



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

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Warren G. Jenkins, CPA
Chief Deputy Auditor of State

NEWS RELEASE

FOR RELEASE December 11, 2002

Contact: Andy Nielsen
515/281-5515

Auditor of State Richard Johnson today released an audit report on the City of Knoxville, Iowa.

Johnson reported that the City's receipts totaled \$5,445,139 for the year ended June 30, 2002, a 3 percent increase from 2001. The receipts included \$1,987,916 in property tax, \$85,090 in tax increment financing collections, \$749,957 from the state, \$36,474 from the federal government and \$86,307 in interest on investments. The City also received bond proceeds of \$2,976,073 that are reported as an other financing source.

Disbursements for the year totaled \$7,125,482, a 13 percent increase from the prior year, and included \$1,271,909 for community protection, \$963,537 for human development, \$3,789,705 for home and community environment, \$595,716 for policy and administration and \$504,615 for non-program.

This report contains recommendations to the City Council and other City officials. For example, Johnson recommended that the City segregate accounting duties to the extent possible with the existing personnel and reconcile book balances to bank balances monthly. The City has responded that corrective action is being taken on each item in the report.

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

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CITY OF KNOXVILLE
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2002

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City of Knoxville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
Michael L. Cunningham	Mayor	Jan 2002
Jerilynn Uitermarkt	Mayor Pro tem	Jan 2004
Sharon Dennison	Council Member	Jan 2002
Larry Scott	Council Member	Jan 2002
Jon Lenger	Council Member	Jan 2004
Ron Robinson	Council Member	Jan 2004
(After January 2002)		
Jon Lenger	Mayor	Jan 2004
Jerilynn Uitermarkt	Mayor Pro tem	Jan 2004
Craig Kelley (Appointed)	Council Member	Nov 2002
Ron Robinson	Council Member	Jan 2004
Forest Pearson	Council Member	Jan 2006
David Roozeboom	Council Member	Jan 2006
Brian James	City Manager	Resigned April 15, 2002
Jeffrey LaGarce (as of Aug 12, 2002)	City Manager	Indefinite
Connie J. Stevens	City Clerk	Indefinite
Robert Stuyvesant	City Attorney	Indefinite

City of Knoxville



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Chief Deputy Auditor of State

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Knoxville, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Knoxville's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

These financial statements also include financial data only for the primary government. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. Inclusion of financial data of the City's component units would be required if the City intended to present financial statements in accordance with U.S. generally accepted accounting principles.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Knoxville as of and for the year ended June 30, 2002, and its indebtedness at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2002 on our consideration of the City of Knoxville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2001 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 26, 2002

City of Knoxville

Financial Statements

City of Knoxville
 Combined Statement of Cash Transactions

All Fund Types

Year ended June 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 1,255,932	473,708	258,270
Tax increment financing collections	-	85,090	
Other city tax	114,221	17,106	10,350
Licenses and permits	47,400	-	
Use of money and property	62,173	13,238	3,950
Intergovernmental	211,991	619,235	
Charges for service	321,697	-	
Special assessments	10,281	-	
Miscellaneous	79,312	33,968	
Total receipts	<u>2,103,007</u>	<u>1,242,345</u>	<u>272,580</u>
Disbursements:			
Community Protection Program	1,131,836	93,767	18,780
Human Development Program	809,563	-	48,580
Home and Community Environment Program	238,271	645,733	629,060
Policy and Administration Program	519,158	27,326	18,750
Non-program	-	-	
Total disbursements	<u>2,698,828</u>	<u>766,826</u>	<u>715,180</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(595,821)</u>	<u>475,519</u>	<u>(442,600)</u>
Other financing sources (uses):			
Sewer revenue bond proceeds (net of \$23,927 discount)	-	-	
Operating transfers in	400,989	331,020	75,020
Operating transfers out	(23,069)	(732,893)	
Total other financing sources (uses)	<u>377,920</u>	<u>(401,873)</u>	<u>75,020</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(217,901)</u>	<u>73,646</u>	<u>(367,570)</u>
Balance beginning of year	<u>954,607</u>	<u>1,782,304</u>	<u>(129,010)</u>
Balance end of year	<u>\$ 736,706</u>	<u>1,855,950</u>	<u>(496,590)</u>

See notes to financial statements.

Capital Projects	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Trust	
-	-	-	-	1,987,916
-	-	-	-	85,090
-	-	-	-	141,679
-	-	-	-	47,400
4,888	55,405	10,226	11,145	161,027
-	-	-	-	831,226
-	1,174,513	-	-	1,496,210
7,583	-	-	-	17,864
23,257	28,951	335,253	175,986	676,727
35,728	1,258,869	345,479	187,131	5,445,139
-	-	-	27,523	1,271,909
16,680	-	-	88,713	963,537
1,433,795	842,841	-	-	3,789,705
12,255	18,223	-	-	595,716
-	-	504,615	-	504,615
1,462,730	861,064	504,615	116,236	7,125,482
(1,427,002)	397,805	(159,136)	70,895	(1,680,343)
1,861,055	1,115,018	-	-	2,976,073
-	230,757	-	-	1,037,792
-	(281,830)	-	-	(1,037,792)
1,861,055	1,063,945	-	-	2,976,073
434,053	1,461,750	(159,136)	70,895	1,295,730
229,121	463,612	588,587	352,987	4,242,202
663,174	1,925,362	429,451	423,882	5,537,932

City of Knoxville

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

	<u>Actual</u>
Receipts:	
Property tax	\$ 1,987,916
Tax increment financing collections	85,090
Other city tax	141,679
Licenses and permits	47,400
Use of money and property	161,027
Intergovernmental	831,226
Charges for service	1,496,210
Special assessments	17,864
Miscellaneous	676,727
Total receipts	<u>5,445,139</u>
Disbursements:	
Community Protection Program	1,271,909
Human Development Program	963,537
Home and Community Environment Program	3,789,705
Policy and Administration Program	595,716
Non-program	504,615
Total disbursements	<u>7,125,482</u>
Deficiency of receipts under disbursements	(1,680,343)
Other financing sources, net	<u>2,976,073</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,295,730
Balance beginning of year	<u>4,242,202</u>
Balance end of year	<u>\$ 5,537,932</u>

See notes to financial statements.

