,870	403,424
60,287	6,728	169,391	31,484	-	-	-	267,890
-	-	-	-	-	549	1,045	2,015
-	-	-	-	-	3,481	6,620	12,768
-	-	-	-	-	4,030	7,665	14,783
-	-	-	-	-	-	-	8,148
-	-	-	-	-	-	-	629,405
-	-	-	-	-	-	-	33,969
60,287	6,728	169,391	31,484	-	105,441	200,535	1,357,619
-	-	-	-	-	-	-	80,143
-	-	-	-	-	-	-	280,435
-	-	-	-	-	-	-	124,325
-	-	-	-	-	-	-	138,639
-	-	-	-	-	-	-	543,399
-	-	-	-	-	-	-	33,241
-	-	-	-	-	-	-	26,186
-	-	-	-	-	-	-	602,826

City of Knoxville  
Combining Schedule of Cash Transactions  
Special Revenue Funds  
Year ended June 30, 2003

	Road Use Tax	Self- Supported Municipal Improvement District	Police and Fire Retirement	Emergency	Urban Revita- lization	Revolving Loan
Disbursements (continued):						
Community and economic development:						
Economic development:						
Services and commodities	-	14,581	-	-	-	-
General government:						
Legal services:						
Services and commodities	4,836	-	-	-	-	-
Tort liability:						
Services and commodities	17,741	-	-	-	-	-
	<u>22,577</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt service:						
Principal redeemed	-	-	-	-	-	-
Interest paid	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>625,403</u>	<u>14,581</u>	<u>80,143</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of receipts over disbursements	<u>4,002</u>	<u>1</u>	<u>8,799</u>	<u>16,855</u>	<u>-</u>	<u>33,969</u>
Other financing sources (uses):						
Operating transfers in (out):						
General	-	-	-	(16,104)	-	(5,000)
Debt Service:						
1994 General Obligation	-	-	-	-	-	-
2000 General Obligation	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,104)</u>	<u>-</u>	<u>(5,000)</u>
Excess (deficiency) of receipts over (under) disbursements and other financing uses	<u>4,002</u>	<u>1</u>	<u>8,799</u>	<u>751</u>	<u>-</u>	<u>28,969</u>
Balance beginning of year	<u>292,925</u>	<u>-</u>	<u>393,357</u>	<u>101</u>	<u>3,956</u>	<u>72,790</u>
Balance end of year	<u>\$ 296,927</u>	<u>1</u>	<u>402,156</u>	<u>852</u>	<u>3,956</u>	<u>101,759</u>

See accompanying independent auditor's report.

Urban Renewal Tax Increment Highway 14 South	Urban Renewal Tax Increment Westridge	Urban Renewal Tax Increment Wal-Mart	Urban Renewal Tax Increment Five Star	Urban Renewal Tax Increment Park Lane	FICA and IPERS Benefits	Employee Health Benefits	Total
-	-	-	-	-	-	-	14,581
-	-	-	-	-	-	-	4,836
-	-	-	-	-	-	-	17,741
-	-	-	-	-	-	-	22,577
14,636	-	-	-	-	-	-	14,636
7,339	-	-	28,000	-	-	-	35,339
21,975	-	-	28,000	-	-	-	49,975
21,975	-	-	28,000	-	-	-	770,102
38,312	6,728	169,391	3,484	-	105,441	200,535	587,517
-	-	-	-	-	(113,753)	(192,800)	(327,657)
-	(6,847)	-	-	-	-	-	(6,847)
-	-	(167,563)	-	-	-	-	(167,563)
-	(6,847)	(167,563)	-	-	(113,753)	(192,800)	(502,067)
38,312	(119)	1,828	3,484	-	(8,312)	7,735	85,450
43,667	23,339	939,550	-	(7,203)	41,308	52,160	1,855,950
81,979	23,220	941,378	3,484	(7,203)	32,996	59,895	1,941,400

**City of Knoxville**

City of Knoxville  
Combining Schedule of Cash Transactions  
Debt Service Fund  
Year ended June 30, 2003

