



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE November 18, 2004

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515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$7,113,732 for the year ended June 30, 2004. The receipts included \$2,206,871 in property tax, \$327,032 from tax increment financing collections, \$2,075,997 from charges for service, \$895,084 from operating grants, contributions and restricted interest, \$411,054 from capital grants, contributions and restricted interest, \$148,486 from local option sales tax, \$42,521 from unrestricted interest on investments, \$987,538 from bond proceeds and \$19,149 from other general receipts.

Disbursements for the year totaled \$7,779,360, and included \$1,187,990 for public safety, \$1,169,482 for culture and recreation, and \$777,558 for debt service. Also, disbursements for business type activities totaled \$3,164,198.

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
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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City of Knoxville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
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
(After January 2004)		
Craig Kelley	Mayor	Jan 2006
Forrest Pearson	Mayor Pro tem	Jan 2006
Dave Roozeboom	Council Member	Jan 2006
Sharon Dennison	Council Member	Jan 2008
Bob Edwards	Council Member	Jan 2008
Bob Wims	Council Member	Jan 2008
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 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, 2004, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Knoxville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 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 unit, 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, 2004, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

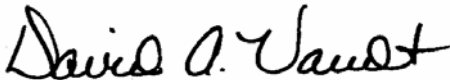
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Knoxville as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

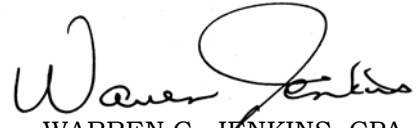
As described in Note 16, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2004 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 grants. 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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Knoxville's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 9, 2004

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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful, and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Governmental fund receipts remained consistent at approximately \$4,100,000 in both fiscal year FY2004 and FY2003.
- Governmental fund disbursements decreased approximately \$417,000 in FY2004 from FY2003. Disbursements for the Capital Projects Fund decreased by \$487,000 as a result of the completion of several projects during FY 2003.
- Proprietary fund receipts increased approximately \$1,400,000 in FY2004 over FY2003. This significant increase was due primarily to the refinancing of nearly \$1 million in sewer revenue bonds and \$370,000 in capital grant receipts for airport improvements.
- Proprietary fund disbursements increased approximately \$2,300,000 in FY2004 over FY2003. This significant increase is due to the refinancing of nearly \$1,000,000 of sewer revenue bonds, approximately \$413,000 related to design and construction of the airport runway and approximately \$506,000 for design and construction of the infiltration and inflow improvement projects.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds and the individual Internal Service Funds.

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 operational results of funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

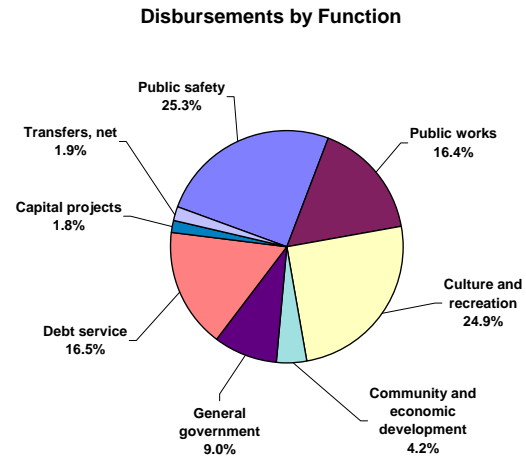
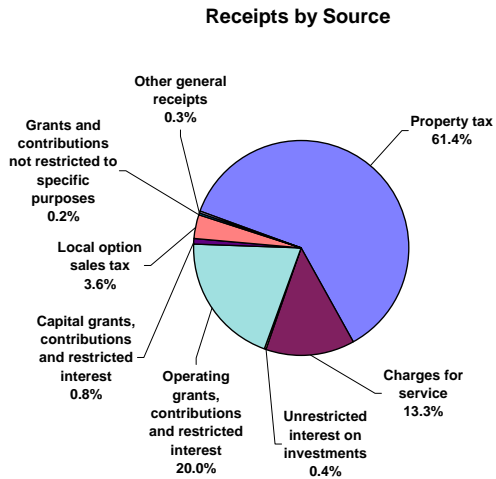
The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities decreased from a year ago, decreasing from \$3.512 million to \$2.935 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service	\$ 549,584
Operating grants, contributions and restricted interest	825,745
Capital grants, contributions and restricted interest	34,485
General receipts:	
Property tax	2,533,903
Local option sales tax	148,486
Grants and contributions not restricted to specific purposes	6,401
Unrestricted interest on investments	15,796
Other general receipts	12,748
Total receipts	<u>4,127,148</u>
Disbursements and transfers:	
Public safety	1,187,990
Public works	772,836
Culture and recreation	1,169,482
Community and economic development	197,729
General government	423,033
Debt service	777,558
Capital projects	86,534
Transfers, net	88,926
Total disbursements and transfers	<u>4,704,088</u>
Decrease in cash basis net assets	(576,940)
Cash basis net assets beginning of year	<u>3,512,293</u>
Cash basis net assets end of year	<u>\$ 2,935,353</u>



The City's total cash basis net assets of the governmental activities decreased 16.4%, or approximately \$577,000, from June 30, 2003 to June 30, 2004. The Capital Projects Fund decreased by \$136,073 as a result of completion of several projects in FY2003.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2004
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 1,526,413
Operating grants, contributions and restricted interest	69,339
Capital grants, contributions and restricted interest	376,569
General receipts:	
Unrestricted interest on investments	26,725
Bond proceeds	987,538
Transfers	88,926
Total receipts and transfers	<u>3,075,510</u>
Disbursements:	
Airport	503,012
Sewer	<u>2,661,186</u>
Total disbursements	<u>3,164,198</u>
Decrease in cash balance	(88,688)
Cash basis net assets beginning of year	<u>1,853,893</u>
Cash basis net assets end of year	<u>\$ 1,765,205</u>