Less Funds Not Required to be Budgeted	Net	Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
-	1,987,916	1,990,807	(2,891)	100%
-	85,090	95,546	(10,456)	89%
-	141,679	167,899	(26,220)	84%
-	47,400	44,400	3,000	107%
16,877	144,150	194,100	(49,950)	74%
-	831,226	1,010,996	(179,770)	82%
-	1,496,210	1,563,206	(66,996)	96%
-	17,864	15,865	1,999	113%
335,253	341,474	472,940	(131,466)	72%
352,130	5,093,009	5,555,759	(462,750)	92%
-	1,271,909	1,270,546	(1,363)	100%
-	963,537	1,019,632	56,095	94%
-	3,789,705	4,978,003	1,188,298	76%
-	595,716	672,998	77,282	89%
504,615	-	-	-	
504,615	6,620,867	7,941,179	1,320,312	83%
(152,485)	(1,527,858)	(2,385,420)		
-	2,976,073	4,475,000		
(152,485)	1,448,215	2,089,580		
756,386	3,485,816	4,883,889		
603,901	4,934,031	6,973,469		

City of Knoxville
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates
General obligation bonds:		
Corporate purpose	Apr 1, 1992	3.20 - 5.90%
General corporate purpose	Jun 1, 1994	5.10 - 5.20
Corporate purpose	Apr 1, 1997	4.65 - 5.30
General corporate purpose	May 1, 2000	5.05 - 5.70
Total		
Revenue bonds:		
Sewer revenue bonds	Jun 1, 1993	4.62%
Sewer revenue bonds	Mar 1, 2002	3.875 - 4.70
Urban renewal tax increment financing (TIF) revenue bonds		
	Dec 1, 1997	6.25%
Capital lease purchase agreement		
Fire equipment	Aug 9, 2000	7.59%

See notes to financial statements.

Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 3,185,000	165,000	-	165,000	-	9,735
605,000	330,000	-	60,000	270,000	17,035
1,875,000	1,835,000	-	20,000	1,815,000	96,875
3,230,000	3,175,000	-	180,000	2,995,000	165,488
	\$ 5,505,000	-	425,000	5,080,000	289,133
\$ 1,592,000	1,119,000	-	72,000	1,047,000	51,698
3,000,000	-	3,000,000	-	3,000,000	-
	\$ 1,119,000	3,000,000	72,000	4,047,000	51,698
\$ 183,600	153,292	-	25,694	127,598	10,482
\$ 21,393	21,393	-	4,776	16,617	1,624

City of Knoxville

Notes to Financial Statements

June 30, 2002

(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-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

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

These financial statements present the City of Knoxville (the primary government) and exclude all component units. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship 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 individual component unit, which issued separate financial statements, can be obtained from the Municipal Waterworks administrative office.

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

B. Fund Accounting

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

Fiduciary Funds

Trust Funds - The Trust Funds are utilized to account for monies and properties received and held by the City in a trustee capacity. These include expendable trust funds and non-expendable trust funds.

C. Basis of Accounting

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

D. Budgets and Budgetary Accounting

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

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

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

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$56,048 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 335,000	266,222	190,000	208,721	525,000	474,943
2004	355,000	249,145	234,000	168,730	589,000	417,875
2005	380,000	230,930	242,000	158,880	622,000	389,810
2006	405,000	211,425	251,000	148,692	656,000	360,117
2007	435,000	190,638	260,000	138,119	695,000	328,757
2008	450,000	168,260	269,000	127,160	719,000	295,420
2009	480,000	144,997	284,000	115,818	764,000	260,815
2010	500,000	120,058	298,000	103,659	798,000	223,717
2011	365,000	94,077	313,000	90,808	678,000	184,885
2012	385,000	74,898	328,000	77,311	713,000	152,209
2013	120,000	54,607	343,000	62,953	463,000	117,560
2014	125,000	48,308	240,000	47,658	365,000	95,966
2015	135,000	41,620	250,000	36,858	385,000	78,478
2016	140,000	34,262	265,000	25,483	405,000	59,745
2017	150,000	26,563	280,000	13,160	430,000	39,723
2018	155,000	18,162	-	-	155,000	18,162
2019	165,000	9,405	-	-	165,000	9,405
Total	\$ 5,080,000	1,983,577	4,047,000	1,524,010	9,127,000	3,507,587

Urban renewal tax increment financing revenue bonds of \$183,600 were issued for the purpose of defraying a portion of the costs to carry out urban renewal projects of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Highway 14 South Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax financing increment revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The urban renewal tax increment revenue bond development agreement requires semi-annual payments beginning December 1, 1999 equal to 75% of the incremental property taxes attributable to the Urban Renewal Area which have been received by the City prior to that date. Payments will continue until all principal and interest have been paid, provided that no payments shall be made after June 1, 2011. All payments shall be credited to accrued interest first and then to unpaid principal. To the extent that on any payment date there are insufficient funds to make a required payment of accrued interest, such accrued interest shall be added to the then existing unpaid principal amount of the bond. A payment schedule has not been prepared since the amounts payable each year are dependent upon the tax increment financing collections received. During the year ended June 30, 2002, principal of \$25,694 and interest of \$10,482 were paid on the bonds.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of an amount equal to that required to be made to the sewer revenue bond sinking account shall be made to a sewer revenue reserve account until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying at maturity principal or interest on the bonds for which insufficient money shall be available in the sinking fund.

Capital Lease Purchase Agreement

The City has entered into a capital lease purchase agreement to lease fire department equipment. The following is a schedule of the future minimum lease payments, including interest at 7.59% per annum, and the present value of net minimum lease payments under the agreements in effect at June 30, 2002:

Year Ending June 30,	Amount
2003	\$ 6,400
2004	6,400
2005	<u>6,400</u>
Total minimum lease payments	19,200
Less amount representing interest	<u>(2,583)</u>
Present value of net minimum lease payments	<u>\$ 16,617</u>

During the year ended June 30, 2002, \$6,400 was paid under the capital lease purchase agreement.

(4) Pension and Retirement Benefits

Iowa Public Employees Retirement System

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2002, 2001, and 2000 were \$63,885, \$58,254, and \$53,633 respectively, equal to the required contribution 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 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2002, 2001, and 2000 were \$73,507, \$72,363, and \$61,944, respectively, which met the required minimum contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused holiday and vacation hours for subsequent use or for payment upon termination, retirement or death. City employees may also accumulate a limited amount of earned but unused sick leave hours for payment of subsequent health benefit costs upon retirement. The City also allows employees to accumulate compensatory time during the fiscal year in lieu of overtime pay. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned holiday, vacation, sick leave and compensatory time termination payments payable to employees at June 30, 2002, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Holiday	\$ 10,000
Vacation	95,000
Sick leave	15,000
Compensatory time	<u>16,000</u>
Total	<u>\$ 136,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2002.

(6) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2002, disbursements in the Community Protection Program exceeded the amount budgeted.

(7) Related Party Transactions

The City had business transactions totaling \$2,428 between the City and City officials during the year ended June 30, 2002.

(8) Risk Management

The City of Knoxville is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 400 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2002 were \$104,100.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member

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

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

(9) Deficit Balances

At June 30, 2002, the City had deficit balances in the following funds:

Fund	Balance June 30, 2002
Special Revenue:	
Urban Renewal Tax Increment Park Lane	\$ (7,203)
Debt Service:	
1997 General Obligation Bonds	(39,262)
2000 General Obligation Bonds	(546,634)
Capital Projects:	
Downtown Streetscape	(1,758)
West Pleasant and Highway 14	(441)
2000 Reno Street Sewer	(10,254)
2001 Storm Sewer	(110,575)
Ramp Exterior and Repair	(7,629)
Enterprise:	
Airport	(30,044)
Expendable Trust:	
Aquatic Park Trust	(60)

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

(10) Construction Commitments

The City has entered into construction contracts totaling approximately \$1,281,000. As of June 30, 2002, costs of approximately \$1,190,000 had been paid on the contracts. The remaining \$91,000 will be paid as work on these projects progresses.