	1989 Street	1992 General Obligation	1994 General Obligation	1997 General Obligation	2000 General Obligation	Total
<b>Receipts:</b>						
Property tax	\$ -	-	70,968	127,024	173,219	371,211
<b>Other city tax:</b>						
Mobile home tax	-	-	549	3,486	-	4,035
<b>Use of money and property:</b>						
Interest on investments	1	4,153	-	15	-	4,169
<b>Total receipts</b>	<b>1</b>	<b>4,153</b>	<b>71,517</b>	<b>130,525</b>	<b>173,219</b>	<b>379,415</b>
<b>Disbursements:</b>						
<b>Debt service:</b>						
Principal redeemed	-	-	65,000	85,000	185,000	335,000
Interest paid	-	-	13,975	95,850	156,397	266,222
Administration fee	-	-	300	300	300	900
<b>Total disbursements</b>	<b>-</b>	<b>-</b>	<b>79,275</b>	<b>181,150</b>	<b>341,697</b>	<b>602,122</b>
Excess (deficiency) of receipts over (under) disbursements	1	4,153	(7,758)	(50,625)	(168,478)	(222,707)
<b>Other financing sources:</b>						
<b>Operating transfers in:</b>						
<b>Special Revenue:</b>						
Urban Renewal Tax Increment Westridge	-	-	6,847	-	-	6,847
Urban Renewal Tax Increment Wal-Mart	-	-	-	-	167,563	167,563
<b>Enterprise:</b>						
Sewer Utility	-	-	-	-	253,767	253,767
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>6,847</b>	<b>-</b>	<b>421,330</b>	<b>428,177</b>
Excess (deficiency) of receipts over (under) disbursements	1	4,153	(911)	(50,625)	252,852	205,470
Balance beginning of year	656	16,501	72,146	(39,262)	(546,634)	(496,593)
Balance end of year	\$ 657	20,654	71,235	(89,887)	(293,782)	(291,123)

See accompanying independent auditor's report.

City of Knoxville  
Combining Schedule of Cash Transactions  
Capital Projects Funds  
Year ended June 30, 2003

	City Hall Building Improve- ments	CDBG Housing Rehabilitation	Street Shop Improve- ments	Downtown Streetscape
Receipts:				
Use of money and property:				
Interest on investments	\$ -	-	-	-
Intergovernmental:				
Community Development Block Grants/State's Program	-	2,090	-	-
Federal Aviation Administration grant	-	-	-	-
Miscellaneous:				
Sale of cemetery lots	-	-	-	-
Total receipts	-	2,090	-	-
Disbursements:				
Capital projects:				
Services and commodities	-	7,525	-	-
Capital outlay	-	-	1,711	-
Total disbursements	-	7,525	1,711	-
Excess (deficiency) of receipts over (under) disbursements	-	(5,435)	(1,711)	-
Other financing sources (uses):				
Operating transfers in (out):				
General	-	-	-	1,758
Capital Projects:				
Airport Runway Phase V	-	-	-	-
Ramp Exterior and Repair	-	-	-	-
Internal Service:				
Building Replacement	(26,992)	-	(11,289)	-
Total other financing sources (uses)	(26,992)	-	(11,289)	1,758
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(26,992)	(5,435)	(13,000)	1,758
Balance beginning of year	26,992	-	25,806	(1,758)
Balance end of year	\$ -	(5,435)	12,806	-

Street Construction West Larson	West Madison Street Extension	Willetts Drive Paving	Bell Avenue Paving	2001 Southside Sanitary Sewer	West Pleasant and Highway 14	North 7th Street Culvert	2000 Reno Street Sewer
358	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
358	-	-	-	-	-	-	-
-	-	-	-	-	273	-	-
-	-	-	-	82,979	-	-	-
-	-	-	-	82,979	273	-	-
358	-	-	-	(82,979)	(273)	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
358	-	-	-	(82,979)	(273)	-	-
903	7,164	1,397	28,515	68,036	(441)	16,488	(10,254)
1,261	7,164	1,397	28,515	(14,943)	(714)	16,488	(10,254)

City of Knoxville  
Combining Schedule of Cash Transactions  
Capital Projects Funds  
Year ended June 30, 2003

