



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE January 23, 2006

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

The City's receipts totaled \$11,442,936 for the year ended June 30, 2005, a 61 percent increase from 2004. The receipts included \$2,129,522 in property tax, \$390,497 from tax increment financing, \$2,188,578 from charges for service, \$1,019,075 from operating grants, contributions and restricted interest, \$629,614 from capital grants, contributions and restricted interest, \$598,184 from local option sales tax, \$58,276 from unrestricted interest on investments, \$4,411,353 from bond and note proceeds and \$17,837 from other general receipts. The significant increase in receipts is due primarily to the issuance of bonds and notes during the year.

Disbursements for the year totaled \$7,412,046, a 5 percent decrease from the prior year, and included \$1,192,484 for public safety, \$985,665 for culture and recreation, and \$914,329 for capital projects. Also, disbursements for business type activities totaled \$1,959,287.

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

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CITY OF KNOXVILLE

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

JUNE 30, 2005

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City of Knoxville

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|----------------------|---------------------|
| 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 |
| Jeffery LaGarce | City Manager | Resigned Dec 2004 |
| Harvey Sprafka | Interim City Manager | Aug 2005 |
| Dick Schrad | 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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Knoxville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

The financial statements referred to above include only the primary government of the City of Knoxville, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component 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, 2005, 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, 2005, 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2005 on our consideration of the City of Knoxville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts

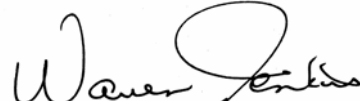
and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Knoxville's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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 28, 2005

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 87.6%, or approximately \$3,539,000, from fiscal 2004 to fiscal 2005. Local option sales tax increased approximately \$450,000, capital grants, contributions and restricted interest increased \$576,000 and bond proceeds increased \$2,219,000.
- Disbursements in the governmental activities increased 18.1%, or approximately \$838,000, in FY2005 from FY2004. Capital projects and debt service disbursements increased approximately \$828,000 and \$136,000, respectively, while culture and recreation disbursements decreased \$184,000.
- Receipts of the City's business type activities increased 25.7%, or approximately \$790,000. Bond proceeds increased approximately \$1,205,000 while capital grants, contributions and restricted interest decreased approximately \$358,000.
- Disbursements in the business type activities decreased 38.1%, or approximately \$1,205,000.
- The City's total cash basis net assets increased 86%, or approximately \$4,031,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$2,125,000 and the assets of the business type activities increased by approximately \$1,906,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the 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) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

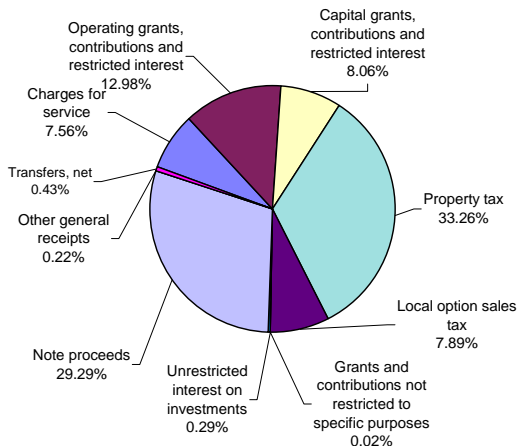
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

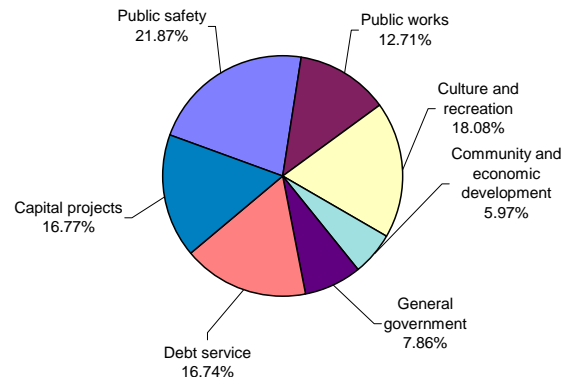
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$2.9 million to \$5.1 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

| | Changes in Cash Basis Net Assets of Governmental Activities | |
|--|---|------------------|
| | Year Ended June 30, | |
| | 2005 | 2004 |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service | \$ 573,175 | 549,584 |
| Operating grants, contributions and restricted interest | 983,483 | 825,745 |
| Capital grants, contributions and restricted interest | 610,629 | 34,485 |
| General receipts: | | |
| Property tax | 2,520,019 | 2,533,903 |
| Local option sales tax | 598,184 | 148,486 |
| Grants and contributions not restricted to specific purposes | 1,150 | 6,401 |
| Unrestricted interest on investments | 22,283 | 15,796 |
| Note proceeds | 2,219,288 | - |
| Other general receipts | 16,687 | 12,748 |
| Transfers, net | 32,704 | (88,926) |
| Total receipts and transfers | <u>7,577,602</u> | <u>4,038,222</u> |
| Disbursements: | | |
| Public safety | 1,192,484 | 1,187,990 |
| Public works | 693,009 | 772,836 |
| Culture and recreation | 985,665 | 1,169,482 |
| Community and economic development | 325,700 | 197,729 |
| General government | 428,508 | 423,033 |
| Debt service | 913,064 | 777,558 |
| Capital projects | 914,329 | 86,534 |
| Total disbursements | <u>5,452,759</u> | <u>4,615,162</u> |
| Increase (decrease) in cash basis net assets | 2,124,843 | (576,940) |
| Cash basis net assets beginning of year | 2,935,353 | 3,512,293 |
| Cash basis net assets end of year | <u>\$ 5,060,196</u> | <u>2,935,353</u> |

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 87.6%, or \$3,539,000. The total cost of all programs and services increased by \$838,000, or 18.1%, with no new programs added this year. The major increases in receipts were approximately \$2,219,000 of capital loan notes proceeds, approximately \$450,000 of local option sales tax receipts and approximately \$576,000 of capital grants received.

The City increased property tax rates for 2005 by less than 1%.

| Changes in Cash Basis Net Assets of Business Type Activities | | |
|--|---------------------|------------------|
| | Year ended June 30, | |
| | 2005 | 2004 |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service | \$ 1,615,403 | 1,526,413 |
| Operating grants, contributions and restricted interest | 35,592 | 69,339 |
| Capital grants, contributions and restricted interest | 18,985 | 376,569 |
| General receipts: | | |
| Unrestricted interest on investments | 35,993 | 26,725 |
| Bond proceeds | 2,192,065 | 987,538 |
| Transfers, net | (32,704) | 88,926 |
| Total receipts and transfers | <u>3,865,334</u> | <u>3,075,510</u> |
| Disbursements: | | |
| Sewer | 1,852,518 | 2,661,186 |
| Airport | 106,769 | 503,012 |
| Total disbursements | <u>1,959,287</u> | <u>3,164,198</u> |
| Increase (decrease) in cash balance | 1,906,047 | (88,688) |
| Cash basis net assets beginning of year | <u>1,765,205</u> | <u>1,853,893</u> |
| Cash basis net assets end of year | <u>\$ 3,671,252</u> | <u>1,765,205</u> |

Total business type activities receipts and transfers for the fiscal year were \$3.9 million compared to \$3.1 million last year. The increase was due primarily to the receipt of approximately \$2,192,000 in general obligation bond proceeds. The cash balance increased by approximately \$1,906,000 from the prior year because most of the bond proceeds received will not be spent until next fiscal year for approved sewer construction projects. Total disbursements for the year decreased by 38.1% to a total of approximately \$1,959,000. The decrease is related primarily to the refinancing of the 1993 sewer revenue bonds in FY2004.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$4,480,211, an increase of more than \$1,992,000 from last year's total of \$2,487,943. 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 \$158,738 from the prior year to a year-end balance of \$219,122. There were no significant changes in receipts or disbursements for the General Fund.
- The Road Use Tax Fund cash balance increased by \$20,993 to \$223,654 during the fiscal year. There were no significant changes in receipts or disbursements for the Road Use Tax Fund.
- The Local Option Sales Tax (LOST) Fund cash balance increased by \$158,112 to a year-end balance of \$220,064 on June 30, 2005. Receipts increased over the previous year as LOST collections occurred for the entire year in FY 2005. Disbursements increased related to street projects mentioned in LOST ballot, specifically the Roche Street Reconstruction Project.