The City's total cash basis net assets of the business type activities decreased 4.8%, or approximately \$89,000, from June 30, 2003 to June 30, 2004.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$2,487,943, a decrease of more than \$308,000 from last year's total of \$2,796,043. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$215,379 from the prior year, to a year-end balance of \$377,860. There were no significant changes in revenues or expenditures for the General Fund.
- The Road Use Tax Fund cash balance decreased by \$94,266, to \$202,661, during the fiscal year. This \$202,661 balance still maintains the City's 25% internal reserve balance for the Road Use Tax Fund. There were no significant changes in revenues or expenditures for the Road Use Tax Fund.
- The Police Retirement Fund cash balance decreased by \$24,618, to a year-end balance of \$377,538 on June 30, 2004. The City has reduced the tax levy for this fund because it contains an excessive fund balance. The City intends to continue "spending-down" this fund over a number of years, simultaneously reducing its balance and keeping the tax levy stable.
- The Urban Renewal Tax Increment Wal-Mart Fund cash balance increased \$4,807, to \$946,185. Payment of \$880,000 to Wal-Mart in FY2005 will remove the Wal-Mart TIF Fund from the list of major governmental funds, rendering this fund similar to all other TIF funds.
- The Debt Service Fund cash balance increased by \$156,349, to a year-end deficit balance of \$134,774. In 2001, the City failed to levy for \$345,000 of bonded debt payments. Therefore, the fund has been "making-up" this difference for three years.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased by \$66,484, to a year-end balance of \$1,722,056. There were no significant changes in receipts and disbursements.
- The Airport Fund cash balance increased by \$16,891, to a year-end deficit balance of \$60,287. The Airport Fund has reported a deficit year-end balance for several years, which fluctuates upward or downward depending on the number of needed repairs.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 17, 2004. The business type activities disbursements increased due to refinancing the 1993 sewer revenue bonds.

Other city tax collections increased during FY2004 due to the implementation of a local option sales tax for infrastructure repair and equipment replacement, which became effective January 1, 2004.

Charges for service increased due to increased fees for recreation fees, rescue fees, cemetery fees and parking ticket fees.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$8,035,949 in bonds and other long-term debt, compared to approximately \$8,726,440 last year. The chart below segregates the City's debt into its component parts.

Outstanding Debt at Year-End	
	June 30, 2004
General obligation bonds	\$4,390,000
Sewer revenue bonds	3,640,000
Capital lease purchase agreement	5,949
Total	<u>\$8,035,949</u>

City debt payments in FY 2004 reduced outstanding debt by \$690,491.

The City continues to carry a general obligation bond rating of A2 assigned by national rating agencies. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4,395,949 is significantly below its constitutional debt limit of approximately \$8 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Formulation of the FY2005 budget was limited by several realities that hinder the City's fiscal health. The first reality involves the element of property tax rollback, which tends to erode the City's tax base each year. The City's FY2005 assessed value has declined \$5 million from the FY2004 level (and the FY2004 level declined \$2 million from 2003). The City's General Fund expenditures will decline \$27,000 from FY2004 levels. As a result, there are no new positions or services in the upcoming budget, though the City was able to retain all existing positions and services for FY2005.

Second, Road Use Tax Fund revenues are budgeted to increase 2.7% (or \$17,000) in FY2005, but remain insufficient to fund necessary public infrastructure improvements. Fortunately, the combined effects of the Sewer Rehabilitation Program and the Local Option Sales Tax enable infrastructure repairs annually.

Third, the City can no longer depend upon State intergovernmental revenue, as some 9.6% of the City's general revenues (\$147,000) were eliminated outright by the State during the FY2004 fiscal year (and no such funds were budgeted in FY2005). Further, the State Legislature threatens annually to repeal replacement funding to cities for monies and credits provided to taxpayers. Should this threat of elimination materialize, certain City services would likely collapse. There is nothing the City can do to proactively place itself a safe distance from this threat.

The proposed FY2005 budget contains total receipts of \$11,150,682 and disbursements of \$15,601,073. This \$10 million-plus budget contains a number of "one-time" components, including:

- The "one-time" TIF reimbursement to Wal-Mart of \$880,000;
- Community Development Block Grant "passthroughs" of \$700,000 for (i) housing rehabilitation and (ii) construction of the childcare facility. The City serves as a conduit for both of these projects:

- Issuance and disbursement of the proceeds of a \$2.36 million sewer bond to (i) equip the wastewater plant with a Supervisory Control and Data Acquisition (SCADA) system to electronically monitor the sewer system and (ii) construct the Westside Sanitary Sewer Project.
- The first full year of local option sales tax collection and disbursement, including reconstruction of the Roche Street project. A \$760,000 grant will be obtained to help finance this project.

The FY2005 budget contains debt service payments of \$1,214,057, comprising six (6) separate bond issues.

The proposed FY2005 levy is \$13.15 per \$1,000 of assessed valuation, identical to that of 2004. Unfortunately, the City has maximized its General Fund levy limit of \$8.10 and its Emergency Fund levy limit of \$0.27. A reduction in valuation translates into a direct reduction in general revenue.

These parameters were taken into account when adopting the budget for FY2005.

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 Connie Stevens, City Clerk, 305 S. Third Street, Knoxville, IA 50138.