	2001 Storm Sewer	WTPP Carrier	Scada System Design	Snail Removal	1998 Asphalt Overlay
Receipts:					
Use of money and property:					
Interest on investments	-	-	-	-	70
Intergovernmental:					
Community Development Block Grants/State's Program	-	-	-	-	-
Federal Aviation Administration grant	-	-	-	-	-
Miscellaneous:					
Sale of cemetery lots	-	-	-	-	-
Total receipts	-	-	-	-	70
Disbursements:					
Capital projects:					
Services and commodities	-	17,006	9,790	13,701	-
Capital outlay	-	189,460	-	100,995	-
Total disbursements	-	206,466	9,790	114,696	-
Excess (deficiency) of receipts over (under) disbursements	-	(206,466)	(9,790)	(114,696)	70
Other financing sources (uses):					
Operating transfers in (out):					
General	-	-	-	-	-
Capital Projects:					
Airport Runway Phase V	-	-	-	-	-
Ramp Exterior and Repair	-	-	-	-	-
Internal Service:					
Building Replacement	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	-	(206,466)	(9,790)	(114,696)	70
Balance beginning of year	(110,575)	285,000	75,000	61,600	5,363
Balance end of year	(110,575)	78,534	65,210	(53,096)	5,433

See accompanying independent auditor's report.

WWTP Building Floor and Heat	Culvert Repair Project	2001 Street Improvements	Cemetery Roads	Pool Construction Phase II	Airport Runway Phase V	Ramp Exterior and Repair	Side-Walks	Total
-	103	-	430	-	238	-	657	1,856
-	-	-	-	-	-	-	-	2,090
-	-	-	-	-	-	134,928	-	134,928
-	-	-	-	-	-	134,928	-	137,018
-	-	-	1,518	-	-	-	-	1,518
-	103	-	1,948	-	238	134,928	657	140,392
15,103	-	-	-	-	-	135,860	-	199,258
3,417	-	-	-	2,200	-	-	-	380,762
18,520	-	-	-	2,200	-	135,860	-	580,020
(18,520)	103	-	1,948	(2,200)	238	(932)	657	(439,628)
-	-	-	-	-	-	-	-	1,758
-	-	-	-	-	-	369	-	369
-	-	-	-	-	(369)	-	-	(369)
-	-	-	-	-	-	-	-	(38,281)
-	-	-	-	-	(369)	369	-	(36,523)
(18,520)	103	-	1,948	(2,200)	(131)	(563)	657	(476,151)
25,000	7,944	58,864	28,443	15,417	18,368	(7,629)	37,531	663,174
6,480	8,047	58,864	30,391	13,217	18,237	(8,192)	38,188	187,023

City of Knoxville  
Combining Schedule of Cash Transactions  
Enterprise Funds  
Year ended June 30, 2003

	Sewer Utility	Sewer Revenue Bond Sinking
Receipts:		
Use of money and property:		
Interest on investments	\$ 24,827	-
Hangar and facilities rent	-	-
	24,827	-
Charges for service:		
Sewer rental fees	1,212,731	-
Installations and connections	14,228	-
Sanitation	18,514	-
	1,245,473	-
Miscellaneous:		
Sales tax collected	18,523	-
Customer deposits	-	-
Miscellaneous	-	-
	18,523	-
Total receipts	1,288,823	-
Disbursements:		
Business type activities:		
Personal services	309,410	-
Services and commodities	236,625	-
Capital outlay	184,101	-
Debt service:		
Principal redeemed	-	75,000
Interest paid	-	48,371
Administration fee	-	524
	730,136	123,895

Sewer Replace- ment	Sewer Revenue Reserve	Sewer Rent Deposits	Airport	2002 Sewer Revenue Bond Sinking	Total
1,125	-	-	133	-	26,085
-	-	-	31,173	-	31,173
1,125	-	-	31,306	-	57,258
-	-	-	-	-	1,212,731
-	-	-	-	-	14,228
-	-	-	-	-	18,514
-	-	-	-	-	1,245,473
-	-	-	-	-	18,523
-	-	11,375	-	-	11,375
-	-	-	100	-	100
-	-	11,375	100	-	29,998
1,125	-	11,375	31,406	-	1,332,729
-	-	-	-	-	309,410
46,642	-	7,980	83,946	-	375,193
44	-	-	2,094	-	186,239
-	-	-	-	115,000	190,000
-	-	-	-	160,350	208,721
-	-	-	-	375	899
46,686	-	7,980	86,040	275,725	1,270,462