- The Urban Renewal Tax Increment Fund cash balance decreased \$70,205 to a year-end balance of \$936,341. Receipts increased \$63,966 due largely to increases in tax collections in the Park Lane Urban Renewal Area TIF. Disbursements increased \$56,239 as a result of increased disbursements made under development agreements.
- The Debt Service Fund cash balance increased by \$1,457,873 to a year-end balance of \$1,323,099. The cash balance increased due to refunding note proceeds of \$1,521,950 which will be used to advance refund a general obligation bond issue at the crossover date of June 1, 2006.
- The Capital Projects Fund cash balance increased \$632,950 to \$683,900. The cash balance increased due to note proceeds for a trail project. Disbursements increased by \$142,843, of which \$84,237 was for trail project land acquisition and engineering costs.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased by \$1,909,958 to a year-end balance of \$3,632,014. In FY2005, the City received \$2,192,065 in bond proceeds compared to \$987,538 received in FY2004. Disbursements decreased \$739,998 due to the FY2004 refinancing of \$972,000 of sewer revenue bonds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 16, 2005. The budget was amended to reflect the \$1,525,000 issuance of general obligation refunding capital loan notes and \$700,000 issuance of capital loan notes for the multi-use trail system. However, the budget amendment was incorrectly calculated, resulting in inflated budgeted receipts of \$7,053,083 and budgeted disbursements of \$11,150,682. Even with this budget amendment, the City exceeded the budget for the community and economic development function for the year ended June 30, 2005.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$11,863,737 in bonds and other long-term debt, compared to \$8,035,949 last year. The chart below segregates the City's debt into its component parts.

| | Outstanding Debt at Year-End | |
|----------------------|------------------------------|-----------|
| | June 30, | |
| | 2005 | 2004 |
| ligation bonds | \$ 6,140,000 | 4,390,000 |
| n capital loan notes | 2,225,000 | - |
| venue bonds | 3,390,000 | 3,640,000 |
| urchase agreement | 108,737 | 5,949 |
| Total | \$ 11,863,737 | 8,035,949 |

Debt increased as a result of issuing general obligation bonds for a sewer construction project. In addition, the City issued capital loan notes for a multi-use trail system and to refund older debt issuances.

City debt payments in FY 2005 reduced outstanding debt by \$705,949.

The City's general obligation bond rating changed from A2 to A3 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 \$9,728,817, net of cash on hand, is significantly below its constitutional debt limit of approximately \$13 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Formulation of the FY2006 budget was limited by several realities that hinder the City's fiscal health. The first reality involves the element of assessment limitation order, commonly known as property tax rollback, which tends to erode the City's tax valuation base each year. The City's FY2006 assessed value has increased \$1 million from the FY2005 level, or an increase of 1.12%. The City's General Fund expenditures will decline \$101,836 from FY2005 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 from FY2005.

Second, Road Use Tax Fund revenues are budgeted to remain consistent in FY2006, and 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 State Legislature threatens annually to repeal replacement funding to cities for monies and credits provided to taxpayers. Should this threat of elimination materialize, certain City services would likely be jeopardized. There is nothing the City can do to proactively place itself a safe distance from this threat.

The proposed FY2006 budget contains total receipts of \$6,398,541 and disbursements of \$8,770,322. This \$10 million-plus budget contains a number of "one-time" components, including:

- Community Development Block Grant "passthroughs" of \$84,173 for housing rehabilitation and \$600,000 for construction of a childcare facility. The City serves as a conduit for both of these projects:
- Disbursement of the \$2.2 million in sewer bond proceeds, issued in FY05, to equip the wastewater plant with a Supervisory Control and Data Acquisition (SCADA) system to electronically monitor the sewer system and to construct the Westside Sanitary Sewer Project.
- The local option sales tax collection will continue to be used for referendum identified street improvement projects, including reconstruction of the Roche Street project. An 80% Surface Transportation Plan (20% local match) grant will be obtained to help finance this project.

The FY2006 budget contains debt service payments of \$1,279,350, comprising seven separate bond and note issues, including the advance refunding of a general obligation bond issue at the crossover date of June 1, 2006.

The proposed FY2006 levy is \$13.91 per \$1,000 of assessed valuation, or an increase of \$0.76/\$1,000 over that of FY2005. Unfortunately, the City has reached its General Fund levy limit of \$8.10 and its Emergency Fund levy limit of \$0.27.

These parameters were taken into account when adopting the budget for FY2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

City of Knoxville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

| | Disbursements | Program Receipts | | |
|------------------------------------|---------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 1,192,484 | 280,720 | 106,153 | - |
| Public works | 693,009 | 2,285 | 642,801 | 292 |
| Culture and recreation | 985,665 | 227,919 | 41,313 | - |
| Community and economic development | 325,700 | 16,563 | 179,432 | 225,476 |
| General government | 428,508 | 45,688 | 5,936 | - |
| Debt service | 913,064 | - | 7,621 | - |
| Capital projects | 914,329 | - | 227 | 384,861 |
| Total governmental activities | 5,452,759 | 573,175 | 983,483 | 610,629 |
| Business type activities: | | | | |
| Sewer | 1,852,518 | 1,615,403 | 500 | - |
| Airport | 106,769 | - | 35,092 | 18,985 |
| Total business type activities | 1,959,287 | 1,615,403 | 35,592 | 18,985 |
| Total | \$ 7,412,046 | 2,188,578 | 1,019,075 | 629,614 |

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 purposes
 Unrestricted interest on investments
 Bond proceeds
 Note proceeds
 Miscellaneous
 Transfers
 Total general receipts and transfers
 Change in cash basis net assets
 Cash basis net assets beginning of year
 Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Local option sales tax
 Urban renewal
 Debt service
 Capital projects
 Customer deposits
 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 |
|----------------------------|-----------------------------|-------------|
| (805,611) | - | (805,611) |
| (47,631) | - | (47,631) |
| (716,433) | - | (716,433) |
| 95,771 | - | 95,771 |
| (376,884) | - | (376,884) |
| (905,443) | - | (905,443) |
| (529,241) | - | (529,241) |
| (3,285,472) | - | (3,285,472) |

| | | |
|-------------|-----------|-------------|
| - | (236,615) | (236,615) |
| - | (52,692) | (52,692) |
| - | (289,307) | (289,307) |
| (3,285,472) | (289,307) | (3,574,779) |

| | | |
|-----------|-----------|-----------|
| 1,785,814 | - | 1,785,814 |
| 390,497 | - | 390,497 |
| 343,708 | - | 343,708 |
| 598,184 | - | 598,184 |
| 1,150 | - | 1,150 |
| 22,283 | 35,993 | 58,276 |
| - | 2,192,065 | 2,192,065 |
| 2,219,288 | - | 2,219,288 |
| 16,687 | - | 16,687 |
| 32,704 | (32,704) | - |

| | | |
|--------------|-----------|-----------|
| 5,410,315 | 2,195,354 | 7,605,669 |
| 2,124,843 | 1,906,047 | 4,030,890 |
| 2,935,353 | 1,765,205 | 4,700,558 |
| \$ 5,060,196 | 3,671,252 | 8,731,448 |

| | | |
|--------------|-----------|-----------|
| \$ 223,654 | - | 223,654 |
| 220,064 | - | 220,064 |
| 936,341 | - | 936,341 |
| 1,421,205 | 2,405,076 | 3,826,281 |
| 683,900 | - | 683,900 |
| - | 39,777 | 39,777 |
| 874,031 | - | 874,031 |
| 701,001 | 1,226,399 | 1,927,400 |
| \$ 5,060,196 | 3,671,252 | 8,731,448 |