City of Knoxville

Basic Financial Statements

City of Knoxville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 1,187,990	231,389	68,352	-
Public works	772,836	15,211	643,896	517
Culture and recreation	1,169,482	228,203	44,171	-
Community and economic development	197,729	18,672	62,359	33,968
General government	423,033	56,109	3,239	-
Debt service	777,558	-	3,304	-
Capital projects	86,534	-	424	-
Total governmental activities	4,615,162	549,584	825,745	34,485
Business type activities:				
Airport	503,012	-	35,522	376,569
Sewer	2,661,186	1,526,413	33,817	-
Total business type activities	3,164,198	1,526,413	69,339	376,569
Total	\$ 7,779,360	2,075,997	895,084	411,054
General Receipts:				
Property and other City tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Bond proceeds (net of \$7,462 discount)				
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:				
Streets				
Urban renewal				
Police retirement				
Debt service				
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
(888,249)	-	(888,249)
(113,212)	-	(113,212)
(897,108)	-	(897,108)
(82,730)	-	(82,730)
(363,685)	-	(363,685)
(774,254)	-	(774,254)
(86,110)	-	(86,110)
(3,205,348)	-	(3,205,348)
-	(90,921)	(90,921)
-	(1,100,956)	(1,100,956)
-	(1,191,877)	(1,191,877)
(3,205,348)	(1,191,877)	(4,397,225)

\$ 1,835,487	-	1,835,487
327,032	-	327,032
371,384	-	371,384
148,486	-	148,486
6,401	-	6,401
15,796	26,725	42,521
-	987,538	987,538
12,748	-	12,748
(88,926)	88,926	-
2,628,408	1,103,189	3,731,597
(576,940)	(88,688)	(665,628)
3,512,293	1,853,893	5,366,186
\$ 2,935,353	1,765,205	4,700,558

\$ 202,661	-	202,661
377,538	-	377,538
946,185	-	946,185
-	710,835	710,835
718,473	-	718,473
690,496	1,054,370	1,744,866
\$ 2,935,353	1,765,205	4,700,558

City of Knoxville

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

As of and for the year ended June 30, 2004

	Special Revenue			
	General	Road Use Tax	Police Retirement	Urban Renewal Tax Increment Wal-Mart
Receipts:				
Property tax	\$ 1,263,240	-	58,367	-
Tax increment financing collections	-	-	-	174,455
Other city tax	107,272	-	2,277	-
Licenses and permits	44,374	-	-	-
Use of money and property	30,334	-	5,412	-
Intergovernmental	103,345	643,896	-	-
Charges for service	423,250	-	-	-
Special assessments	14,329	-	-	-
Miscellaneous	39,144	-	-	-
Total receipts	2,025,288	643,896	66,056	174,455
Disbursements:				
Operating:				
Public safety	1,013,917	-	90,674	-
Public works	123,537	605,154	-	-
Culture and recreation	929,491	-	-	-
Community and economic development	117,122	-	-	-
General government	400,600	22,433	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	2,584,667	627,587	90,674	-
Excess (deficiency) of receipts over (under) disbursements	(559,379)	16,309	(24,618)	174,455
Other financing sources (uses):				
Operating transfers in	441,768	-	-	-
Operating transfers out	(97,768)	(110,575)	-	(169,648)
Total other financing sources (uses)	344,000	(110,575)	-	(169,648)
Net change in cash balances	(215,379)	(94,266)	(24,618)	4,807
Cash balances beginning of year	593,239	296,927	402,156	941,378
Cash balances end of year	\$ 377,860	202,661	377,538	946,185
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 377,860	-	-	-
Special revenue funds	-	202,661	377,538	946,185
Capital projects fund	-	-	-	-
Debt service	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 377,860	202,661	377,538	946,185

See notes to financial statements.

Debt Service	Nonmajor Governmental Funds	Total
358,274	389,173	2,069,054
-	152,577	327,032
13,110	163,644	286,303
-	-	44,374
3,304	3,231	42,281
-	58,359	805,600
-	-	423,250
-	-	14,329
-	54,034	93,178
<u>374,688</u>	<u>821,018</u>	<u>4,105,401</u>
-	38,742	1,143,333
-	-	728,691
-	25,400	954,891
-	80,607	197,729
-	-	423,033
605,045	172,513	777,558
-	99,340	99,340
<u>605,045</u>	<u>416,602</u>	<u>4,324,575</u>
<u>(230,357)</u>	<u>404,416</u>	<u>(219,174)</u>
387,420	189,582	1,018,770
(714)	(728,991)	(1,107,696)
<u>386,706</u>	<u>(539,409)</u>	<u>(88,926)</u>
156,349	(134,993)	(308,100)
<u>(291,123)</u>	<u>853,466</u>	<u>2,796,043</u>
<u>(134,774)</u>	<u>718,473</u>	<u>2,487,943</u>
-	-	377,860
-	481,641	2,008,025
-	50,950	50,950
(134,774)	-	(134,774)
-	185,882	185,882
<u>(134,774)</u>	<u>718,473</u>	<u>2,487,943</u>

City of Knoxville

City of Knoxville

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

As of and for the year ended June 30, 2004

Total governmental funds cash balances (page 19) \$ 2,487,943

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

The Internal Service Funds are used by management to charge the costs of equipment and building replacement to individual funds. The assets of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.

447,410

Cash basis net assets of governmental activities (page 17) \$ 2,935,353

Net change in cash balances (page 19) \$ (308,100)

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

The Internal Service Funds are used by management to charge the costs of equipment and building replacement to individual funds. The change in net assets of the Internal Service Funds is reported in governmental activities.