City of Knoxville  
Combining Schedule of Cash Transactions  
Enterprise Funds  
Year ended June 30, 2003

	Sewer Utility	Sewer Revenue Bond Sinking
Excess (deficiency) of receipts over (under) disbursements	558,687	(123,895)
Other financing sources (uses):		
Operating transfers in (out):		
General	(30,000)	-
Debt Service:		
2000 General Obligation	(253,767)	-
Enterprise:		
Sewer Utility	-	124,257
Sewer Revenue Bond Sinking	(124,257)	-
Sewer Replacement	(46,182)	-
Total other financing sources (uses)	(454,206)	124,257
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	104,481	362
Balance beginning of year	1,313,976	10,042
Balance end of year	\$ 1,418,457	10,404

See accompanying independent auditor's report.

Sewer Replace- ment	Sewer Revenue Reserve	Sewer Rent Deposits	Airport	2002 Sewer Revenue Bond Sinking	Total
(45,561)	-	3,395	(54,634)	(275,725)	62,267
-	-	-	7,500	-	(22,500)
-	-	-	-	-	(253,767)
46,182	-	-	-	-	170,439
-	-	-	-	-	(124,257)
-	-	-	-	-	(46,182)
46,182	-	-	7,500	-	(276,267)
621	-	3,395	(47,134)	(275,725)	(214,000)
173,756	418,000	39,632	(30,044)	-	1,925,362
174,377	418,000	43,027	(77,178)	(275,725)	1,711,362

**City of Knoxville**

City of Knoxville  
Combining Schedule of Cash Transactions  
Internal Service Funds  
Year ended June 30, 2003

	Equipment Replacement	Building Replacement	Total
Receipts:			
Use of money and property:			
Interest on investments	\$ 10,889	-	10,889
Charges for service:			
Payments from operating funds	338,038	-	338,038
Miscellaneous:			
Insurance settlements	17,653	69,431	87,084
Total receipts	<u>366,580</u>	<u>69,431</u>	<u>436,011</u>
Disbursements:			
Non-program:			
Capital outlay	39,510	5,452	44,962
Excess of receipts over disbursements	<u>327,070</u>	<u>63,979</u>	<u>391,049</u>
Other financing sources:			
Operating transfers in:			
Capital Projects:			
City Hall Building Improvements	-	26,992	26,992
Street Shop Improvements	-	11,289	11,289
Total other financing sources	<u>-</u>	<u>38,281</u>	<u>38,281</u>
Excess of receipts and other financing sources over disbursements	327,070	102,260	429,330
Balance beginning of year	<u>423,093</u>	<u>6,358</u>	<u>429,451</u>
Balance end of year	<u>\$ 750,163</u>	<u>108,618</u>	<u>858,781</u>

See accompanying independent auditor's report.

City of Knoxville  
Combining Schedule of Cash Transactions  
Trust Funds  
Year ended June 30, 2003

	Non-expendable Trust		Library Gifts/ Memorials
	Cemetery Perpetual Care	Reaver Trust	
Receipts:			
Use of money and property:			
Interest on investments	\$ 291	-	820
Miscellaneous:			
Contributions	-	-	24,642
Sale of cemetery lots	5,295	-	-
	5,295	-	24,642
Total receipts	5,586	-	25,462
Disbursements:			
Public safety:			
Services and commodities	-	-	-
Capital outlay	-	-	-
	-	-	-
Culture and recreation:			
Services and commodities	-	-	3,433
Capital outlay	-	-	20,000
	-	-	23,433
Total disbursements	-	-	23,433
Excess (deficiency) of receipts over (under) disbursements	5,586	-	2,029
Balance beginning of year	173,950	500	62,346
Balance end of year	\$ 179,536	500	64,375

See accompanying independent auditor's report.