(11) Interfund Receivable/Payable

During the year ended June 30, 2002, the General Fund loaned the Special Revenue, Urban Renewal Tax Increment Westridge Fund \$16,569 for principal and interest due on the general obligation bonds prior to the collection of tax increment financing receipts. The funds are to be repaid, without interest, as tax increment financing revenues are collected. The General Fund had previously loaned the Special Revenue, Urban Renewal Tax Increment Westridge Fund \$68,682. The total loan balance at June 30, 2002 is \$85,251.

(12) Economic Development Loans

On February 2, 2000, the City loaned \$25,000 to the Knoxville Chamber of Commerce to assist in funding for a local business expansion. The interest free loan is to be repaid over five years. The \$5,000 payment due during the year ended June 30, 2002 was received on August 25, 2002. The loan balance at June 30, 2002 was \$20,000.

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 paid in monthly installments of \$2,831 beginning April 27, 2000 and ending March 27, 2005. During the year ended June 30, 2002, principal of \$28,826 and interest of \$5,142 was paid on the loan. The balance at June 30, 2002 was \$87,106.

(13) Development and Rebate Agreements

On September 18, 2000, the City entered into a development agreement to assist in an urban renewal project. The City agreed to rebate incremental taxes paid by the developer in exchange for infrastructure improvements constructed by the developer as set forth in the urban renewal plan. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated until the principal amount has been repaid beginning after the TIF bonds previously issued have been repaid. The total amount that will be rebated over the ten year period under the development and rebate agreement is not to exceed \$85,931 in principal.

As of June 30, 2002, the construction project had been inspected and accepted by the City, however, no payments have been made under this agreement.

No bonds or notes will be issued for this construction project. To the extent that on any payment date there are insufficient tax increment revenues available to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date without accruing any further interest.

On December 27, 2001, the City entered into a development agreement to assist in an urban renewal project. The City agreed to rebate incremental taxes paid by the developer in exchange for infrastructure improvements constructed by the developer as set forth in the urban renewal plan. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated until the principal amount has been repaid beginning after the TIF bonds previously issued have been repaid. The total amount that will be rebated over the twenty year period under the development and rebate agreement is not to exceed \$2,097,811 in principal.

As of June 30, 2002, the construction project had not been inspected and accepted by the City. No payments have been made under this agreement.

No bonds or notes will be issued for this construction project. To the extent that on any payment date there are insufficient tax increment revenues available to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date without accruing any further interest.

City of Knoxville

Supplemental Information

City of Knoxville
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2002

Receipts:	
Property tax	\$ 1,255,932
Other city tax:	
Mobile home tax	15,042
Utility tax replacement excise tax	40,848
Cable franchise fees	58,331
	<u>114,221</u>
Licenses and permits	<u>47,400</u>
Use of money and property:	
Interest on investments	30,279
Rent	19,498
Sale of cemetery lots	12,046
Sale of equipment	350
	<u>62,173</u>
Intergovernmental:	
State allocation	97,436
Bank franchise tax	21,256
Liquor licenses	5,783
Library grant	6,247
County library	23,519
Public Safety Partnership and Community Policing grant	36,474
School liason	16,100
Miscellaneous	5,176
	<u>211,991</u>
Charges for service:	
Rescue service charges	115,574
Cemetery charges	28,261
Recreation fees	160,835
Miscellaneous	17,027
	<u>321,697</u>
Special assessments	<u>10,281</u>
Miscellaneous:	
Fines and fees	59,671
Refunds and reimbursements	6,136
Donations and contributions	2,500
Sales tax collected	7,190
Miscellaneous	3,815
	<u>79,312</u>
Total receipts	<u>2,103,007</u>

Schedule 1

City of Knoxville
Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

Disbursements:

Community Protection Program:

Police:

Personal services	565,730
Contractual services	33,953
Commodities	30,985
Capital outlay	29,127
	<u>659,795</u>

Dispatchers:

Personal services	176,678
Contractual services	5,194
Commodities	337
	<u>182,209</u>

Fire protection:

Personal services	12,820
Contractual services	14,678
Commodities	8,613
Capital outlay	59,375
	<u>95,486</u>

Rescue services:

Personal services	53,368
Contractual services	23,878
Commodities	21,037
Capital outlay	23,221
	<u>121,504</u>

Street lighting:

Contractual services	72,842
	<u>1,131,836</u>

Human Development Program:

Library:

Personal services	155,146
Contractual services	44,540
Commodities	48,227
Capital outlay	6,065
	<u>253,978</u>

Parks:

Personal services	63,697
Contractual services	17,803
Commodities	6,973
Capital outlay	9,898
	<u>98,371</u>

City of Knoxville
Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

Schedule 1

Disbursements (continued):

Human Development Program:

Recreation:

Personal services	169,830
Contractual services	116,071
Commodities	42,511
Capital outlay	31,313
	<u>359,725</u>

Swimming pool:

Personal services	78,585
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Animal control:

Personal services	6,524
Contractual services	12,368
Commodities	12
	<u>18,904</u>
	<u>809,563</u>

Home and Community Environment Program:

Cemetery:

Personal services	126,158
Contractual services	6,009
Commodities	9,027
Capital outlay	16,529
	<u>157,723</u>

Community Development:

Contractual services	34,078
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Public Works:

Personal services	23,660
Contractual services	9,253
Commodities	3,907
Capital outlay	9,650
	<u>46,470</u>
	<u>238,271</u>

Policy and Administration Program:

Mayor and Council members:

Personal services	2,899
Contractual services	2,370
Commodities	362
	<u>5,631</u>

City manager:

Personal services	59,767
Contractual services	12,936
Commodities	113
Capital outlay	1,434
	<u>74,250</u>

City of Knoxville
Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

Schedule 1

Disbursements (continued):	
Policy and Administration Program:	
City clerk:	
Personal services	58,972
Contractual services	15,293
Commodities	580
Capital outlay	2,880
	<u>77,725</u>
Insurance:	
Contractual services	37,364
Legal services:	
Contractual services	13,970
Elections	
Contractual services	4,681
Planning and zoning:	
Personal services	47,002
Contractual services	36,114
Commodities	505
Capital outlay	847
	<u>84,468</u>
Municipal building:	
Personal services	69,754
Contractual services	72,761
Commodities	12,404
Capital outlay	66,150
	<u>221,069</u>
	<u>519,158</u>
Total disbursements	<u>2,698,828</u>
Deficiency of receipts under disbursements	<u>(595,821)</u>
Other financing sources (uses):	
Operating transfers in (out):	
Special Revenue:	
Emergency	41,667
Urban Renewal Tax Increment Highway 14 South	5,000
Urban Renewal Tax Increment Westridge	(16,569)
FICA and IPERS Benefits	108,208
Employee Health Benefits	216,114
Enterprise:	
Sewer Utility	30,000
Airport	(6,500)
Total other financing sources (uses)	<u>377,920</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	<u>(217,901)</u>
Balance beginning of year	<u>954,607</u>
Balance end of year	<u><u>\$ 736,706</u></u>

See accompanying independent auditor's report.