(268,840)

Change in cash balance of governmental activities (page 17) \$ (576,940)

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, 2004

	Enterprise Funds		
	Sewer	Airport	Total
Operating receipts:			
Use of money and property	\$ 26,725	35,453	62,178
Charges for service	1,513,913	-	1,513,913
Miscellaneous	46,317	6,297	52,614
Total operating receipts	<u>1,586,955</u>	<u>41,750</u>	<u>1,628,705</u>
Operating disbursements:			
Governmental activities:			
Public safety	-	-	-
Public works	-	-	-
Culture and recreation	-	-	-
Business type activities	1,247,226	503,012	1,750,238
Total operating disbursements	<u>1,247,226</u>	<u>503,012</u>	<u>1,750,238</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>339,729</u>	<u>(461,262)</u>	<u>(121,533)</u>
Non-operating receipts (disbursements):			
Intergovernmental	-	370,341	370,341
Sewer revenue bond proceeds (net of \$7,462 discount)	987,538	-	987,538
Debt service	(1,374,865)	-	(1,374,865)
Total non-operating receipts (disbursements)	<u>(387,327)</u>	<u>370,341</u>	<u>(16,986)</u>
Deficiency of receipts under disbursements	<u>(47,598)</u>	<u>(90,921)</u>	<u>(138,519)</u>
Transfers:			
Operating transfers in	150,224	107,812	258,036
Operating transfers out	(169,110)	-	(169,110)
Total transfers	<u>(18,886)</u>	<u>107,812</u>	<u>88,926</u>
Net change in cash balances	(66,484)	16,891	(49,593)
Cash balances beginning of year	<u>1,788,540</u>	<u>(77,178)</u>	<u>1,711,362</u>
Cash balances end of year	<u>\$ 1,722,056</u>	<u>(60,287)</u>	<u>1,661,769</u>
Cash Basis Fund Balances			
Reserved for:			
Debt service	\$ 710,835	-	710,835
Customer deposits	40,302	-	40,302
Unreserved	<u>970,919</u>	<u>(60,287)</u>	<u>910,632</u>
Total cash basis fund balances	<u>\$ 1,722,056</u>	<u>(60,287)</u>	<u>1,661,769</u>

See notes to financial statements.

Internal
Service
Funds

8,999
155,281
12,748

177,028

100,038
131,239
214,591
39,095

484,963

(307,935)

-
-
-

-

(307,935)

-
-

-

(307,935)

858,781

550,846

-
-

550,846

550,846

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, 2004

Total enterprise funds cash balances (page 22)	\$ 1,661,769
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
The Internal Service Funds are used by management to charge the costs of equipment and building replacement to individual funds. The assets of the Internal Service Funds are included in business type activities in the Statement of Net Assets.	<u>103,436</u>
Cash basis net assets of business type activities (page 17)	<u>\$ 1,765,205</u>
Net change in cash balances (page 22)	\$ (49,593)
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
The Internal Service Funds are used by management to charge the costs of equipment and building replacement to individual funds. The change in net assets of the Internal Service Funds is reported in business type activities.	<u>(39,095)</u>
Change in cash balance of business type activities (page 17)	<u>\$ (88,688)</u>

See notes to financial statements.

City of Knoxville

Notes to Financial Statements

June 30, 2004

(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 water and sewer utilities for its citizens.

A. Reporting Entity

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

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

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.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Police Retirement Fund is used to account for the City's and employee's contributions to the Municipal Fire and Police Retirement System of Iowa.

The Urban Renewal Tax Increment Wal-Mart Fund is used to account for an urban renewal project financed by tax increment financing.

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

The City reports the following major proprietary funds:

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

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

The City also reports the following additional proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the community and economic development, general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 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 \$56,950 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Bonds Payable

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
2005	\$ 380,000	230,930	250,000	145,658	630,000	376,588
2006	405,000	211,425	260,000	137,684	665,000	349,109
2007	435,000	190,638	265,000	129,089	700,000	319,727
2008	450,000	168,260	270,000	119,866	720,000	288,126
2009	480,000	144,997	285,000	110,159	765,000	255,156
2010 - 2014	1,495,000	391,948	1,515,000	372,418	3,010,000	764,366
2015 - 2019	745,000	130,012	795,000	75,500	1,540,000	205,512
Total	\$ 4,390,000	1,468,210	3,640,000	1,090,374	8,030,000	2,558,584

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 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 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 amount of principal and interest on the bonds falling due in the same year.

Current Bond Refunding

On November 17, 2003, the City issued \$490,000 of sewer revenue refunding bonds, at interest rates ranging from 1.50% to 4.00%, to refund \$972,000 of outstanding sewer revenue bonds dated June 1, 1993, with an interest rate of 4.62%. The principal on these notes was called on December 1, 2003 and the bonds were redeemed in their entirety by June 30, 2004.

The City refunded the bonds to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$33,616.

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 increment financing revenue bonds are to be expended only for purposes 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 required semi-annual payments beginning December 1, 1999 equal to 75% of the incremental property taxes attributable to the Urban Renewal Area received by the City prior to that date. Pursuant to the agreement, the City called and repaid these bonds. During the year ended June 30, 2004, principal of \$112,962 and interest of \$173 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, 2004:

Year Ending June 30,	Amount
2005	\$ 6,400
Less amount representing interest	<u>(451)</u>
Present value of net minimum lease payments	<u>\$ 5,949</u>

During fiscal year ended June 30, 2004, \$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 covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$66,147, \$66,335 and \$63,885, 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 104th 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 20.48% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2004, 2003, and 2002 were \$90,674, \$80,143 and \$73,507, 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, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Holiday	\$ 12,000
Vacation	111,000
Sick leave	9,000
Compensatory time	17,000
Total	\$ 149,000