City of Knoxville

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

As of and for the year ended June 30, 2005

| | General | Special | |
|---|-------------------|--------------------|------------------------------|
| | | Road Use Tax | Local Option Sales Tax |
| Receipts: | | | |
| Property tax | \$ 1,209,739 | - | - |
| Tax increment financing | - | - | - |
| Other city tax | 104,418 | - | 598,184 |
| Licenses and permits | 36,614 | - | - |
| Use of money and property | 37,877 | - | - |
| Intergovernmental | 102,134 | 642,801 | 383,661 |
| Charges for service | 467,822 | - | - |
| Miscellaneous | 55,336 | - | - |
| Total receipts | <u>2,013,940</u> | <u>642,801</u> | <u>981,845</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 1,020,680 | - | - |
| Public works | 123,071 | 590,859 | - |
| Culture and recreation | 955,201 | - | - |
| Community and economic development | 120,301 | - | - |
| General government | 383,745 | 30,949 | - |
| Debt service | - | - | - |
| Capital projects | - | - | 823,733 |
| Total disbursements | <u>2,602,998</u> | <u>621,808</u> | <u>823,733</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>(589,058)</u> | <u>20,993</u> | <u>158,112</u> |
| Other financing sources (uses): | | | |
| General obligation capital loan note proceeds (net of \$5,712 discount) | - | - | - |
| Operating transfers in | 449,526 | - | - |
| Operating transfers out | (19,206) | - | - |
| Total other financing sources (uses) | <u>430,320</u> | <u>-</u> | <u>-</u> |
| Net change in cash balances | (158,738) | 20,993 | 158,112 |
| Cash balances beginning of year | 377,860 | 202,661 | 61,952 |
| Cash balances end of year | <u>\$ 219,122</u> | <u>223,654</u> | <u>220,064</u> |
| Cash Basis Fund Balances | | | |
| Reserved for debt service | | | |
| Unreserved: | \$ - | - | - |
| General fund | 219,122 | - | - |
| Special revenue funds | - | 223,654 | 220,064 |
| Capital projects fund | - | - | - |
| Debt service | - | - | - |
| Permanent funds | - | - | - |
| Total cash basis fund balances | <u>\$ 219,122</u> | <u>223,654</u> | <u>220,064</u> |

See notes to financial statements.

| Revenue | | | | |
|--------------------------------|-----------------|---------------------|-----------|-----------|
| Urban Renewal Tax Increment | Debt Service | Capital Projects | Nonmajor | Total |
| - | 331,877 | - | 439,703 | 1,981,319 |
| 390,497 | - | - | - | 390,497 |
| - | 11,831 | - | 31,954 | 746,387 |
| - | - | - | - | 36,614 |
| - | 7,667 | 519 | 2,096 | 48,159 |
| - | - | 168,329 | 205,483 | 1,502,408 |
| - | - | - | - | 467,822 |
| - | - | 2,360 | 72,702 | 130,398 |
| 390,497 | 351,375 | 171,208 | 751,938 | 5,303,604 |
| - | - | - | 152,526 | 1,173,206 |
| - | - | - | - | 713,930 |
| - | - | - | 8,204 | 963,405 |
| - | - | - | 205,399 | 325,700 |
| - | - | - | - | 414,694 |
| 228,752 | 684,312 | - | - | 913,064 |
| - | - | 235,596 | - | 1,059,329 |
| 228,752 | 684,312 | 235,596 | 366,129 | 5,563,328 |
| 161,745 | (332,937) | (64,388) | 385,809 | (259,724) |
| - | 1,521,950 | 697,338 | - | 2,219,288 |
| - | 268,860 | - | - | 718,386 |
| (231,950) | - | - | (434,526) | (685,682) |
| (231,950) | 1,790,810 | 697,338 | (434,526) | 2,251,992 |
| (70,205) | 1,457,873 | 632,950 | (48,717) | 1,992,268 |
| 1,006,546 | (134,774) | 50,950 | 922,748 | 2,487,943 |
| 936,341 | 1,323,099 | 683,900 | 874,031 | 4,480,211 |
| - | 1,421,205 | - | - | 1,421,205 |
| - | - | - | - | 219,122 |
| 936,341 | - | - | 684,728 | 2,064,787 |
| - | - | 683,900 | - | 683,900 |
| - | (98,106) | - | - | (98,106) |
| - | - | - | 189,303 | 189,303 |
| 936,341 | 1,323,099 | 683,900 | 874,031 | 4,480,211 |

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, 2005

Total governmental funds cash balances (page 17) \$ 4,480,211

***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 Activities and Net Assets.

579,985

Cash basis net assets of governmental activities (page 15)

\$ 5,060,196

Net change in cash balances (page 17)

\$ 1,992,268

***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 in the Statement of Activities and Net Assets.

132,575

Change in cash balance of governmental activities (page 15)

\$ 2,124,843

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, 2005

| | Enterprise Funds | | |
|---|---------------------|---------------------|------------------|
| | Sewer | Nonmajor Airport | Total |
| Operating receipts: | | | |
| Charges for service | \$ 1,603,393 | - | 1,603,393 |
| Miscellaneous | 12,010 | - | 12,010 |
| Total operating receipts | <u>1,615,403</u> | <u>-</u> | <u>1,615,403</u> |
| Operating disbursements: | | | |
| Governmental activities: | | | |
| Public safety | - | - | - |
| Public works | - | - | - |
| Culture and recreation | - | - | - |
| General government | - | - | - |
| Business type activities | 1,456,127 | 106,769 | 1,562,896 |
| Total operating disbursements | <u>1,456,127</u> | <u>106,769</u> | <u>1,562,896</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | <u>159,276</u> | <u>(106,769)</u> | <u>52,507</u> |
| Non-operating receipts (disbursements): | | | |
| Intergovernmental | 500 | 18,358 | 18,858 |
| Interest on investments | 35,993 | 35,719 | 71,712 |
| Sewer revenue bond proceeds (net of \$7,935 discount) | 2,192,065 | - | 2,192,065 |
| Debt service | (425,966) | - | (425,966) |
| Total non-operating receipts (disbursements) | <u>1,802,592</u> | <u>54,077</u> | <u>1,856,669</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>1,961,868</u> | <u>(52,692)</u> | <u>1,909,176</u> |
| Transfers: | | | |
| Operating transfers in | - | 19,206 | 19,206 |
| Operating transfers out | (51,910) | - | (51,910) |
| Total transfers | <u>(51,910)</u> | <u>19,206</u> | <u>(32,704)</u> |
| Net change in cash balances | 1,909,958 | (33,486) | 1,876,472 |
| Cash balances beginning of year | <u>1,722,056</u> | <u>(60,287)</u> | <u>1,661,769</u> |
| Cash balances end of year | <u>\$ 3,632,014</u> | <u>(93,773)</u> | <u>3,538,241</u> |
| Cash Basis Fund Balances | | | |
| Reserved for: | | | |
| Debt service | \$ 2,405,076 | - | 2,405,076 |
| Customer deposits | 39,777 | - | 39,777 |
| Unreserved | 1,187,161 | (93,773) | 1,093,388 |
| Total cash basis fund balances | <u>\$ 3,632,014</u> | <u>(93,773)</u> | <u>3,538,241</u> |

See notes to financial statements.

| <u>Internal Service Funds</u> |
|---------------------------------------|
| 275,241 |
| - |
| <u>275,241</u> |
| 19,278 |
| 63,058 |
| 22,260 |
| 13,814 |
| - |
| <u>118,410</u> |
| 156,831 |
| - |
| 5,319 |
| - |
| - |
| <u>5,319</u> |
| <u>162,150</u> |
| - |
| - |
| - |
| 162,150 |
| <u>550,846</u> |
| <u>712,996</u> |
| - |
| - |
| <u>712,996</u> |
| <u>712,996</u> |

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, 2005

Total enterprise funds cash balances (page 20) \$ 3,538,241

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

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

133,011

Cash basis net assets of business type activities (page 15)

\$ 3,671,252

Net change in cash balances (page 20)

\$ 1,876,472

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

The Internal Service Funds are used by management to charge the costs of equipment and building replacement to individual funds. The change in net assets of the Internal Service Funds is reported in business type activities in the Statement of Activities and Net Assets.