Expendable Trust							
Rescue Donations	Auld Park Playground Trust	Skate Park Trust	Police Department Trust	Recreation Donations	Aquatic Park Trust		Total
1,237	4,089	-	1,397	-	-		7,834
1,761	-	-	503	783	-		27,689
-	-	-	-	-	-		5,295
1,761	-	-	503	783	-		32,984
2,998	4,089	-	1,900	783	-		40,818
10,537	-	-	5,724	-	-		16,261
28,869	-	-	-	-	-		28,869
39,406	-	-	5,724	-	-		45,130
-	49	1,262	-	257	-		5,001
-	-	29,065	-	-	-		49,065
-	49	30,327	-	257	-		54,066
39,406	49	30,327	5,724	257	-		99,196
(36,408)	4,040	(30,327)	(3,824)	526	-		(58,378)
92,188	29,584	32,972	26,741	5,661	(60)		423,882
55,780	33,624	2,645	22,917	6,187	(60)		365,504

City of Knoxville

Bond Maturities

June 30, 2003

Year Ending June 30,	General Obligation Bonds							Total
	General		Corporate Purpose		General			
	Corporate Purpose		Corporate Purpose		Corporate Purpose			
	Issued Jun 1, 1994		Issued Apr 1, 1997		Issued May 1, 2000			
Interest		Interest		Interest				
Rates	Amount	Rates	Amount	Rates	Amount			
2004	5.20%	\$ 65,000	5.25%	\$ 95,000	5.05%	\$ 195,000	\$ 355,000	
2005	5.20	70,000	5.25	105,000	5.05	205,000	380,000	
2006	5.20	70,000	5.25	115,000	5.05	220,000	405,000	
2007		-	5.25	205,000	5.05	230,000	435,000	
2008		-	5.30	215,000	5.05	235,000	450,000	
2009		-	5.30	230,000	5.10	250,000	480,000	
2010		-	5.30	240,000	5.10	260,000	500,000	
2011		-	5.30	255,000	5.15	110,000	365,000	
2012		-	5.30	270,000	5.20	115,000	385,000	
2013		-		-	5.25	120,000	120,000	
2014		-		-	5.35	125,000	125,000	
2015		-		-	5.45	135,000	135,000	
2016		-		-	5.50	140,000	140,000	
2017		-		-	5.60	150,000	150,000	
2018		-		-	5.65	155,000	155,000	
2019		-		-	5.70	165,000	165,000	
Total		<u>\$ 205,000</u>		<u>\$ 1,730,000</u>		<u>\$ 2,810,000</u>	<u>\$ 4,745,000</u>	

See accompanying independent auditor's report.

Revenue Bonds				
Sewer Issued Jun 1, 1993		Sewer Issued Mar 1, 2002		Total
Interest Rates	Amount	Interest Rates	Amount	
4.62%	\$ 79,000	4.00%	\$ 155,000	\$ 234,000
4.62	82,000	4.00	160,000	242,000
4.62	86,000	4.00	165,000	251,000
4.62	90,000	4.00	170,000	260,000
4.62	94,000	4.00	175,000	269,000
4.62	99,000	4.10	185,000	284,000
4.62	103,000	4.15	195,000	298,000
4.62	108,000	4.15	205,000	313,000
4.62	113,000	4.25	215,000	328,000
4.62	118,000	4.37	225,000	343,000
	-	4.50	240,000	240,000
	-	4.55	250,000	250,000
	-	4.65	265,000	265,000
	-	4.70	280,000	280,000
	-		-	-
	-		-	-
	<u>\$ 972,000</u>		<u>\$ 2,885,000</u>	<u>\$ 3,857,000</u>