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Liability, Property, and Self Insurance	\$ 81,348
	Employee Benefits - Health	219,770
	FICA & IPERS Benefits	106,035
	Capital Projects	14,615
	Enterprise:	
	Sewer	20,000
		<u>441,768</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment Westridge	21,183
	Urban Renewal Tax Increment Wal-Mart	169,648
	Capital Projects	125,772
	Enterprise:	
	Sewer	70,817
		<u>387,420</u>
Capital Projects	Special Revenue:	
	Road Use Tax	110,575
	Debt Service	714
	Enterprise:	
	Sewer	78,293
		<u>189,582</u>
Enterprise:		
Sewer	Capital Projects	<u>150,224</u>
Enterprise:		
Airport	General	97,768
	Capital Projects	10,044
		<u>107,812</u>
Total		<u>\$ 1,276,806</u>

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

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$5,003 during the year ended June 30, 2004.

(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 490 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 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, 2004 were \$133,046.

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 \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks 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 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, 2004, 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 Fund Balances

At June 30, 2004, the City had deficit balances in the following funds:

Fund	Balance June 30, 2004
Special Revenue:	
Aquatic Park Trust	\$ (60)
Debt Service	(134,774)
Enterprise:	
Airport	(60,287)

The City is reviewing possible alternatives. These deficits are gradually being reduced each year through increased revenues.

(10) Construction Commitments

The City has entered into construction contracts totaling approximately \$1,613,000. As of June 30, 2004, costs of approximately \$419,000 had been paid on the contracts. The remaining \$1,194,000 will be paid as work on these projects progresses.

(11) Interfund Receivable/Payable

In prior years, the General Fund loaned the Special Revenue, Urban Renewal Tax Increment Westridge Fund \$85,251 to pay for principal and interest due on the general obligation bonds prior to the collection of tax increment financing receipts. The loan is to be repaid, without interest, as tax increment financing revenues are collected. No payments were made during the year ended June 30, 2004.

(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, 2004, no payment was received on the loan. The loan balance at June 30, 2004 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, 2004, principal of \$31,852 and interest of \$2,116 were received on the loan. The loan balance at June 30, 2004 was \$24,953.

(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 to be rebated under the development and rebate agreement is not to exceed amounts ranging from \$85,931 to \$2,387,811. Certain agreements include provisions for payment of interest.

During the year ended June 30, 2004, the City rebated \$59,378 of incremental taxes to the developers for principal and interest. The outstanding principal balance on these agreements at June 30, 2004 is \$2,616,777.

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

(14) Subsequent Event

In December 2003, the City made a deposit of \$103,763 for a rescue vehicle with a total cost of \$212,500. The City took delivery of the rescue vehicle on August 12, 2004. The City has entered into a capital lease purchase agreement for the remaining \$108,737 in September 2004.

(15) Contingent Liability

In May 2000, the City of Knoxville entered into an agreement with Wal-Mart. In return for the construction of public improvements, the City would pay \$880,000 to Wal-Mart. As of June 30, 2004, Wal-Mart had not completed the public improvements to the City's specifications. The City anticipates paying the funds to Wal-Mart during fiscal year 2005 from the Special Revenue, Urban Renewal Tax Increment Wal-Mart Fund.

(16) Accounting Change and Restatements

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; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities. Beginning net assets have been restated to include the allocation of the Internal Service Fund.

	Governmental Activities	Business Type Activities
Cash basis net assets June 30, 2003, as previously reported	\$ 2,796,043	1,711,362
Internal Service Fund	716,250	142,531
Cash basis net assets July 1, 2003, as restated	<u>\$ 3,512,293</u>	<u>1,853,893</u>

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,069,054	-	-
Tax increment financing collections	327,032	-	-
Other city tax	286,303	-	-
Licenses and permits	44,374	-	-
Use of money and property	42,281	71,177	8,999
Intergovernmental	805,600	370,341	-
Charges for service	423,250	1,669,194	155,281
Special assessments	14,329	-	-
Miscellaneous	93,178	65,362	12,748
Total receipts	4,105,401	2,176,074	177,028
Disbursements:			
Public safety	1,143,333	100,038	100,038
Public works	728,691	131,239	131,239
Culture and recreation	954,891	214,591	214,591
Community and economic development	197,729	-	-
General government	423,033	-	-
Debt service	777,558	-	-
Capital projects	99,340	-	-
Business type activities	-	3,164,198	39,095
Total disbursements	4,324,575	3,610,066	484,963
Excess (deficiency) of receipts over (under) disbursements	(219,174)	(1,433,992)	(307,935)
Other financing sources, net	(88,926)	1,076,464	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(308,100)	(357,528)	(307,935)
Balances beginning of year	2,796,043	2,570,143	858,781
Balances end of year	\$ 2,487,943	2,212,615	550,846

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
2,069,054	1,710,749	2,088,255	(19,201)
327,032	259,806	280,000	47,032
286,303	504,860	203,190	83,113
44,374	57,412	57,412	(13,038)
104,459	183,340	99,960	4,499
1,175,941	1,328,264	1,223,454	(47,513)
1,937,163	1,797,298	1,797,298	139,865
14,329	13,964	14,300	29
145,792	133,150	156,150	(10,358)
6,104,447	5,988,843	5,920,019	184,428
1,143,333	1,097,754	1,195,754	52,421
728,691	772,919	772,919	44,228
954,891	965,970	1,166,870	211,979
197,729	102,798	117,798	(79,931)
423,033	391,130	416,130	(6,903)
777,558	609,252	706,252	(71,306)
99,340	-	193,500	94,160
3,125,103	1,705,375	3,137,223	12,120
7,449,678	5,645,198	7,706,446	256,768
(1,345,231)	343,645	(1,786,427)	441,196
987,538	-	1,079,373	(91,835)
(357,693)	343,645	(707,054)	349,361
4,507,405	5,225,047	5,225,047	(717,642)
4,149,712	5,568,692	4,517,993	(368,281)

City of Knoxville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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 Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,061,248. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the community and economic development, general government and debt service functions.