City of Knoxville

City of Knoxville
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	Road Use Tax	Self- Supported Municipal Improvement District	Police and Fire Retirement	Emer- gency	Urban Revita- lization	Revolving Loan
Receipts:						
Property tax	\$ -	13,365	374,544	41,771	-	-
Tax increment financing collections	-	-	-	-	-	-
Other city tax:						
Mobile home tax	-	-	2,751	188	-	-
Utility tax replacement excise tax	-	-	14,145	22	-	-
	-	-	16,896	210	-	-
Use of money and property:						
Interest on investments	-	-	13,238	-	-	-
Intergovernmental:						
Road use tax allocation	619,235	-	-	-	-	-
Miscellaneous:						
Public enterprise contributions	-	-	-	-	-	33,968
Total receipts	619,235	13,365	404,678	41,981	-	33,968
Disbursements:						
Community Protection Program:						
Police operation:						
Personal services	-	-	73,507	-	-	-
Traffic control:						
Contractual services	15,919	-	-	-	-	-
Commodities	4,341	-	-	-	-	-
	20,260	-	-	-	-	-
	20,260	-	73,507	-	-	-

Urban Renewal Tax Increment Highway 14 South	Urban Renewal Tax Increment Westridge	Urban Renewal Tax Increment Wal-Mart	Urban Renewal Tax Increment Park Lane	FICA and IPERS Benefits	Employee Health Benefits	Total
-	-	-	-	19,591	24,437	473,708
84,843	247	-	-	-	-	85,090
-	-	-	-	-	-	2,939
-	-	-	-	-	-	14,167
-	-	-	-	-	-	17,106
-	-	-	-	-	-	13,238
-	-	-	-	-	-	619,235
-	-	-	-	-	-	33,968
84,843	247	-	-	19,591	24,437	1,242,345
-	-	-	-	-	-	73,507
-	-	-	-	-	-	15,919
-	-	-	-	-	-	4,341
-	-	-	-	-	-	20,260
-	-	-	-	-	-	93,767

City of Knoxville
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	Self-Supported Municipal Improvement District	Police and Fire Retirement	Emer- gency	Urban Revita- lization	Revolving Loan
Disbursements (continued):					
Home and Community Environment Program:					
Roadway maintenance:					
Personal services	279,693	-	-	-	-
Contractual services	33,529	-	-	-	-
Commodities	65,733	-	-	-	-
Capital outlay	180,388	-	-	-	-
Debt service:					
Principal redemption	-	-	-	-	-
Interest payments	-	-	-	-	-
	559,343	-	-	-	-
Public works director:					
Personal services	29,257	-	-	-	-
Community development:					
Contractual services	-	13,754	-	-	-
	588,600	13,754	-	-	-
Policy and Administration Program:					
Legal Services:					
Contractual services	11,056	-	-	-	-
Insurance:					
Contractual services	16,270	-	-	-	-
	27,326	-	-	-	-
Total disbursements	636,186	13,754	73,507	-	-
Excess (deficiency) of receipts over (under) disbursements	(16,951)	(389)	331,171	41,981	- 33,968

Urban Renewal Tax Increment Highway 14 South	Urban Renewal Tax Increment Westridge	Urban Renewal Tax Increment Wal-Mart	Urban Renewal Tax Increment Park Lane	FICA and IPERS Benefits	Employee Health Benefits	Total
-	-	-	-	-	-	279,693
-	-	-	7,203	-	-	40,732
-	-	-	-	-	-	65,733
-	-	-	-	-	-	180,388
25,694	-	-	-	-	-	25,694
10,482	-	-	-	-	-	10,482
36,176	-	-	7,203	-	-	602,722
-	-	-	-	-	-	29,257
-	-	-	-	-	-	13,754
36,176	-	-	7,203	-	-	645,733
-	-	-	-	-	-	11,056
-	-	-	-	-	-	16,270
-	-	-	-	-	-	27,326
36,176	-	-	7,203	-	-	766,826
48,667	247	-	(7,203)	19,591	24,437	475,519

City of Knoxville
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	Self-Supported Municipal Improvement District	Police and Fire Retirement	Emer- gency	Urban Revita- lization	Revolving Loan
Other financing sources (uses):					
Operating transfers in (out):					
General	-	-	-	(41,667)	-
Special Revenue					
Police and Fire Retirement	-	-	-	-	-
FICA and IPERS Benefits	-	-	(104,869)	-	-
Employee Health Benefits	-	-	(209,582)	-	-
Debt Service:					
1994 General Obligation	-	-	-	-	-
1997 General Obligation	-	-	-	-	-
2000 General Obligation	-	-	-	-	-
Total other financing sources (uses)	-	-	(314,451)	(41,667)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(16,951)	(389)	16,720	314	-
Balance beginning of year	309,876	389	376,637	(213)	3,956
Balance end of year	\$ 292,925	-	393,357	101	3,956

See accompanying independent auditor's report.

Urban Renewal Tax Increment Highway 14 South	Urban Renewal Tax Increment Westridge	Urban Renewal Tax Increment Wal-Mart	Urban Renewal Tax Increment Park Lane	FICA and IPERS Benefits	Employee Health Benefits	Total
(5,000)	16,569	-	-	(108,208)	(216,114)	(354,420)
-	-	-	-	104,869	209,582	314,451
-	-	-	-	-	-	(104,869)
-	-	-	-	-	-	(209,582)
-	(5,506)	-	-	-	-	(5,506)
-	(5,506)	-	-	-	-	(5,506)
-	-	(36,441)	-	-	-	(36,441)
(5,000)	5,557	(36,441)	-	(3,339)	(6,532)	(401,873)
43,667	5,804	(36,441)	(7,203)	16,252	17,905	73,646
-	17,535	975,991	-	25,056	34,255	1,782,304
43,667	23,339	939,550	(7,203)	41,308	52,160	1,855,950

Schedule 3

City of Knoxville
Combining Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2002