29,575

Change in cash balance of business type activities (page 15)

\$ 1,906,047

See notes to financial statements.

City of Knoxville

Notes to Financial Statements

June 30, 2005

(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 the City's component unit. 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.

Related Organization

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

B. Basis of Presentation

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

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in 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 Local Option Sales Tax Fund is used to account for local option sales tax and related construction projects authorized by the local option sales tax resolution.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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

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 fund:

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

The City also reports the following proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City 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.

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the community and economic development function. Also, the City amended its budget on May 16, 2005. However, disbursements had exceeded the amount budgeted in the community and economic development function prior to adoption of the budget amendment.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2005, the City had the following investments:

| Type | Carrying Amount | Fair Value | Maturity |
|-------------------------------|---------------------|------------------|---------------|
| U.S. Government Treasury Note | \$ 3,567 | 3,567 | December 2005 |
| U.S. Government Treasury Note | <u>1,417,638</u> | <u>1,417,638</u> | June 2006 |
| Total | <u>\$ 1,421,205</u> | <u>1,421,205</u> | |

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,057,827 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

(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 | | Capital Loan Notes | | Sewer Revenue Bonds | | Total | |
|----------------------------|-----------------------------|-----------|--------------------|----------|---------------------|----------|------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | \$ 450,000 | 289,267 | 110,000 | 82,446 | 260,000 | 137,684 | 820,000 | 509,397 |
| 2007 | 550,000 | 265,892 | 270,000 | 72,224 | 265,000 | 129,089 | 1,085,000 | 467,205 |
| 2008 | 570,000 | 240,640 | 280,000 | 63,024 | 270,000 | 119,866 | 1,120,000 | 423,530 |
| 2009 | 605,000 | 214,137 | 290,000 | 53,999 | 285,000 | 110,159 | 1,180,000 | 378,295 |
| 2010 | 630,000 | 185,573 | 295,000 | 44,573 | 300,000 | 99,424 | 1,225,000 | 329,570 |
| 2011 - 2015 | 1,845,000 | 574,565 | 980,000 | 80,541 | 1,465,000 | 309,852 | 4,290,000 | 964,958 |
| 2016 - 2020 | 1,490,000 | 201,688 | - | - | 545,000 | 38,642 | 2,035,000 | 240,330 |
| Total | \$ 6,140,000 | 1,971,762 | 2,225,000 | 396,807 | 3,390,000 | 944,716 | 11,755,000 | 3,313,285 |

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, \$29,407 of general obligation bond interest was paid from the Enterprise, Sewer Fund.

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 when insufficient money shall be available in the sinking account.
- (d) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

Refunding of General Obligation Notes

On May 1, 2005, the City issued \$1,525,000 of general obligation refunding capital loan notes. The City entered into an escrow agreement with Bankers Trust Company and deposited the proceeds from the refunding notes. The proceeds will be used to advance refund \$70,000 of 1994 general obligation bonds maturing on June 1, 2006. In addition, the funds in the escrow account will be used to advance refund \$1,415,000 of 1997 general obligation bonds on the call date of June 1, 2006. The remaining funds in the escrow account will be used temporarily to meet the debt service requirements of the refunding bonds until the crossover date of June 1, 2006.

Any remaining funds in the escrow account after the payment made on the crossover date shall be remitted to the City. As required, the City will report the liability for both the 1994 and 1997 general obligation bonds and the general obligation refunding capital loan notes until the crossover date. The amount available in the refunding notes trust escrow account at June 30, 2005 was \$1,421,205, consisting of investments in U.S. government securities.

The City, in effect, reduced its total general obligation debt service payments by approximately \$66,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$59,000.

Capital Lease Purchase Agreement

During the year, the City entered into a capital lease purchase agreement to lease a rescue vehicle. The following is a schedule of the future minimum lease payments, including interest at 4.8% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2005:

| Year Ending June 30, | Amount |
|---|-------------------|
| 2006 | \$ 18,724 |
| 2007 | 18,724 |
| 2008 | 18,724 |
| 2009 | 18,724 |
| 2010 | 18,724 |
| 2011 - 2012 | 37,447 |
| Total minimum lease payments | 131,067 |
| Less amount representing interest | (22,330) |
| Present value of net minimum lease payments | <u>\$ 108,737</u> |

Payments under a capital lease purchase agreement outstanding at the beginning of the year totaled \$6,400 during the year ended June 30, 2005.

(4) Pension and Retirement Benefits

Iowa Public Employees Retirement System

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$68,480, \$66,147 and \$66,335, 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 24.92% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2005, 2004 and 2003 were \$127,596, \$90,674 and \$80,143, 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 payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|-------------------|
| Holiday | \$ 12,000 |
| Vacation | 97,000 |
| Sick leave | 46,000 |
| Compensatory time | <u>16,000</u> |
| Total | <u>\$ 171,000</u> |

This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

| Transfer to | Transfer from | Amount |
|------------------------|--|-------------------|
| General | Special Revenue: | |
| | Liability, Property and Self Insurance | \$ 62,941 |
| | Employee Benefits - Health | 220,095 |
| | FICA and IPERS Benefits | 109,874 |
| | Emergency | 41,616 |
| | Enterprise: | |
| | Sewer | 15,000 |
| | | <u>449,526</u> |
| Debt Service | Special Revenue: | |
| | Urban Renewal Tax Increment | 231,950 |
| | Enterprise: | |
| | Sewer | 36,910 |
| | | <u>268,860</u> |
| Enterprise: Airport | General | <u>19,206</u> |
| Total | | <u>\$ 737,592</u> |

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

(7) 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 509 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 contributions to the Pool for the year ended June 30, 2005 were \$136,732.

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 \$100,000 each accident, each location, with excess coverage 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, 2005, 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.

(8) Deficit Fund Balances

At June 30, 2005, the City had deficit balances in the following funds:

| <u>Fund</u> | <u>Amount</u> |
|--------------------|---------------|
| Special Revenue: | |
| Aquatic Park Trust | \$ (60) |
| Enterprise: | |
| Airport | (93,773) |

The City is reviewing alternatives to eliminate these deficits.

(9) Construction Commitments

The City has entered into construction contracts totaling approximately \$2,788,411. As of June 30, 2005, costs of approximately \$1,124,008 had been paid on the contracts. The remaining \$1,664,403 will be paid as work on these projects progresses.

(10) Interfund Receivable/Payable

In prior years, the General Fund loaned the Special Revenue, Urban Renewal Tax Increment 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 receipts are collected. No payments were made during the year ended June 30, 2005.

(11) Economic Development Loans

On February 2, 2000, the City loaned \$25,000 to the Knoxville Chamber of Commerce to assist in funding a local business expansion. The interest free loan is to be repaid over five years. During the year ended June 30, 2005, no payment was received on the loan. The loan balance at June 30, 2005 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, 2005, principal of \$24,953 and interest of \$523 were received on the loan. The loan was repaid in full at June 30, 2005.