**Schedule 9**

## City of Knoxville

## Comparison of Taxes and Intergovernmental Receipts

	Years ended June 30,			
	2003	2002	2001	2000
Property tax	\$ 2,091,215	1,987,916	1,975,101	1,933,713
Tax increment financing collections	267,890	85,090	36,646	32,577
Other city tax:				
Mobile home tax	15,049	19,770	13,130	12,597
Utility tax replacement excise tax	55,442	63,578	58,225	-
Cable franchise fees	60,956	58,331	57,091	54,377
	131,447	141,679	128,446	66,974
Intergovernmental:				
State allocation	92,404	97,436	110,400	110,726
Road use tax allocation	629,405	619,235	651,557	667,738
Bank franchise tax	20,491	21,256	21,719	14,635
County library	30,050	23,519	25,500	41,123
Public Safety Partnership and Community Policing grant	55,786	36,474	50,267	-
Governor's Traffic Safety Bureau grant	12,294	-	-	-
Community Development Block Grants/State's Program	2,090	-	-	190,000
Federal Aviation Administration grant	134,928	-	-	-
Miscellaneous	45,777	33,306	40,712	51,455
	1,023,225	831,226	900,155	1,075,677
Total	\$ 3,513,777	3,045,911	3,040,348	3,108,941

See accompanying independent auditor's report.



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

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Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the primary government financial statements of the City of Knoxville, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 28, 2003. Our report expressed an unqualified opinion 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2003 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. Prior year statutory comments have been resolved except for items (2), (5), (7), (8), (10), (11), (12), and (13).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Knoxville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Knoxville's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A), (B), and (D) are material weaknesses. The prior year reportable conditions have not been resolved and are repeated as items (A), (B), (C) and (D).

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

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

DAVID A. VAUDT, CPA  
Auditor of State

August 28, 2003

City of Knoxville  
Schedule of Findings  
Year ended June 30, 2003

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

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

- (1) Cash – handling petty cash, reconciling and signing checks.
- (2) Investments – recording and custody.
- (3) Payroll – report preparation and distribution of payroll taxes.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. 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 addressed all prior-year audit comments involving segregation of duties during the 2002-03 year.

We will continue to review our internal control activities to assure segregation, particularly as technology and related processes necessarily change over time.

Conclusion – Response accepted.

- (B) Monthly Bank to Book Reconciliations – Monthly reconciliations of the Clerk's balances to the bank accounts and investments were not prepared. In addition, the bank balance exceeds the book balance resulting in a variance of \$6,239 at June 30, 2003.

Recommendation – To improve financial accountability and control, the book balances should be reconciled monthly to the bank and cash balances. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month and retained.

Response – Bank-to-book reconciliations will be conducted and maintained timely, on a strict monthly basis. While the FY-2003 imbalance weighed to the City's favor, such variances will not occur in the future. A listing of outstanding checks is prepared monthly, and retained for general records, and for future reconciliations.

Conclusion – Response acknowledged. In addition, the City should continue to investigate and resolve the variance indicated above.

City of Knoxville

Schedule of Findings

Year ended June 30, 2003

- (C) 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 that 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:

- Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality.
- Storage of backup tapes/disks off site.
- Disaster recovery plan.

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

Response – The finance system contains a feature that automatically changes employee passwords every 90 days. That feature will be activated for continued use.

Off-site storage now occurs monthly, where backup disks are placed in the lock-box at the Iowa State Savings Bank. The staff will begin using off-site storage on a weekly basis, as opposed to monthly. Such disks will be deposited in the lock-box each Friday afternoon.

Insofar as a disaster recovery is concerned, the cities of West Des Moines, Johnston, and Knoxville use the same financial software. A 2004 goal of the City will be to formulate 28E Agreements with the aforementioned cities to accommodate financial operations through disaster periods. In 1993 (during the Great Flood), the City of West Des Moines used Knoxville’s financial software to run payroll during its flood; hence, the cities have informally established a beneficial network that must be formalized by agreements.

Conclusion – Response accepted.

- (D) Knoxville Municipal Waterworks Fund – The Waterworks provides billing and collection services for the City’s sewer fees. The City does not receive a reconciliation of utility billings, collections and delinquencies from the Waterworks.

Recommendation – The City should obtain a monthly utility reconciliation report from the Waterworks. The report should be reviewed for propriety.

Response – The Knoxville Municipal Waterworks does not and will not provide monthly utility reconciliations because they are unable to generate the necessary information. Staff has approached the Knoxville Municipal Waterworks for this purpose, without success.