	1989 Street	1992 General Obligation	1994 General Obligation	1997 General Obligation	2000 General Obligation	Total
Receipts:						
Property tax	\$ -	104,984	70,852	82,440	-	258,276
Other city tax:						
Mobile home tax	-	727	491	571	-	1,789
Utility replacement excise tax	-	3,481	2,349	2,733	-	8,563
	-	4,208	2,840	3,304	-	10,352
Use of money and property:						
Interest on investments	-	3,926	-	26	-	3,952
Total receipts	-	113,118	73,692	85,770	-	272,580
Disbursements:						
Community Protection Program:						
Debt service:						
Principal redemption	-	17,666	-	-	-	17,666
Interest payments	-	1,042	-	-	-	1,042
Administration fee	-	75	-	-	-	75
	-	18,783	-	-	-	18,783
Human Development Program:						
Debt service:						
Principal redemption	-	44,086	1,339	-	-	45,425
Interest payments	-	2,601	380	-	-	2,981
Administration fee	-	75	100	-	-	175
	-	46,762	1,819	-	-	48,581
Home and Community Environment Program:						
Debt service:						
Principal redemption	-	100,373	46,562	20,000	180,000	346,935
Interest payments	-	5,922	13,220	96,875	165,488	281,505
Administration fee	-	75	100	300	150	625
	-	106,370	59,882	117,175	345,638	629,065

City of Knoxville
Combining Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2002

	1989 Street	1992 General Obligation	1994 General Obligation	1997 General Obligation	2000 General Obligation	Total
Disbursements (continued):						
Policy and Administration Program:						
Debt service:						
Principal redemption	-	2,875	12,099	-	-	14,974
Interest payments	-	170	3,435	-	-	3,605
Administration fee	-	75	100	-	-	175
	-	3,120	15,634	-	-	18,754
Total disbursements	-	175,035	77,335	117,175	345,638	715,183
Deficiency of receipts under disbursements	-	(61,917)	(3,643)	(31,405)	(345,638)	(442,603)
Other financing sources:						
Operating transfers in:						
Special Revenue:						
Urban Renewal Tax Increment Westridge	-	-	5,506	5,506	-	11,012
Urban Renewal Tax Increment Wal-Mart	-	-	-	-	36,441	36,441
Enterprise:						
Sewer Utility	-	5,017	-	22,556	-	27,573
Total other financing sources	-	5,017	5,506	28,062	36,441	75,026
Excess (deficiency) of receipts and other financing sources over (under) disbursements	-	(56,900)	1,863	(3,343)	(309,197)	(367,577)
Balance beginning of year	656	73,401	70,283	(35,919)	(237,437)	(129,016)
Balance end of year	\$ 656	16,501	72,146	(39,262)	(546,634)	(496,593)

See accompanying independent auditor's report.

City of Knoxville
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2002

	City Hall Building Improve- ments	Street Shop Improve- ments	Downtown Streetscape	Street Construction West Larson
Receipts:				
Use of money and property:				
Interest on investments	\$ -	-	-	792
Sale of cemetery lots	-	-	-	-
	-	-	-	792
Special Assessments	-	-	-	-
Miscellaneous:				
Refunds	-	-	-	-
Accrued interest on bonds sold	-	-	-	-
	-	-	-	-
Total receipts	-	-	-	792
Disbursements:				
Human Development Program:				
Contractual services	-	-	-	-
Capital outlay	-	-	-	-
	-	-	-	-
Home and Community Environment Program:				
Contractual services	-	-	-	-
Commodities	-	-	1,553	-
Capital outlay	-	-	-	-
	-	-	1,553	-
Policy and Administration Program:				
Contractual services	6,400	-	-	-
Capital outlay	5,855	-	-	-
	12,255	-	-	-
Total disbursements	12,255	-	1,553	-
Excess (deficiency) of receipts over (under) disbursements	(12,255)	-	(1,553)	792

West Madison Street Extension	Willetts Drive Paving	Bell Avenue Paving	2001 Southside Sanitary Sewer	West Pleasant and Highway 14	North 7th Street Culvert	2000 Reno Street Sewer	2001 Storm Sewer
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	2,234	-	1,544
-	-	-	9,265	-	-	-	-
-	-	-	9,265	-	2,234	-	1,544
-	-	-	9,265	-	2,234	-	1,544
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	109,434	-	-	-	5,217
-	-	-	-	-	-	-	-
-	-	-	1,242,479	-	12,035	-	23,277
-	-	-	1,351,913	-	12,035	-	28,494
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	1,351,913	-	12,035	-	28,494
-	-	-	(1,342,648)	-	(9,801)	-	(26,950)

City of Knoxville
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2002

	WWTP Carrier	Scada System Design	Snail Removal	1998 Asphalt Overlay
Receipts:				
Use of money and property:				
Interest on investments	-	-	-	127
Sale of cemetery lots	-	-	-	-
	-	-	-	127
Special Assessments	-	-	-	-
Miscellaneous:				
Refunds	-	-	-	-
Accrued interest on bonds sold	-	-	-	-
	-	-	-	-
Total receipts	-	-	-	127
Disbursements:				
Human Development Program:				
Contractual services	-	-	-	-
Capital outlay	-	-	-	-
	-	-	-	-
Home and Community Environment Program:				
Contractual services	-	-	-	-
Commodities	-	-	-	-
Capital outlay	-	-	-	-
	-	-	-	-
Policy and Administration Program:				
Contractual services	-	-	-	-
Capital outlay	-	-	-	-
	-	-	-	-
Total disbursements	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	-	-	-	127

WWTP Building Floor and Heat	Culvert Repair Project	2001 Street Improve- ments	Cemetery Roads	Pool Construc- tion Phase II	Airport Runway Phase V	Ramp Exterior and Repair	Side- walks	Total
-	182	-	604	-	405	-	486	2,596
-	-	-	2,292	-	-	-	-	2,292
-	182	-	2,896	-	405	-	486	4,888
-	-	7,583	-	-	-	-	-	7,583
-	-	-	-	10,214	-	-	-	13,992
-	-	-	-	-	-	-	-	9,265
-	-	-	-	10,214	-	-	-	23,257
-	182	7,583	2,896	10,214	405	-	486	35,728
-	-	-	-	1,682	-	-	-	1,682
-	-	-	-	14,998	-	-	-	14,998
-	-	-	-	16,680	-	-	-	16,680
-	-	83	-	-	-	7,629	-	122,363
-	-	-	-	-	-	-	-	1,553
-	-	32,088	-	-	-	-	-	1,309,879
-	-	32,171	-	-	-	7,629	-	1,433,795
-	-	-	-	-	-	-	-	6,400
-	-	-	-	-	-	-	-	5,855
-	-	-	-	-	-	-	-	12,255
-	-	32,171	-	16,680	-	7,629	-	1,462,730
-	182	(24,588)	2,896	(6,466)	405	(7,629)	486	(1,427,002)

City of Knoxville
 Combining Schedule of Cash Transactions
 Capital Projects Funds
 Year ended June 30, 2002

	City Hall Building Improve- ments	Street Shop Improve- ments	Downtown Streetscape	Street Construction West Larson
Other financing sources: Sewer revenue bond proceeds	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(12,255)	-	(1,553)	792
Balance beginning of year	39,247	25,806	(205)	111
Balance end of year	\$ 26,992	25,806	(1,758)	903

West Madison Street Extension	Willetts Drive Paving	Bell Avenue Paving	2001 Southside Sanitary Sewer	West Pleasant and Highway 14	North 7th Street Culvert	2000 Reno Street Sewer	2001 Storm Sewer
-	-	-	1,414,455	-	-	-	-
-	-	-	71,807	-	(9,801)	-	(26,950)
7,164	1,397	28,515	(3,771)	(441)	26,289	(10,254)	(83,625)
7,164	1,397	28,515	68,036	(441)	16,488	(10,254)	(110,575)

City of Knoxville
 Combining Schedule of Cash Transactions
 Capital Projects Funds
 Year ended June 30, 2002

	WWTP Carrier	Scada System Design	Snail Removal	1998 Asphalt Overlay
Other financing sources:				
Sewer revenue bond proceeds	285,000	75,000	61,600	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements	285,000	75,000	61,600	127
Balance beginning of year	-	-	-	5,236
Balance end of year	\$ 285,000	75,000	61,600	5,363

See accompanying independent auditor's report.