Other Supplementary Information

City of Knoxville

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

As of and for the year ended June 30, 2004

	Liability, Property, and Self- Insurance	Employee Benefits - Health	FICA & IPERS Benefits	Emergency	Local Option Sales Tax	Urban Revitalization	Revolving Loan	Special Urban Renewal Tax Increment Five Star	Urban Renewal Tax Increment Highway 14 South
Receipts:									
Property tax	\$ 81,033	190,256	98,180	19,044	-	-	-	-	-
Tax increment financing collections	-	-	-	-	-	-	-	31,919	61,059
Other city tax	3,162	7,423	3,830	743	148,486	-	-	-	-
Use of money and property	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	33,968	-	-
Total receipts	84,195	197,679	102,010	19,787	148,486	-	33,968	31,919	61,059
Disbursements:									
Operating:									
Public safety	-	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-	-
Community and economic development	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	28,000	113,135
Capital projects	-	-	-	-	86,534	-	-	-	-
Total disbursements	-	-	-	-	86,534	-	-	28,000	113,135
Excess (deficiency) of receipts over (under) disbursements	84,195	197,679	102,010	19,787	61,952	-	33,968	3,919	(52,076)
Other financing sources (uses):									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers out	(81,348)	(219,770)	(106,035)	-	-	-	-	-	-
Total other financing sources (uses)	(81,348)	(219,770)	(106,035)	-	-	-	-	-	-
Net change in cash balances	2,847	(22,091)	(4,025)	19,787	61,952	-	33,968	3,919	(52,076)
Cash balances beginning of year	-	59,895	32,996	852	-	3,956	101,759	3,484	81,979
Cash balances end of year	\$ 2,847	37,804	28,971	20,639	61,952	3,956	135,727	7,403	29,903
Cash Basis Fund Balances									
Unreserved:									
Special revenue funds	\$ 2,847	37,804	28,971	20,639	61,952	3,956	135,727	7,403	29,903
Capital projects fund	-	-	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 2,847	37,804	28,971	20,639	61,952	3,956	135,727	7,403	29,903

See accompanying independent auditor's report.

Schedule 1

Revenue											Permanent			
Urban Renewal Tax Increment Westridge	Urban Renewal Tax Increment Park Lane	Self- Supported Municipal Improvement District	Police Department Trust	Rescue Donations	Library Gifts/ Memorials	Recreation Donations	Auld Park Playground Trust	Skate Park Trust	Aquatic Park Trust	Capital Projects	Cemetery Perpetual Care	Reaver Trust	Total	
-	-	660	-	-	-	-	-	-	-	-	-	-	389,173	
8,420	51,179	-	-	-	-	-	-	-	-	-	-	-	152,577	
-	-	-	-	-	-	-	-	-	-	-	-	-	163,644	
-	-	-	275	649	790	-	365	-	-	941	211	-	3,231	
-	-	-	-	-	-	-	-	-	-	58,359	-	-	58,359	
-	-	-	-	1,748	3,550	680	-	-	-	8,453	5,635	-	54,034	
8,420	51,179	660	275	2,397	4,340	680	365	-	-	67,753	5,846	-	821,018	
-	-	-	8,856	29,886	-	-	-	-	-	-	-	-	38,742	
-	-	-	-	-	21,155	-	1,600	2,645	-	-	-	-	25,400	
-	-	660	-	-	-	-	-	-	-	79,947	-	-	80,607	
-	31,378	-	-	-	-	-	-	-	-	-	-	-	172,513	
-	-	-	-	-	-	-	-	-	-	12,806	-	-	99,340	
-	31,378	660	8,856	29,886	21,155	-	1,600	2,645	-	92,753	-	-	416,602	
8,420	19,801	-	(8,581)	(27,489)	(16,815)	680	(1,235)	(2,645)	-	(25,000)	5,846	-	404,416	
-	-	-	-	-	-	-	-	-	-	189,582	-	-	189,582	
(21,183)	-	-	-	-	-	-	-	-	-	(300,655)	-	-	(728,991)	
(21,183)	-	-	-	-	-	-	-	-	-	(111,073)	-	-	(539,409)	
(12,763)	19,801	-	(8,581)	(27,489)	(16,815)	680	(1,235)	(2,645)	-	(136,073)	5,846	-	(134,993)	
23,220	(7,203)	1	22,917	55,780	64,375	6,187	33,624	2,645	(60)	187,023	179,536	500	853,466	
10,457	12,598	1	14,336	28,291	47,560	6,867	32,389	-	(60)	50,950	185,382	500	718,473	
10,457	12,598	1	14,336	28,291	47,560	6,867	32,389	-	(60)	-	-	-	481,641	
-	-	-	-	-	-	-	-	-	-	50,950	-	-	50,950	
-	-	-	-	-	-	-	-	-	-	-	185,382	500	185,882	
10,457	12,598	1	14,336	28,291	47,560	6,867	32,389	-	(60)	50,950	185,382	500	718,473	

City of Knoxville

City of Knoxville

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

As of and for the year ended June 30, 2004

	Equipment Replacement	Building Replacement	Total
Operating receipts:			
Use of money and property	\$ 8,837	162	8,999
Charges for service	142,475	12,806	155,281
Miscellaneous	-	12,748	12,748
Total operating receipts	151,312	25,716	177,028
Operating disbursements:			
Governmental activities:			
Public safety	100,038	-	100,038
Public works	47,061	84,178	131,239
Culture and recreation	214,591	-	214,591
Business type activities	39,095	-	39,095
Total operating disbursements	400,785	84,178	484,963
Deficiency of operating receipts under operating disbursements	(249,473)	(58,462)	(307,935)
Cash balances beginning of year	750,163	108,618	858,781
Cash balances end of year	\$ 500,690	50,156	550,846
Cash Basis Fund Balances			
Unreserved	\$ 500,690	50,156	550,846

See accompanying independent auditor's report.