(12) Community Economic Betterment Account Loan

On December 16, 2004, the City was awarded a \$200,000 Community Economic Betterment Account loan on behalf of Ultimate Truck Body from the Iowa Department of Economic Development. The loan consists of a \$50,000 conventional interest free loan and a \$150,000 forgivable loan. Repayment of the conventional loan is to be made in 48 equal monthly payments of \$1,042 with the first payment due on August 1, 2006. The balance outstanding on the conventional loan at June 30, 2005 was \$50,000. At the project completion date, if the business has fulfilled at least 50% of its job creation/retention requirement, \$3,409 will be forgiven for each new job created/retained for at last ninety days past the project completion date. Any balance will be amortized over a two year period in equal monthly payments with 6% per annum interest.

(13) Development and Rebate Agreements

In prior years, the City entered into three development and rebate agreements to assist in certain urban renewal projects. During the year ended June 30, 2005, the City increased one of the agreements through an amendment. 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, 2005, the City rebated \$228,752 of incremental taxes to the developers for principal and interest. The outstanding principal balance on these agreements at June 30, 2005 is \$2,676,285.

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) 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, 2005, 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 2006 from the Special Revenue, Urban Renewal Tax Increment Fund.

City of Knoxville

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2005

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted |
|---|---------------------------------|--------------------------------|---|
| Receipts: | | | |
| Property tax | \$ 1,981,319 | - | - |
| Tax increment financing | 390,497 | - | - |
| Other city tax | 746,387 | - | - |
| Licenses and permits | 36,614 | - | - |
| Use of money and property | 48,159 | 77,031 | 5,319 |
| Intergovernmental | 1,502,408 | 18,858 | - |
| Charges for service | 467,822 | 1,878,634 | 275,241 |
| Special assessments | - | - | - |
| Miscellaneous | 130,398 | 12,010 | - |
| Total receipts | 5,303,604 | 1,986,533 | 280,560 |
| Disbursements: | | | |
| Public safety | 1,173,206 | 19,278 | 19,278 |
| Public works | 713,930 | 63,058 | 63,058 |
| Culture and recreation | 963,405 | 22,260 | 22,260 |
| Community and economic development | 325,700 | - | - |
| General government | 414,694 | 13,814 | 13,814 |
| Debt service | 913,064 | 425,966 | - |
| Capital projects | 1,059,329 | - | - |
| Business type activities | - | 1,562,896 | - |
| Total disbursements | 5,563,328 | 2,107,272 | 118,410 |
| Excess (deficiency) of receipts over (under) disbursements | (259,724) | (120,739) | 162,150 |
| Other financing sources, net | 2,251,992 | 2,159,361 | - |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 1,992,268 | 2,038,622 | 162,150 |
| Balances beginning of year | 2,487,943 | 2,212,615 | 550,846 |
| Balances end of year | \$ 4,480,211 | 4,251,237 | 712,996 |

See accompanying independent auditor's report.

| Total | Budgeted Amounts | | Final to Total Variance |
|------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | |
| 1,981,319 | 1,976,820 | 3,953,640 | (1,972,321) |
| 390,497 | 325,316 | 680,316 | (289,819) |
| 746,387 | 620,304 | 1,270,304 | (523,917) |
| 36,614 | 58,020 | 116,040 | (79,426) |
| 119,871 | 143,462 | 283,462 | (163,591) |
| 1,521,266 | 1,700,214 | 3,400,428 | (1,879,162) |
| 2,071,215 | 2,085,143 | 4,170,286 | (2,099,071) |
| - | 7,500 | 11,000 | (11,000) |
| 142,408 | 136,304 | 308,304 | (165,896) |
| <u>7,009,577</u> | <u>7,053,083</u> | <u>14,193,780</u> | <u>(7,184,203)</u> |
| 1,173,206 | 1,113,559 | 2,318,158 | 1,144,952 |
| 713,930 | 729,256 | 1,458,512 | 744,582 |
| 963,405 | 983,041 | 1,992,382 | 1,028,977 |
| 325,700 | 99,754 | 224,508 | (101,192) |
| 414,694 | 422,427 | 854,814 | 440,120 |
| 1,339,030 | 1,666,978 | 4,858,956 | 3,519,926 |
| 1,059,329 | 1,834,251 | 3,668,502 | 2,609,173 |
| 1,562,896 | 4,301,416 | 8,602,832 | 7,039,936 |
| <u>7,552,190</u> | <u>11,150,682</u> | <u>23,978,664</u> | <u>16,426,474</u> |
| (542,613) | (4,097,599) | (9,784,884) | 9,242,271 |
| <u>4,411,353</u> | <u>2,362,000</u> | <u>7,146,788</u> | <u>(2,735,435)</u> |
| 3,868,740 | (1,735,599) | (2,638,096) | 6,506,836 |
| <u>4,149,712</u> | <u>2,805,085</u> | <u>5,610,170</u> | <u>(1,460,458)</u> |
| <u>8,018,452</u> | <u>1,069,486</u> | <u>2,972,074</u> | <u>5,046,378</u> |

City of Knoxville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

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

Formal and legal budgetary control is based upon 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the 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 \$12,827,982. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development function. Although the City amended its budget on May 16, 2005, disbursements had exceeded the amount budgeted in the community and economic development function prior to adoption of the budget amendment.

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, 2005

| | | | | | | | Special |
|---|---|----------------------------------|-------------------------------|----------------------|-----------|--------------------------------|-------------------------|
| | Liability, Property and Self- Insurance | Employee Benefits - Health | FICA and IPERS Benefits | Police Retirement | Emergency | Hotel Motel Sales Tax | Urban Revitalization |
| Receipts: | | | | | | | |
| Property tax | \$ 74,782 | 178,557 | 92,143 | 54,778 | 39,443 | - | - |
| Other city tax | 2,874 | 7,088 | 3,658 | 2,174 | 1,523 | 14,637 | - |
| Use of money and property | - | - | - | - | - | - | - |
| Intergovernmental | - | - | - | 5,483 | - | - | - |
| Miscellaneous | - | - | - | - | - | - | - |
| Total receipts | 77,656 | 185,645 | 95,801 | 62,435 | 40,966 | 14,637 | - |
| Disbursements: | | | | | | | |
| Operating: | | | | | | | |
| Public safety | - | - | - | 127,596 | - | - | - |
| Culture and recreation | - | - | - | - | - | - | - |
| Community and economic development | - | - | - | - | - | 5,399 | - |
| Total disbursements | - | - | - | 127,596 | - | 5,399 | - |
| Excess (deficiency) of receipts over (under) disbursements | 77,656 | 185,645 | 95,801 | (65,161) | 40,966 | 9,238 | - |
| Other financing uses: | | | | | | | |
| Operating transfers out | (62,941) | (220,095) | (109,874) | - | (41,616) | - | - |
| Net change in cash balances | 14,715 | (34,450) | (14,073) | (65,161) | (650) | 9,238 | - |
| Cash balances beginning of year | 2,847 | 37,804 | 28,971 | 377,538 | 20,639 | - | 3,956 |
| Cash balances end of year | \$ 17,562 | 3,354 | 14,898 | 312,377 | 19,989 | 9,238 | 3,956 |
| Cash Basis Fund Balances | | | | | | | |
| Unreserved: | | | | | | | |
| Special revenue funds | \$ 17,562 | 3,354 | 14,898 | 312,377 | 19,989 | 9,238 | 3,956 |
| Permanent funds | - | - | - | - | - | - | - |
| Total cash basis fund balances | \$ 17,562 | 3,354 | 14,898 | 312,377 | 19,989 | 9,238 | 3,956 |

See accompanying independent auditor's report.