WWTP Building Floor and Heat	Culvert Repair Project	2001 Street Improvements	Cemetery Roads	Pool Construc- tion Phase II	Airport Runway Phase V	Ramp Exterior and Repair	Side- walks	Total
25,000	-	-	-	-	-	-	-	1,861,055
25,000	182	(24,588)	2,896	(6,466)	405	(7,629)	486	434,053
-	7,762	83,452	25,547	21,883	17,963	-	37,045	229,121
25,000	7,944	58,864	28,443	15,417	18,368	(7,629)	37,531	663,174

City of Knoxville
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Sewer Utility	Sewer Revenue Bond Sinking	Sewer Replace- ment
Receipts:			
Use of money and property:			
Interest on investments	\$ 14,344	-	5,769
Miscellaneous sales	909	-	-
Hanger and facilities rent	-	-	-
	15,253	-	5,769
Charges for service:			
Sewer rental fees	1,147,421	-	-
Installation and connections	8,150	-	-
Sanitation	18,942	-	-
	1,174,513	-	-
Miscellaneous:			
Sales tax collected	17,984	-	-
Customer deposits	-	-	-
Miscellaneous	922	-	-
	18,906	-	-
Total receipts	1,208,672	-	5,769
Disbursements:			
Home and Community Environment Program:			
Administration:			
Personal services	276,843	-	-
Contractual services	163,301	-	22,422
Commodities	35,969	-	19,903
Capital outlay	131,392	-	-
Debt service:			
Principal redemption	-	72,000	-
Interest payments	-	51,698	-
Administration fee	-	559	-
	607,505	124,257	42,325

Sewer Revenue Reserve Fund	Sewer Rent Deposits	Airport	Total
-	-	736	20,849
-	-	-	909
-	-	33,647	33,647
-	-	34,383	55,405
-	-	-	1,147,421
-	-	-	8,150
-	-	-	18,942
-	-	-	1,174,513
-	-	-	17,984
-	10,045	-	10,045
-	-	-	922
-	10,045	-	28,951
-	10,045	34,383	1,258,869
-	-	27,401	304,244
-	8,925	25,673	220,321
-	-	6,755	62,627
-	-	-	131,392
-	-	-	72,000
-	-	-	51,698
-	-	-	559
-	8,925	59,829	842,841

City of Knoxville
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Sewer Utility	Sewer Revenue Bond Sinking	Sewer Replace- ment
Disbursements (continued):			
Policy and Administration Program:			
Contractual services	14,205	-	-
Total disbursements	<u>621,710</u>	<u>124,257</u>	<u>42,325</u>
Excess (deficiency) of receipts over (under) disbursements	<u>586,962</u>	<u>(124,257)</u>	<u>(36,556)</u>
Other financing sources (uses):			
Sewer revenue bond proceeds	821,018	-	-
Operating transfers in (out):			
General	(30,000)	-	-
Debt Service:			
1992 General Obligation	(5,017)	-	-
1997 General Obligation	(22,556)	-	-
Enterprise:			
Sewer Revenue Bond Sinking	(124,257)	-	-
Sewer Utility	-	124,257	100,000
Sewer Replacement	(100,000)	-	-
Total other financing sources (uses)	<u>539,188</u>	<u>124,257</u>	<u>100,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>1,126,150</u>	<u>-</u>	<u>63,444</u>
Balance beginning of year	<u>187,826</u>	<u>10,042</u>	<u>110,312</u>
Balance end of year	<u>\$ 1,313,976</u>	<u>10,042</u>	<u>173,756</u>

See accompanying independent auditor's report.

Sewer Revenue Reserve Fund	Sewer Rent Deposits	Airport	Total
-	-	4,018	18,223
-	8,925	63,847	861,064
-	1,120	(29,464)	397,805
294,000	-	-	1,115,018
-	-	6,500	(23,500)
-	-	-	(5,017)
-	-	-	(22,556)
-	-	-	(124,257)
-	-	-	224,257
-	-	-	(100,000)
294,000	-	6,500	1,063,945
294,000	1,120	(22,964)	1,461,750
124,000	38,512	(7,080)	463,612
418,000	39,632	(30,044)	1,925,362

City of Knoxville

City of Knoxville
Combining Schedule of Cash Transactions
Internal Service Funds
Year ended June 30, 2002

	Equipment Replacement Fund	Building Replacement Fund	Total
Receipts:			
Use of money and property:			
Interest on investments	\$ 10,226	-	10,226
Miscellaneous:			
Payments from operating funds	278,687	56,566	335,253
Total receipts	<u>288,913</u>	<u>56,566</u>	<u>345,479</u>
Disbursements:			
Non-program:			
Capital equipment:			
Automobiles	24,117	-	24,117
Heavy equipment	367,017	-	367,017
Other equipment	63,273	-	63,273
Building and grounds	-	50,208	50,208
Total disbursements	<u>454,407</u>	<u>50,208</u>	<u>504,615</u>
Excess (deficiency) of receipts over (under) disbursements	(165,494)	6,358	(159,136)
Balance beginning of year	<u>588,587</u>	-	<u>588,587</u>
Balance end of year	<u>\$ 423,093</u>	<u>6,358</u>	<u>429,451</u>

See accompanying independent auditor's report.