City of Knoxville
 Schedule of Indebtedness
 Year ended June 30, 2004

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
Sewer refunding	Nov 17, 2003	1.50 - 4.00	995,000
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 accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
205,000	-	65,000	140,000	10,660
1,730,000	-	95,000	1,635,000	91,430
2,810,000	-	195,000	2,615,000	147,055
<u>\$ 4,745,000</u>	<u>-</u>	<u>355,000</u>	<u>4,390,000</u>	<u>249,145</u>
972,000	-	972,000	-	22,453
2,885,000	-	155,000	2,730,000	123,824
-	995,000	85,000	910,000	15,795
<u>\$ 3,857,000</u>	<u>995,000</u>	<u>1,212,000</u>	<u>3,640,000</u>	<u>162,072</u>
<u>\$ 112,962</u>	<u>-</u>	<u>112,962</u>	<u>-</u>	<u>173</u>
<u>\$ 11,478</u>	<u>-</u>	<u>5,529</u>	<u>5,949</u>	<u>871</u>

City of Knoxville

Bond Maturities

June 30, 2004

General Obligation Bonds								
Year Ending June 30,	General Corporate Purpose Issued Jun 1, 1994		Corporate Purpose Issued Apr 1, 1997		General Corporate Purpose Issued May 1, 2000		Total	
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
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>\$ 140,000</u>		<u>\$ 1,635,000</u>		<u>\$ 2,615,000</u>	<u>4,390,000</u>	

See accompanying independent auditor's report.

Revenue Bonds				
Sewer Revenue		Sewer Revenue Refunding		
Issued Mar 4, 2002		Issued Nov 17, 2003		
Interest Rates	Amount	Interest Rates	Amount	Total
4.00%	\$ 160,000	1.75%	\$ 90,000	250,000
4.00	165,000	2.10	95,000	260,000
4.00	170,000	2.55	95,000	265,000
4.00	175,000	2.85	95,000	270,000
4.10	185,000	3.15	100,000	285,000
4.15	195,000	3.40	105,000	300,000
4.15	205,000	3.60	105,000	310,000
4.25	215,000	3.85	110,000	325,000
4.37	225,000	4.00	115,000	340,000
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>\$ 2,730,000</u>		<u>\$ 910,000</u>	<u>\$ 3,640,000</u>

Schedule 5

City of Knoxville

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

For the Last Two Years

	2004	2003
Receipts:		
Property tax	\$ 2,069,054	2,091,215
Tax increment financing collections	327,032	267,890
Other city tax	286,303	131,447
Licenses and permits	44,374	54,796
Use of money and property	42,281	59,040
Intergovernmental	805,600	1,023,225
Charges for service	423,250	316,449
Special assessments	14,329	5,688
Miscellaneous	93,178	166,818
Total	\$ 4,105,401	4,116,568
Disbursements:		
Operating:		
Public safety	\$ 1,143,333	1,246,442
Public works	728,691	716,802
Culture and recreation	954,891	998,489
Community and economic development	197,729	153,213
General government	423,033	394,567
Debt service	777,558	652,097
Capital projects	99,340	580,020
Total	\$ 4,324,575	4,741,630

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 financial statements of the City of Knoxville, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 9, 2004. 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, 2004 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), (9), (10) and (11).

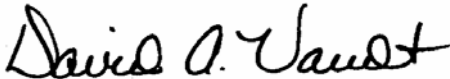
Internal Control Over Financial Reporting


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 the 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. Prior year reportable conditions have been resolved except for 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


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 9, 2004

City of Knoxville
Schedule of Findings
Year ended June 30, 2004

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 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 – During the 2003 year, finance duties were segregated such that one employee handles cash, another investments and a third conducts payroll.

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 exceeded the book balance by \$2,478 at June 30, 2004.

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 FY2004 imbalance weighted to the City's favor, such variances should 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 \$2,478 variance at June 30, 2004.

City of Knoxville

Schedule of Findings

Year ended June 30, 2004

- (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 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.
- A 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. The City Clerk will draft a policy for the maintenance of password privacy and confidentiality.

Off-site storage now occurs weekly, where backup disks are placed in a bank lock box. The City Clerk will draft a policy requiring the current process.

Insofar as disaster recovery is concerned, the cities of West Des Moines, Johnston, and Knoxville use the same financial software. A 2005 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 – 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 Water Works has agreed to provide the necessary information.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2004

- (E) Independent Approval for Rescue Write-Offs – Write-offs of delinquent rescue billings are not approved by an independent person.

Recommendation – An independent person should approve write-offs of rescue billings.

Response – The City Hall Account Clerk will be responsible for independent approval and review of all rescue write-offs to ensure propriety.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2004

Findings Related to Required 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, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the community and economic development, general government and debt service 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.

The City amended its budget on May 17, 2004. However, disbursements had exceeded the amounts budgeted in the community and economic development, general government, debt service and capital projects functions prior to adoption of the budget amendment.