| Revenue | | | | | | | | | | Permanent | | |
|----------------|---|-------------------------|------------------|-------------------------|----------------------|----------------------------|--------------------|-------------------------|--------------|-----------|----------------|--|
| Revolving Loan | Self-Supported Municipal Improvement District | Police Department Trust | Rescue Donations | Library Gifts/Memorials | Recreation Donations | Auld Park Playground Trust | Aquatic Park Trust | Cemetery Perpetual Care | Reaver Trust | Total | | |
| - | - | - | - | - | - | - | - | - | - | - | 439,703 | |
| - | - | - | - | - | - | - | - | - | - | - | 31,954 | |
| - | - | 217 | 367 | 713 | - | 507 | - | 292 | - | - | 2,096 | |
| 200,000 | - | - | - | - | - | - | - | - | - | - | 205,483 | |
| 25,476 | - | 6,205 | 27,326 | 10,266 | 300 | - | - | 3,129 | - | - | 72,702 | |
| 225,476 | - | 6,422 | 27,693 | 10,979 | 300 | 507 | - | 3,421 | - | - | 751,938 | |
| - | - | 10,777 | 14,153 | - | - | - | - | - | - | - | 152,526 | |
| - | - | - | - | 8,204 | - | - | - | - | - | - | 8,204 | |
| 200,000 | - | - | - | - | - | - | - | - | - | - | 205,399 | |
| 200,000 | - | 10,777 | 14,153 | 8,204 | - | - | - | - | - | - | 366,129 | |
| 25,476 | - | (4,355) | 13,540 | 2,775 | 300 | 507 | - | 3,421 | - | - | 385,809 | |
| - | - | - | - | - | - | - | - | - | - | - | (434,526) | |
| 25,476 | - | (4,355) | 13,540 | 2,775 | 300 | 507 | - | 3,421 | - | - | (48,717) | |
| 135,727 | 1 | 14,336 | 28,291 | 47,560 | 6,867 | 32,389 | (60) | 185,382 | 500 | - | 922,748 | |
| 161,203 | 1 | 9,981 | 41,831 | 50,335 | 7,167 | 32,896 | (60) | 188,803 | 500 | - | 874,031 | |
| 161,203 | 1 | 9,981 | 41,831 | 50,335 | 7,167 | 32,896 | (60) | - | - | - | 684,728 | |
| - | - | - | - | - | - | - | - | 188,803 | 500 | - | 189,303 | |
| 161,203 | 1 | 9,981 | 41,831 | 50,335 | 7,167 | 32,896 | (60) | 188,803 | 500 | - | 874,031 | |

City of Knoxville

City of Knoxville

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

As of and for the year ended June 30, 2005

| | Equipment Replacement | Building Replacement | Total |
|---|--------------------------|-------------------------|----------------|
| Operating receipts: | | | |
| Use of money and property | \$ 5,319 | - | 5,319 |
| Charges for service | 275,241 | - | 275,241 |
| Total operating receipts | <u>280,560</u> | <u>-</u> | <u>280,560</u> |
| Operating disbursements: | | | |
| Governmental activities: | | | |
| Public safety | 19,278 | - | 19,278 |
| Public works | 63,058 | - | 63,058 |
| Culture and recreation | 22,260 | - | 22,260 |
| General government | - | 13,814 | 13,814 |
| Total operating disbursements | <u>104,596</u> | <u>13,814</u> | <u>118,410</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | 175,964 | (13,814) | 162,150 |
| Cash balances beginning of year | <u>500,690</u> | <u>50,156</u> | <u>550,846</u> |
| Cash balances end of year | <u>\$ 676,654</u> | <u>36,342</u> | <u>712,996</u> |
| Cash Basis Fund Balances | | | |
| Unreserved | <u>\$ 676,654</u> | <u>36,342</u> | <u>712,996</u> |

See accompanying independent auditor's report.

City of Knoxville
Schedule of Indebtedness
Year ended June 30, 2005

| 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 |
| Essential corporate purpose | Jan 15, 2005 | 2.25 - 4.30 | 2,200,000 |
| Total | | | |
| General obligation capital loan notes: | | | |
| General corporate purpose | May 1, 2005 | 2.70 - 3.90% | \$ 700,000 |
| General obligation refunding | May 1, 2005 | 3.25 - 4.00 | 1,525,000 |
| Total | | | |
| Revenue bonds: | | | |
| Sewer | Mar 1, 2002 | 3.875 - 4.70% | \$ 3,000,000 |
| Sewer refunding | Nov 17, 2003 | 1.50 - 4.00 | 995,000 |
| Total | | | |
| Capital lease purchase agreement: | | | |
| Fire equipment | Aug 9, 2000 | 7.59% | \$ 21,393 |
| Rescue vehicle | Aug 24, 2004 | 4.80 | 108,737 |
| Total | | | |

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 140,000 | - | 140,000 | - | 7,280 |
| 1,635,000 | - | 105,000 | 1,530,000 | 86,443 |
| 2,615,000 | - | 205,000 | 2,410,000 | 137,207 |
| - | 2,200,000 | - | 2,200,000 | 29,407 |
| \$ 4,390,000 | 2,200,000 | 450,000 | 6,140,000 | 260,337 |
| - | 700,000 | - | 700,000 | - |
| - | 1,525,000 | - | 1,525,000 | - |
| \$ - | 2,225,000 | - | 2,225,000 | - |
| 2,730,000 | - | 160,000 | 2,570,000 | 117,624 |
| 910,000 | - | 90,000 | 820,000 | 28,035 |
| \$ 3,640,000 | - | 250,000 | 3,390,000 | 145,659 |
| 5,949 | - | 5,949 | - | 451 |
| - | 108,737 | - | 108,737 | - |
| \$ 5,949 | 108,737 | 5,949 | 108,737 | 451 |

City of Knoxville
Bond and Note Maturities

June 30, 2005

| General Obligation Bonds | | | | | | | |
|----------------------------|--------------------|---------------------|--------------------|---------------------|---------------------|---------------------|------------------|
| Year Ending June 30, | Corporate Purpose | | General | | General | | Total |
| | Issued Apr 1, 1997 | | Corporate Purpose | | Corporate Purpose | | |
| | Interest | | Issued May 1, 2000 | | Issued Jan 15, 2005 | | |
| | Rates | Amount | Rates | Amount | Rates | Amount | |
| 2006 | 5.25% | \$ 115,000 | 5.05% | \$ 220,000 | 2.25% | \$ 115,000 | 450,000 |
| 2007 | 5.25 | 205,000 | 5.05 | 230,000 | 2.50 | 115,000 | 550,000 |
| 2008 | 5.30 | 215,000 | 5.05 | 235,000 | 2.70 | 120,000 | 570,000 |
| 2009 | 5.30 | 230,000 | 5.10 | 250,000 | 2.90 | 125,000 | 605,000 |
| 2010 | 5.30 | 240,000 | 5.10 | 260,000 | 3.10 | 130,000 | 630,000 |
| 2011 | 5.30 | 255,000 | 5.15 | 110,000 | 3.25 | 130,000 | 495,000 |
| 2012 | 5.30 | 270,000 | 5.20 | 115,000 | 3.40 | 135,000 | 520,000 |
| 2013 | | - | 5.25 | 120,000 | 3.50 | 145,000 | 265,000 |
| 2014 | | - | 5.35 | 125,000 | 3.70 | 150,000 | 275,000 |
| 2015 | | - | 5.45 | 135,000 | 3.80 | 155,000 | 290,000 |
| 2016 | | - | 5.50 | 140,000 | 3.90 | 160,000 | 300,000 |
| 2017 | | - | 5.60 | 150,000 | 4.00 | 170,000 | 320,000 |
| 2018 | | - | 5.65 | 155,000 | 4.10 | 175,000 | 330,000 |
| 2019 | | - | 5.70 | 165,000 | 4.20 | 185,000 | 350,000 |
| 2020 | | - | | - | 4.30 | 190,000 | 190,000 |
| Total | | <u>\$ 1,530,000</u> | | <u>\$ 2,410,000</u> | | <u>\$ 2,200,000</u> | <u>6,140,000</u> |

| General Obligation Capital Loan Notes | | | | | |
|---------------------------------------|--------------------|-------------------|--------------------|--------------------|---------------------|
| Year Ending June 30, | General | | General Obligation | | Total |
| | Corporate Purpose | | Refunding | | |
| | Issued May 1, 2005 | | Issued May 1, 2005 | | |
| | Rates | Amount | Rates | Amount | |
| 2006 | 2.70% | \$ 40,000 | 4.000% | \$ 70,000 | 110,000 |
| 2007 | 3.00 | 50,000 | 3.500 | 220,000 | 270,000 |
| 2008 | 3.10 | 50,000 | 3.250 | 230,000 | 280,000 |
| 2009 | 3.25 | 50,000 | 3.250 | 240,000 | 290,000 |
| 2010 | 3.35 | 50,000 | 3.250 | 245,000 | 295,000 |
| 2011 | 3.50 | 85,000 | 3.375 | 255,000 | 340,000 |
| 2012 | 3.60 | 90,000 | 3.500 | 265,000 | 355,000 |
| 2013 | 3.70 | 90,000 | | - | 90,000 |
| 2014 | 3.80 | 95,000 | | - | 95,000 |
| 2015 | 3.90 | 100,000 | | - | 100,000 |
| Total | | <u>\$ 700,000</u> | | <u>\$1,525,000</u> | <u>\$ 2,225,000</u> |