Conclusion – Response acknowledged. The City should continue in its effort to obtain monthly utility reconciliations from the Waterworks.

City of Knoxville

Schedule of Findings

Year ended June 30, 2003

**Findings Related to Statutory Reporting:**

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.
- (2) Certified Budget – During the year ended June 30, 2003, the City changed to a new chart of accounts as approved by the City Finance Committee. After reclassifying the disbursements to the appropriate functions, disbursements during the year ended June 30, 2003 exceeded the amount budgeted in the public safety and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – The City amended the 2002-03 budget to account for unanticipated expenditure needs that had occurred. However, the budget amendment involved a simple clerical error, where budget amendments from the old chart-of-accounts structure to the new chart-of-accounts structure erroneously placed the City's sewer and airport projects in capital projects fund, as opposed to an enterprise fund. Therefore, the capital projects fund was over-budget.

With respect to public safety, monies allocated for the Police Retirement Fund were erroneously omitted from the FY 2003 budget. During the budget amendment the staff did not catch this error, so the necessary supplemental appropriation did not occur; hence over-budget.

The January claims were inadvertently omitted from the expenditure guideline which prevented the staff from properly monitoring the budget for necessary amendments.

Staff will monitor the budget and will amend sufficient amounts in the future in accordance with Chapter 384.18 of the Code of Iowa before disbursements will be allowed.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2003

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

Name, Title, and Business Connection	Transaction Description	Amount
Forrest Pearson, Council Member, owner of Pearson Bros., Inc.	Supplies, parts, and labor	\$ 1,454
Craig Kelley, Council Member, owner of Central Iowa Fasteners	Supplies and parts	1,084

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Council Member Craig Kelley and Council Member Forrest Pearson do not appear to represent a conflict of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- (6) 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 insure that the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although the minutes of Council proceedings were published, they did not contain a summary of all receipts and disbursements from each fund for four of twelve months as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The Council should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes as required.

Response – Henceforth, the City will assure compliance with Chapter 372.13(6) of the Code of Iowa. This requires publication of receipts and disbursements with the Council minutes.

Conclusion – Response accepted.

- (8) Deposits and Investments – Except as noted below, deposits and investments were in compliance with Chapter 12B and 12C of the Code of Iowa and the City’s investment policy. Interest income from investments made from the Debt Service Funds and Capital Projects Funds have not been credited to these accounts. In accordance with Chapter 12C.9 of the Code of Iowa, interest earned on bond proceeds and funds being accumulated for the payment of principal and interest should be used to pay the principal and interest as it comes due or be credited to the project fund for which the indebtedness was issued.

Recommendation – The City should comply with Chapter 12C.9 of the Code of Iowa.

City of Knoxville

Schedule of Findings

Year ended June 30, 2003

Response – Investment income earned on bond proceeds was re-invested, as opposed to credited to the appropriate Debt Service Fund for principal and interest payments. In the future, such investment income will be credited to the appropriate Debt Service Fund, pursuant to Chapter 12C.9 of the Code of Iowa.

Conclusion – Response accepted.

- (9) Sewer Revenue Bonds – Although the City established the Enterprise Fund, 2002 Sewer Revenue Bond Sinking Account, the City did not make the required monthly transfers in accordance with the sewer revenue bond resolution.

Recommendation – The City should make monthly transfers as required by the sewer revenue bond resolution.

Response – Monthly transfers will be made to the sinking account pursuant to the revenue bond resolution.

Conclusion – Response accepted.

- (10) Financial Condition – At June 30, 2003, the City had deficit balances as follows:

Fund	Balance	
	June 30, 2003	June 30, 2002
Special Revenue:		
Urban Renewal Tax Increment Park Lane	\$ (7,203)	(7,203)
Debt Service:		
1997 General Obligation Bonds	(89,887)	(39,262)
2000 General Obligation Bonds	(293,782)	(546,634)
Capital Projects:		
Downtown Streetscape	-	(1,758)
CDBG Housing Rehabilitation	(5,435)	-
2001 Southside Sanitary Sewer	(14,943)	-
West Pleasant and Highway 14	(714)	(441)
2000 Reno Street Sewer	(10,254)	(10,254)
2001 Storm Sewer	(110,575)	(110,575)
Snail Removal	(53,096)	-
Ramp Exterior and Repair	(8,192)	(7,629)
Enterprise:		
Airport	(77,178)	(30,044)
2002 Sewer Revenue Bond Sinking	(275,725)	-
Expendable Trust:		
Aquatic Park Trust	(60)	(60)

Recommendation – The City should evaluate the reason for these deficits and investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position. Some of these deficits have remained unchanged since fiscal 2002 and others are increasing.