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

Response – The City amended the 2003-04 Budget to account for unanticipated expenditure needs that had occurred throughout the year. However, the budget amendment omitted several adjustments that should have been made. This omission should not reoccur.

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Forrest Pearson, Council Member, owner of Pearson Bros., Inc.	Supplies, parts and labor	\$ 2,253
Craig Kelley, Mayor, owner of Central Iowa Fasteners	Supplies and parts	1,265
Joshua Blackford, City Employee, owner of J & D Mowing	Mowing services	1,485

City of Knoxville

Schedule of Findings

Year ended June 30, 2004

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Mayor and City Employee do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transaction with the Council Member may represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions exceed \$1,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The amount of money expended with Pearson Brothers involved several small purchases that collectively equaled \$2,253 (lumber, thermostat, bolts, fixtures, etc.) These expenses did not involve any large purchase that would have required a formally bid process. These types of purchases are typical for City expenditures of hardware, maintenance supplies, and the like, and a number of other “general merchandise” vendors in Knoxville experienced considerably more economic activity through the City.

Conclusion – Response acknowledged. However, the City should consult legal counsel to determine the disposition of this matter.

(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 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 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 – Future City Council minutes will contain a summary of all receipts and disbursements segregated by fund as required by Chapter 372.13(6) of the Code of Iowa.

Conclusion – Response accepted.

(8) Revenue Bonds – The City has complied with the requirements of the revenue bond resolutions.

City of Knoxville
Schedule of Findings
Year ended June 30, 2004

- (9) Financial Condition – At June 30, 2004, the City had deficit balances as follows:

Fund	Balance	
	June 30, 2004	June 30, 2003
Special Revenue:		
Aquatic Park Trust	\$ (60)	(60)
Debt Service	(134,774)	(291,123)
Enterprise:		
Airport	(60,287)	(77,178)

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

Response – Reconciling the Special Revenue, Aquatic Part Trust Fund is simply a clerical entry. The negative balance on the debt service fund results because in 2001 the City erroneously omitted a levy for the 2000 general obligation bond. This error created an initial shortfall of \$350,000; each year the deficit balance is (and will be) further reduced; today the deficit figure is \$134,774.

The deficit balance of the Enterprise Airport Fund has increased in recent years, due to the presence of immediate unplanned expenditures resulting from an older facility. In FY2004, this deficit balance actually reduced. The City will reconcile this fund deficit once property tax rollback is eliminated; it cannot afford to do so now, particularly in-light of the debt service fund described above.

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.

- (10) General Obligation Bonds – The Special Revenue, Urban Renewal Tax Increment Westridge Fund did not transfer enough for its portion of the related general obligation debt and General Fund interfund loan in accordance with the debt payment schedule.

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

Response – In the future the City will make transfers in accordance with the debt schedule.

Conclusion – Response accepted.

- (11) Transfers to Internal Service Funds – The Internal Service, Equipment Replacement and Building Replacement Funds were established to accumulate resources for the replacement of City equipment, buildings and structures. Payments to Internal Service Funds from the operating funds are to be budgeted disbursements in accordance with Chapter 384.16 of the Code of Iowa. During the year ended June 30, 2004, transfers from the General Fund and the Special Revenue, Road Use Tax Fund

City of Knoxville

Schedule of Findings

Year ended June 30, 2004

of \$55,381 and \$87,094, respectively, to the Internal Service, Equipment Replacement Fund were not appropriately budgeted. Transfers from the Capital Projects Fund to the Internal Service, Building Replacement Fund of \$12,806 were also not appropriately budgeted. This was resolved for audit purposes.

Recommendation – All transfers from operating funds to Internal Service Funds should be budgeted.

Response – All future allocations will be conducted in accordance with the recommendation.

Conclusion – Response accepted.

- (12) Notice of Public Hearing for Budget Amendment – The City did not publish a notice of public hearing for the budget amendment as required by Chapter 384.18 of the Code of Iowa.

Recommendation – The City should set a date for a public hearing and publish notice of the hearing not less than ten nor more than twenty days before the hearing as provided in the Code of Iowa.

Response – The City has published said notice each year, pursuant to state statute. No such mishap will reoccur.

Conclusion – Response accepted.

- (13) Unclaimed Property – The City has not reported unclaimed property of \$2,811 to the Treasurer of State as required by Chapter 556.11 of the Code of Iowa.

Recommendation – The City should report unclaimed property to the Treasurer of State as required by Chapter 556.11 of the Code of Iowa.

Response – The City will report unclaimed property to the Treasurer of State as required by Chapter 556.11 of the Code of Iowa.

Conclusion – Response accepted.

- (14) Special Levies – The City levies for employee health benefits, FICA and IPERS. During the year ended June 30, 2004, the amounts transferred from the Special Revenue, Employee Benefits – Health, FICA and IPERS Benefits Funds to the General Fund exceeded the actual disbursements made from the General Fund.

Recommendation – The City should only transfer sufficient funds to cover the actual disbursements.

Response – This was simple clerical error. In the future, the City will transfer only sufficient funds to cover the actual disbursements.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2004

- (15) Transfers – Fund/account transfers were not approved by the City Council and the approval was not documented in the minutes.

Recommendation – All individual fund/account transfers should be approved by the City Council with the approval documented in the minutes.

Response – All transfers will be approved by the City Council.

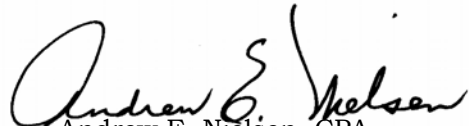
Conclusion – Response accepted.

City of Knoxville

Staff

This audit was performed by:

K. David Voy, CPA, Manager
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