See accompanying independent auditor's report.

| Revenue Bonds | | | | |
|-------------------------------------|---------------------|--|-------------------|---------------------|
| Sewer Revenue Issued Mar 4, 2002 | | Sewer Revenue Refunding Issued Nov 17, 2003 | | Total |
| Interest Rates | Amount | Interest Rates | Amount | |
| 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>\$ 2,570,000</u> | | <u>\$ 820,000</u> | <u>\$ 3,390,000</u> |

Schedule 5

City of Knoxville

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

For the Last Three Years

| | 2005 | 2004 | 2003 |
|------------------------------------|--------------|-----------|-----------|
| Receipts: | | | |
| Property tax | \$ 1,981,319 | 2,069,054 | 2,091,215 |
| Tax increment financing | 390,497 | 327,032 | 267,890 |
| Other city tax | 746,387 | 286,303 | 131,447 |
| Licenses and permits | 36,614 | 44,374 | 54,796 |
| Use of money and property | 48,159 | 42,281 | 59,040 |
| Intergovernmental | 1,502,408 | 805,600 | 1,023,225 |
| Charges for service | 467,822 | 423,250 | 316,449 |
| Special assessments | - | 14,329 | 5,688 |
| Miscellaneous | 130,398 | 93,178 | 166,818 |
| | <hr/> | <hr/> | <hr/> |
| Total | \$ 5,303,604 | 4,105,401 | 4,116,568 |
| | <hr/> | <hr/> | <hr/> |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | \$ 1,173,206 | 1,143,333 | 1,246,442 |
| Public works | 713,930 | 728,691 | 716,802 |
| Culture and recreation | 963,405 | 954,891 | 998,489 |
| Community and economic development | 325,700 | 197,729 | 153,213 |
| General government | 414,694 | 423,033 | 394,567 |
| Debt service | 913,064 | 777,558 | 652,097 |
| Capital projects | 1,059,329 | 99,340 | 580,020 |
| | <hr/> | <hr/> | <hr/> |
| Total | \$ 5,563,328 | 4,324,575 | 4,741,630 |
| | <hr/> | <hr/> | <hr/> |

See accompanying independent auditor's report.

City of Knoxville
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2005

| Grantor/Program | CFDA Number | Agency Pass-through Number | Program Expenditures |
|---|----------------|----------------------------------|-------------------------|
| Direct: | | | |
| U.S. Department of Justice: | | | |
| Bulletproof Vest Partnership Program | 16.607 | | \$ 810 |
| U.S. Department of Transportation: | | | |
| Airport Improvement Program | 20.106 | | 18,358 |
| Indirect: | | | |
| U.S. Department of Housing and Urban Development: | | | |
| Iowa Department of Economic Development: | | | |
| Community Development Block Grants/ State's Program | 14.228 | | 147,404 |
| U.S. Department of Transportation: | | | |
| Iowa Department of Transportation: | | | |
| Highway Planning and Construction | 20.205 | | 436,947 |
| Iowa Department of Public Safety: | | | |
| Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | 20.601 | | 4,448 |
| Total | | | <u>\$ 607,967</u> |

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

See accompanying independent auditor's report.

City of Knoxville



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 28, 2005. Our report expressed unqualified opinions on the primary government financial statements, which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Knoxville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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 caused by error or fraud 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 II-A-05, II-B-05, II-E-05, II-F-05, II-G-05 and II-H-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Knoxville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, non-

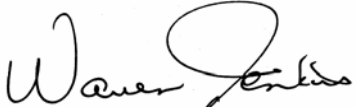
compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 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.

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

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


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 28, 2005



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Knoxville, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The City of Knoxville's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Knoxville's management. Our responsibility is to express an opinion on the City of Knoxville's compliance based on our audit.

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

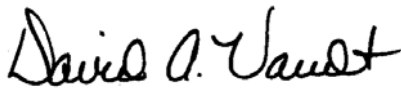
In our opinion, the City of Knoxville complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

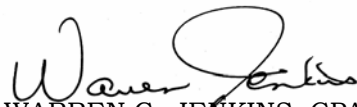
The management of the City of Knoxville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Knoxville's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 28, 2005

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Knoxville did not qualify as a low risk auditee.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05 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) Bank reconciliations –not reviewed by an independent person for propriety.
- (3) Investments – recording and custody.
- (4) Receipts – opening mail, collecting receipts, recording receipts and no independent reconciliation of recorded receipts to the deposit.
- (5) 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 – (1) Jennifer will be the keeper of the petty cash and Connie will reconcile on a monthly basis. Connie will continue to sign the checks with the Mayor. (2) Jennifer has the bank reconciliations completed and balanced through October 2005. The City Manager is reviewing the reports and initials the reports. (3) Connie will continue to administer the investments and the City Manager will review and initial the reports on a monthly basis. (4) The City will continue to segregate the duties of receipts as much as possible with the number of staff available. (5) Payroll time sheets are prepared by the department heads and submitted to Jennifer. She prepares the checks and runs the reports. Connie oversees the distribution of the checks and completes the month end reports.

Conclusion – Response accepted.

II-B-05 Monthly Bank to Book Reconciliations – Monthly reconciliations of the Clerk's balances to the bank accounts and investments were not prepared timely. In addition, the bank balance exceeded the book balance by \$4,388 at June 30, 2005.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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 – The bank to book reconciliation has been reconciled and completed each month beginning July 1, 2005 and will continue to be completed on a monthly basis.

Conclusion – Response acknowledged. Also, the city should continue to investigate and resolve the \$4,388 variance at June 30, 2005. In addition, a listing of outstanding checks should be prepared each month and retained.

II-C-05 Bank Signature Card – Bank signature cards need to be updated to reflect changes in city personnel.

Recommendation – Bank signature cards should be updated to reflect current employees.

Response – Bank signature cards will be updated to reflect any changes in employees or elected officials.

Conclusion – Response accepted.

II-D-05 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 City has changed the computer system to automatically require the passwords be changed every 60 days; the City will develop written policies for the storage of computer media and a disaster recovery plan.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

II-E-05 Building Permits – One employee is responsible for collecting cash, preparing receipts and recording receipts for planning and zoning permits.

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

Response – The City will require that another individual receipt in the cash after the Zoning Administrator prepares the building permit at all times that are possible with the number of staff we currently have.

Conclusion – Response accepted.

II-F-05 Rescue Billings – One employee is responsible for opening the mail, collecting receipts, recording receipts and maintaining the accounts receivable records. Write-offs of delinquent rescue billings are not approved by an independent person. In addition, an initial listing of receipts is not prepared and restrictive endorsements are not placed on checks upon receipt.

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

Response – The City will purchase a “For Deposit Only” stamp for the Rescue Billing Department and will have another individual open the mail and place the stamp on the checks. We will require that a report be presented to the City Manager for review on all write-offs of delinquent rescue billings on a quarterly basis.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel.