City of Knoxville

Schedule of Findings

Year ended June 30, 2003

Response – All FY-2003 fund deficits were “cleaned-up” and reconciled simultaneous with the new chart-of-accounts implemented on July 1, 2003. Each were reconciled through transfers and minor clerical transactions, etc.

Conclusion – Response acknowledged. The City should address these deficits in the next budget cycle as well as develop a long-range plan to eliminate the deficits and return the funds to a sound financial position.

- (11) Accrued Interest on Sale of General Obligation Bonds – As reported in prior years, accrued interest of \$7,478 on the settlement of general obligation bonds issued May 1, 2000 was credited to the Capital Projects Fund, 2001 Street Improvement Account. Resolution No. 05-46-00 authorizing and providing for the issuance of the general obligation bonds required that the accrued interest be credited to the Debt Service Fund.

Recommendation – A corrective transfer of \$7,478 should be made.

Response – A corrective transfer of \$7,478 will be made to reconcile this comment. In the future, all investment income on general obligation bond funds will accrue to the Debt Service Fund.

Conclusion – Response accepted.

- (12) Accrued Interest on Sale of Sewer Revenue Bonds – As reported in fiscal 2002, accrued interest of \$9,265 on the settlement of sewer revenue bonds issued March 4, 2002 was credited to the Capital Projects Fund, 2001 Southside Sanitary Sewer. Resolution No. 03-13-02 authorizing and providing for the issuance of the general obligation bonds required that the accrued interest be credited to the Debt Service Fund.

Recommendation – A corrective transfer of \$9,265 should be made.

Response – A corrective transfer of \$9,265 will be made to reconcile this comment. In the future, all investment income on general obligation bond funds will accrue to the Debt Service Fund.

Conclusion – Response accepted.

- (13) Airport Commission Minutes – Minutes of the Airport Commission were not always signed.

Recommendation – All minutes should be signed to authenticate the actions taken.

Response – All board minutes hereafter will be duly signed by the Chairman following formal approval. The staff has assigned a liaison employee to serve as Commission Secretary, which will assure this.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2003

- (14) General Obligation Bonds – The Urban Renewal Tax Increment Highway 14 South and the Urban Renewal Tax Increment Westridge Funds did not make transfers for their respective portion of the related general obligation debt and General Fund interfund loan in accordance with the debt payment schedule.

Recommendation – The City should make monthly transfers in accordance with the debt payment schedule.

Response – We will review this issue. Monthly transfers are planned to be made according to the debt payment schedule.

Conclusion – Response accepted.

- (15) Transfers to Internal Service Fund – The Internal Service Fund, Building Replacement was established to accumulate resources for the replacement of City buildings and structures. Payments to internal service funds from operating funds are to be budgeted disbursements in accordance with Code of Iowa Chapter 384.16. During the year ended June 30, 2003, transfers were made from Capital Projects Funds, City Hall Building Improvements and Street Shop Improvements to the Internal Service Fund, Building Replacement totaling \$38,281 that were not appropriately budgeted.

Recommendation – The City should make all payments from operating funds to internal service funds in accordance with the adopted budget.

Response – In restructuring the chart of accounts we felt that it would be more appropriate to account for the building repairs and replacement under the Internal Service Fund, Building Replacement instead of having two capital project funds. In the future, payments will be made only from operating funds in accordance with the adopted budget. Capital project funds will be closed to the proper funds.

Conclusion – Response accepted.

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City of Knoxville

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager  
Selina V. Johnson, CPA, Senior Auditor  
Nicole B. Tenges, Assistant Auditor

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Deputy Auditor of State