City of Knoxville
Combining Schedule of Cash Transactions
Trust Funds
Year ended June 30, 2002

	Non-Expendable Trusts	
	Cemetery Perpetual Care	Reaver Trust
Receipts:		
Use of money and property:		
Interest on investments	\$ 673	-
Sale of cemetery lots	5,978	-
	<u>6,651</u>	<u>-</u>
Miscellaneous:		
Donations	-	-
Total receipts	<u>6,651</u>	<u>-</u>
Disbursements:		
Community Protection Program:		
Contractual services	-	-
Commodities	-	-
Capital outlay	-	-
	<u>-</u>	<u>-</u>
Human Development Program:		
Contractual services	-	-
Commodities	-	-
Capital outlay	-	-
	<u>-</u>	<u>-</u>
Total disbursements	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	6,651	-
Balance beginning of year	<u>167,299</u>	<u>500</u>
Balance end of year	<u>\$ 173,950</u>	<u>500</u>

See accompanying independent auditor's report

Expendable Trusts								
Library Gifts/ Memorials	Rescue Donations	Auld Park Playground Trust	Skate Park Trust	Police Department Trust	Recreation Donations	Aquatic Park Trust		Total
513	2,269	1,117	-	595	-	-		5,167
-	-	-	-	-	-	-		5,978
513	2,269	1,117	-	595	-	-		11,145
46,240	61,937	-	40,000	25,922	1,291	596		175,986
46,753	64,206	1,117	40,000	26,517	1,291	596		187,131
-	178	-	-	1,974	-	-		2,152
-	489	-	-	5,923	-	-		6,412
-	11,374	-	-	7,585	-	-		18,959
-	12,041	-	-	15,482	-	-		27,523
6,132	-	-	-	-	-	4,477		10,609
4,613	-	7	-	-	-	-		4,620
66,456	-	-	7,028	-	-	-		73,484
77,201	-	7	7,028	-	-	4,477		88,713
77,201	12,041	7	7,028	15,482	-	4,477		116,236
(30,448)	52,165	1,110	32,972	11,035	1,291	(3,881)		70,895
92,794	40,023	28,474	-	15,706	4,370	3,821		352,987
62,346	92,188	29,584	32,972	26,741	5,661	(60)		423,882

City of Knoxville

Bond Maturities

June 30, 2002

Year Ending June 30,	General Obligation Bonds						Total
	General Corporate Purpose Issued Jun 1, 1994		Corporate Purpose Issued Apr 1, 1997		General Corporate Purpose Issued May 1, 2000		
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2003	5.10%	\$ 65,000	5.20%	\$ 85,000	5.05%	\$ 185,000	335,000
2004	5.20	65,000	5.25	95,000	5.05	195,000	355,000
2005	5.20	70,000	5.25	105,000	5.05	205,000	380,000
2006	5.20	70,000	5.25	115,000	5.05	220,000	405,000
2007		-	5.25	205,000	5.05	230,000	435,000
2008		-	5.30	215,000	5.05	235,000	450,000
2009		-	5.30	230,000	5.10	250,000	480,000
2010		-	5.30	240,000	5.10	260,000	500,000
2011		-	5.30	255,000	5.10	110,000	365,000
2012		-	5.30	270,000	5.20	115,000	385,000
2013		-		-	5.25	120,000	120,000
2014		-		-	5.35	125,000	125,000
2015		-		-	5.45	135,000	135,000
2016		-		-	5.50	140,000	140,000
2017		-		-	5.60	150,000	150,000
2018		-		-	5.65	155,000	155,000
2019		-		-	5.70	165,000	165,000
Total		<u>\$ 270,000</u>		<u>\$ 1,815,000</u>		<u>\$ 2,995,000</u>	<u>\$ 5,080,000</u>

See accompanying independent auditor's report.

Revenue Bonds					
Sewer			Sewer		
Issued Jun 1, 1993			Issued Mar 1, 2002		
Interest Rates	Amount		Interest Rates	Amount	Total
4.62%	\$ 75,000		3.875%	\$ 115,000	\$ 190,000
4.62	79,000		4.000	155,000	234,000
4.62	82,000		4.000	160,000	242,000
4.62	86,000		4.000	165,000	251,000
4.62	90,000		4.000	170,000	260,000
4.62	94,000		4.000	175,000	269,000
4.62	99,000		4.100	185,000	284,000
4.62	103,000		4.150	195,000	298,000
4.62	108,000		4.150	205,000	313,000
4.62	113,000		4.250	215,000	328,000
4.62	118,000		4.375	225,000	343,000
	-		4.500	240,000	240,000
	-		4.550	250,000	250,000
	-		4.650	265,000	265,000
	-		4.700	280,000	280,000
	-			-	-
	-			-	-
	<u>\$ 1,047,000</u>			<u>\$ 3,000,000</u>	<u>\$ 4,047,000</u>

Schedule 9

City of Knoxville

Comparison of Taxes and Intergovernmental Receipts

	Years ended June 30,			
	2002	2001	2000	1999
Property tax	\$1,987,916	1,975,101	1,933,713	2,042,760
Tax increment financing collections	85,090	36,646	32,577	26
Other city tax:				
Mobile home tax	19,770	13,130	12,597	13,533
Utility tax replacement excise tax	63,578	58,225	-	-
Cable franchise fees	58,331	57,091	54,377	48,222
	141,679	128,446	66,974	61,755
Intergovernmental:				
State allocation	97,436	110,400	110,726	110,649
Road use tax allocation	619,235	651,557	667,738	631,421
Bank franchise tax	21,256	21,719	14,635	18,402
Liquor licenses	5,783	4,547	5,165	5,765
County library	23,519	25,500	41,123	24,696
County rescue allocation	-	-	5,772	7,209
Public Safety Partnership and Community Policing grant	36,474	50,267	-	-
School liaison	16,100	-	16,100	15,630
Other local governments	-	28,571	-	-
Disaster assistance program	-	-	-	54,099
Highway planning and construction grants	-	-	-	143,473
Community Development Block grant	-	-	190,000	-
Miscellaneous	11,423	7,594	24,418	7,056
	831,226	900,155	1,075,677	1,018,400
Total	\$3,045,911	3,040,348	3,108,941	3,122,941

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE
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Chief Deputy Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Knoxville, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated August 26, 2002. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items (7), (8), (10), (11), (14) and (15).

Internal Control Over Financial Reporting

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

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

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

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

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 26, 2002

City of Knoxville
Schedule of Findings
Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties - One important element in designing internal control that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated the activities of one employee act as a check of those of another. One person has control over each of the following areas:
- (1) Cash - handling petty cash, reconciling and signing checks.
 - (2) Investments - recording and custody.
 - (3) Payroll - pay rate changes, report preparation and distribution of payroll taxes.

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

Response - The Accounting Clerk will complete all bank reconciliations, thereby segregating this function away from the City Clerk. Given minimal office staff, the City Clerk will still review such reconciliations following completion, but any discrepancies will be submitted to the City Manager for final oversight and approval. This procedure will adequately segregate the cash functions, as recommended.

Resignation of the City Manager at mid-year desegregated the investment function during a portion of the subject audit period. Henceforth, the City Clerk will compile and oversee the investment reports, and the City Manager will reconcile this investment portfolio with the City's monthly financial statements to assure full accountability.

Beginning July 1, 2002, the Payroll Clerk processed and entered all pay rate changes, and the City Clerk then reconciled all such changes with the City budget to assure accountability.

Conclusion - Response accepted.

- (B) Monthly Bank to Book Reconciliations - Monthly reconciliations of the book balances to the bank accounts and investments were not prepared timely.

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.