II-G-05 Rescue Billings Reconciliation – The Rescue Department provides billing and collection services for the City’s rescue fees. The City does not prepare a reconciliation of rescue billings, collections and delinquencies.

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

Response – The Rescue Billing Department will work with the software company to prepare a monthly report for the City Manager and Council review.

Conclusion – Response accepted.

II-H-05 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.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Response – The Manager of Knoxville Municipal Waterworks has agreed to work to create a report that will satisfy our requirements and also the requirements of their auditor.

Conclusion – Response accepted.

- II-I-05 Records of Account – The Knoxville Senior Citizen Board and the Knoxville Friends of the Library maintained checking and savings accounts separate from the City Clerk’s records. The transactions and the resulting balances were not reported to the Council each month, and the transactions were not recorded in the Clerk’s records. The City was not able to provide documentation the Boards had obtained separate legal status as of June 30, 2005. This was resolved for audit purposes.

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

Response – The City will require transactions and resulting balances be reported to the Council each month or provide documentation they have obtained separate legal status.

Conclusion – Response accepted.

- II-J-05 Records of Account – The Knoxville Fireman’s Association maintained checking and savings accounts separate from the City Clerk’s records. The transactions and the resulting balances were not reported to the Council each month, and the transactions were not recorded in the Clerk’s records. The City was not able to provide documentation the Association had obtained separate legal status as of June 30, 2005.

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

Response – The City will require that transactions and resulting balances be reported to the Council each month or provide documentation they have obtained separate legal status.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCE OF NON-COMPLIANCE:

**CFDA Number 14.228: Community Development Block Grants/State's Program
Federal Award Year: 2005
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development**

III-A-05 Undocumented Costs – Supporting documentation was not available to substantiate \$31,290 of subrecipient costs.

Recommendation – The City should implement procedures to ensure supporting documentation is received before remitting payment to subrecipients.

Response – The City has contracted Simmering-Cory, Inc. to complete administration of the contract and feels that this problem will be resolved as the previous administrator had not had significant experience with CDBG program requirements.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part IV: Findings Related to Required Statutory Reporting:

IV-A-05 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, 2005.

IV-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amount budgeted in the community and economic development function. 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 16, 2005. However, disbursements had exceeded the amount budgeted in the community and economic development function 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 will not exceed certified disbursement prior to a budget amendment.

Conclusion – Response accepted.

IV-C-05 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.

IV-D-05 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-05 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 | \$1,483 |
| Craig Kelley, Mayor, owner of Central Iowa Fasteners | Supplies and parts | 1,121 |

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

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-F-05 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.

IV-G-05 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The Council went into closed session on November 1, 2004. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Although the minutes of Council proceedings were published, certain minutes 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 21 of the Code of Iowa and should publish minutes as required. Also, the publication of council proceedings should include a summary of all receipts and disbursement from each fund.

Response – The City will comply with Chapter 21 of the Code of Iowa and will publish monthly the receipts and disbursements from each fund as required by Chapter 372.13(6) of the Code of Iowa.

Conclusion – Response accepted.

IV-H-05 Deposits and Investments – Except as noted below, deposits and investments were in compliance with Chapters 12B and 12C of the Code of Iowa and the City’s investment policy. Interest income from investments made from the Capital Projects Fund and the Enterprise, Sewer Fund have not been credited to these accounts. In accordance with Chapter 12C.9 of the Code of Iowa, interest earned on bond proceeds should be credited to the project fund for which the indebtedness was issued.

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

Response – The City will receipt interest on investments in compliance with Chapters 12B and 12C of the Code of Iowa.

Conclusion – Response accepted.

IV-I-05 Revenue Bonds – The City has complied with the requirements of the revenue bond resolutions.

IV-J-05 Payment of General Obligation Bonds – Certain general obligation bond interest was paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Recommendation – The City should transfer from the Enterprise, Sewer Fund to the Debt Service Fund for future funding contributions. Payments of the bonds and interest should then be disbursed from the Debt Service Fund.

Response – The City will pay the general obligation bond payments from the debt service and transfer funds from the Sewer Fund as noted above.

Conclusion – Response accepted.

IV-K-05 Financial Condition – The City had deficit balances, as follows:

| Fund | Balance | |
|--------------------|---------------|---------------|
| | June 30, 2005 | June 30, 2004 |
| Special Revenue: | | |
| Aquatic Park Trust | \$ (60) | (60) |
| Enterprise: | | |
| Airport | (93,773) | (60,287) |

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

Response – The City will eliminate the deficit in the Special Revenue, Aquatic Park Trust Fund with payment from the General Fund and close the account. The City is investigating other revenue sources for the Enterprise, Airport Fund to help reduce the deficit balance.

Conclusion – Response accepted.

IV-L-05 Hotel Motel Tax – The City did not credit hotel motel taxes to the General Fund in accordance with Chapter 423A.2(3) of the Code of Iowa.

Recommendation – The City should credit hotel motel taxes to the General Fund as required by the Code of Iowa.

Response – The hotel motel tax will be credited to the General Fund in accordance with Chapter 423A.2(3) of the Code of Iowa.

Conclusion – Response accepted.

IV-M-05 Transfers to Internal Service Funds – The Internal Service, Equipment Replacement and Building Replacement Funds were established to accumulate resources to replace City equipment, buildings and structures. Payments to Internal Service Funds from the operating funds are to be budgeted as disbursements if the disbursements from the Internal Service Fund are not budgeted. During the year ended June 30, 2005, transfers from Special Revenue, Road Use Tax and Local Option Sales Tax Funds and Enterprise, Sewer Fund of \$83,979, \$145,000 and \$29,575, respectively, to the Internal Service, Equipment Replacement Fund were not appropriately budgeted. The transfers out were reclassified as disbursements in the operating funds and the transfers in were reclassified as receipts in the Internal Service Fund. Therefore, this was resolved for audit purposes.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Recommendation – Payments to the Internal Service Funds from the operating funds are to be budgeted if the disbursements from the Internal Service Funds are not budgeted.

Response – Payments to Internal Service Funds from the operating funds will be budgeted.

Conclusion – Response accepted.

IV-N-05 Electronically Retained Checks – The City did not maintain the back side of electronically retained checks as required by Chapter 554D.114(5) of the Code of Iowa.

Recommendation – The City should maintain both sides of electronically retained checks in accordance with Chapter 554D.114(5) of the Code of Iowa.

Response – The City will contact our bank institution to try to rectify this matter.

Conclusion – Response accepted.

IV-O-05 Unclaimed Property – The City has not reported unclaimed property of \$3,297 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 try to contact the individuals on the unclaimed property. If unsuccessful, the unclaimed property will be reported to the Treasurer of State as required by Chapter 556.11 of the Code of Iowa.

Conclusion – Response accepted.

IV-P-05 Interfund Loan – The Special Revenue, Urban Renewal Tax Increment Fund did not transfer any repayments on the General Fund interfund loan.

Recommendation – The City should transfer sufficient funds to repay the interfund loan.

Response – The City will transfer sufficient funds to repay the interfund loan when the funds are available.

Conclusion – Response accepted.

IV-Q-05 City Budget Amendment – The City amended its budget on May 16, 2005. However, the budget amendment was incorrectly calculated, resulting in inflated budgeted receipts of \$7,053,083 and budgeted disbursements of \$11,150,682.

Recommendation – The City should certify correct budget information.

Response – The City will certify correct budget amounts in the future.

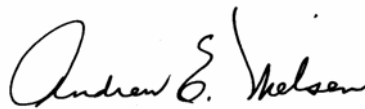
Conclusion – Response accepted.

City of Knoxville

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Selina V. Johnson, CPA, Senior Auditor
Stephanie A. Bernard, Staff Auditor
Curtis E. Van Zee, Assistant Auditor
Bobbie J. Zediker, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State