City of Knoxville

Schedule of Findings

Year ended June 30, 2002

Response - The City Clerk's financial balances will be reconciled to the bank accounts and investment portfolio on a monthly basis.

Conclusion - Response accepted.

- (C) Electronic Data Processing Systems - The City does not have written policies requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality. Also, the City does not have a disaster recovery plan and back ups of software and files are not stored off-site.

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

Response - The finance system contains a feature that automatically changes employee passwords every 90 days. That feature has now been activated for continued use.

The Cities of West Des Moines, Johnston, and Knoxville use the same financial software. The City of Knoxville will, this audit year, formulate Consent Agreements with the aforementioned cities to accommodate financial operations through disaster periods. In 1993 (during the Great flood), the City of West Des Moines used Knoxville's financial software to run payroll during its flood; hence, the cities have informally established a beneficial network that must be formalized by Agreements.

Conclusion - Response accepted.

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

Recommendation - The City should obtain monthly utility reconciliations from the Waterworks and review for propriety.

Response - The Knoxville Waterworks does not provide monthly utility reconciliations. Staff will approach the Waterworks with a formal written request to provide monthly reconciliations. The staff will then meet with the Waterworks to negotiate a permanent solution (i.e. financial reconciliation). A copy of the letter of request will be simultaneously forwarded to the City's auditors.

Conclusion - Response accepted.

City of Knoxville
 Schedule of Findings
 Year ended June 30, 2002

Findings Related to Required Statutory Reporting:

- (1) Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2002.
- (2) Certified Budget - Disbursements during the year ended June 30, 2002, exceeded the amount budgeted in the Community Protection Program. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response - The City did not amend the 2001-02 Budget to adequately account for unanticipated expenditure needs. Henceforth, the City will monitor its departmental budgets very closely; a budget book of internal fund transfers has been established to better-monitor accounts and balances on a monthly basis.

Conclusion - Response accepted.

- (3) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (4) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Forest Pearson, Council Member, owner of Pearson Bros., Inc.	Supplies, parts, and labor	\$ 1,971
Craig Kelley, Council Member, owner of Central Iowa Fasteners	Supplies and parts	457

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

The transactions with Council Member Pearson may represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions exceed \$1,500 during the fiscal year and the transactions were not competitively bid.

City of Knoxville

Schedule of Findings

Year ended June 30, 2002

Recommendation - The Council should consult with its legal counsel.

Response - Local business persons routinely serve on the elected body. In a small town, it is not uncommon for such businesses to transact with the City on occasion, providing that full disclosure and adherence to City policy is followed. Council Member Pearson's transaction was unique, and occurred per the following:

The City competitively awarded a contract to renovate the Council Chamber. During this project, it was recognized that new windows must be installed to eliminate all moisture seepage. A Change Order for the labor was exacted, but the City purchased the additional supplies (i.e. windows) directly from the contractor's vendor (Council Member Pearson's business). In the future, the City will either (i) exact a full Change Order through the contractor, or (ii) competitively bid any supplemental items. In such instances, the City's legal counsel will also be consulted.

Conclusion - Response accepted.

- (6) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (7) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

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

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

Response - The City began these monthly publications in January 2002, and will continue to do so. Because they were not done during the first part of the audit year, this comment occurred.

Conclusion - Response accepted.

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

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

Response - Beginning July 2002, all investment income on bond funds was being accrued back to the specific bond accounts.

Conclusion - Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2002

- (9) Revenue Bonds - The City has complied with the requirements of the sewer revenue bond resolution.
- (10) Financial Condition - At June 30, 2002, the City had deficit balances in ten funds as follows:

Fund	Fund Balance (Deficit)	
	June 30,	
	2001	2002
Special Revenue:		
Urban Renewal Tax Increment Park Lane	-	(7,203)
Debt Service:		
1997 General Obligation Bonds	(35,919)	(39,262)
2000 General Obligation Bonds	(237,437)	(546,634)
Capital Projects:		
Downtown Streetscape	(205)	(1,758)
West Pleasant and Highway 14	(441)	(441)
2000 Reno Street Sewer	(10,254)	(10,254)
2001 Storm Sewer	(83,625)	(110,575)
Ramp Exterior and Repair	-	(7,629)
Enterprise:		
Airport	(7,080)	(30,044)
Expendable Trust:		
Aquatic Park Trust	3,821	(60)

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

Response - The City will officially close all completed projects, and move any positive fund balances to deficit or current projects that are legally related. Since the "net" capital fund balance is positive, this will amount to paper transactions only.

Conclusion - Response accepted.

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

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

Response - A corrective transfer of \$7,478 will be made.

Conclusion - Response accepted.

City of Knoxville

Schedule of Findings

Year ended June 30, 2002

- (12) Accrued Interest on Sale of Sewer Revenue Bonds - Accrued interest of \$9,265 on the settlement of sewer revenue bonds issued March 1, 2002 was credited to the Capital Projects Fund, 2001 Southside Sanitary Sewer. Resolution No. 03-13-02 authorizing and providing for the issuance of the sewer revenue bonds required that the accrued interest be credited to the Debt Service Fund.

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

Response - A corrective transfer of \$9,265 will be made.

Conclusion - Response accepted.

- (13) Special Revenue Levies - The City levied property tax for employee benefits, as allowed by Chapter 384.6 of the Code of Iowa, but recorded the property tax collections in the Special Revenue Fund, Police and Fire Retirement Account rather than separate employee benefit accounts. Subsequently, the City made transfers to the Special Revenue Fund, FICA and IPERS Benefits Account and the Employee Health Benefits Account.

Recommendation - The City should record the property tax collections from these special revenue levies in the proper accounts.

Response - The City will record property tax collections for employee benefits in the separate employee benefit accounts, as prescribed.

Conclusion - Response accepted.

- (14) Recreation Board Minutes - Minutes of the Recreation Board were not signed.

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

Response - All board minutes hereafter will be duly signed by the Chair Person following formal approval.

Conclusion - Response accepted.

- (15) Airport Commission Minutes - Minutes of the Airport Commission were not all signed.

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

Response - All board minutes hereafter will be duly signed by the Chair Person following formal approval.

Conclusion - Response accepted.

- (16) Debt Service Fund - The City is to certify taxes to be levied for the Debt Service Fund in the amount necessary to pay interest and principal payments as they become due for general obligation bonds issued by the City, in accordance with Chapter 384.4 of the Code of Iowa. The City has not included the amounts necessary to pay the interest and principal payments of the general obligation bonds issued May 1, 2000 in its tax levy.

City of Knoxville

Schedule of Findings

Year ended June 30, 2002

Recommendation - The City should include the amounts necessary for interest and principal payments on general obligation bonds in its tax levy certified to the County auditor.

Response - This comment represents a mistake the City will not repeat. The error was made in late 2000/early 2001. It has not reoccurred since, nor will it again reoccur.

Conclusion - Response accepted.

City of Knoxville

Staff

This audit was performed by:

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