

**CITY OF KNOXVILLE**

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

**June 30, 2013**

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**CITY OF KNOXVILLE**

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 1, 2013)</b>		
Donald Zoutte, Sr. ....	Mayor. ....	Jan 2014
Elsie Kemp.....	Mayor Pro-Tem . ....	Jan 2014
Dave Roozeboom.....	Council Member. ....	Jan 2014
April Verwers.....	Council Member. ....	Jan 2016
Carolyn Formanek. ....	Council Member. ....	Jan 2016
Tim Pitt. ....	Council Member. ....	Jan 2016
Harold Stewart.....	City Manager.....	Indefinite
Heather Ussery.....	City Clerk. ....	Indefinite
Robert Stuyvesant. ....	Attorney.....	Indefinite
<b>(After January 1, 2013)</b>		
Donald Zoutte, Sr.....	Mayor. ....	Jan 2014
Elsie Kemp.....	Mayor Pro-Tem.....	Jan 2014
Dave Roozeboom.....	Council Member. ....	Jan 2014
April Verwers.....	Council Member. ....	Jan 2016
Carolyn Formanek. ....	Council Member. ....	Jan 2016
Tim Pitt. ....	Council Member. ....	Jan 2016
Harold Stewart.....	City Manager.....	Indefinite
Heather Ussery.....	City Clerk. ....	Indefinite
Jodi Bassett. ....	Deputy Clerk/Admin. Assistant.....	Indefinite
Robert Stuyvesant. ....	Attorney.....	Indefinite

**City of Knoxville**



**MARTENS & COMPANY, CPA, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

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West Des Moines, Iowa 50266

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FAX: (515)-223-0851

**Independent Auditor's Report**

To the Honorable Mayor and  
Members of the City Council:

**Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This include the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

The financial statements referred to above include only the primary government of the City of Knoxville, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the financial statements do not purport to and do not present fairly, respective cash basis financial position for the year ended as of June 30, 2013, and respective changes in cash basis financial position of the City of Knoxville, in conformity with the basis of accounting described in Note 1. A separate audit report is issued by the respective component unit.

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Knoxville as of June 30, 2013, and the respective changes in the cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the primary government 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 third paragraph of this report, the financial statements for the one year ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the eight years ended June 30, 2011 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 8 through 13 and 38 through 40 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2013 on our consideration of the City of Knoxville's internal control over financial reporting and on 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Knoxville's internal control over financial reporting and compliance.

*Martens & Company, CPA, LLP*

West Des Moines, Iowa  
November 20, 2013

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 38%, or approximately \$2,750,600 from fiscal year 2012 to fiscal year 2013. The City issued \$3,360,000 of general obligation refunding bonds during fiscal year 2013 while \$1,235,000 in bonds and notes were issued during fiscal year 2012. Capital grants, contributions and restricted interest increased approximately \$189,200, and charges for service decreased approximately \$36,400. Other city tax increased approximately \$450,300, while tax increment financing decreased approximately \$76,000 and local option sales tax decreased approximately \$5,200.
- Disbursements of the City's governmental activities before payment on refunded bonds decreased 4.8%, or approximately \$349,200 in fiscal year 2013 over fiscal year 2012. Payments for refunding bonds increased approximately \$1,356,300 while debt service and general government disbursements decreased approximately \$498,400 and \$21,900, respectively.
- Receipts of the City's business type activities increased 1%, or approximately \$39,000, primarily due to the approximately \$320,700 increase in charges for service received during fiscal year 2013 compared to fiscal year 2012. Capital grants, contributions and restricted interest also decreased approximately \$276,600.
- Disbursements for business type activities decreased 19%, or approximately \$690,000, due to refunded bond payments.
- The City's total cash basis net position increased 29% or approximately \$2,448,700, from June 30, 2012 to June 30, 2013. Of this amount, the net position of the governmental activities increased approximately \$1,617,800 and net position of the business type activities increased approximately \$830,900.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about nonmajor governmental and Internal Service funds, capital project funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

The Cash Basis Statement of Activities and Net Position 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 taxes and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system and municipal airport. These activities are financed primarily by user fees and related charges.

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

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

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities has increased from a year ago, increasing from approximately \$4.941 million to \$6.559 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

	Year ended June 30	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 929,980	\$ 966,453
Operating grants, contributions and restricted interest	783,081	780,144
Capital grants, contributions and restricted interest	393,837	204,611
General receipts:		
Property	2,829,042	2,878,156
Tax increment financing	242,252	318,340
Other city tax	1,220,128	769,827
Unrestricted interest on investments	5,293	7,081
General obligation refunding bond proceeds	3,360,000	1,235,000
Sale of capital assets	146,685	-
Other general receipts	111,575	111,629
Total receipts	<u>10,021,873</u>	<u>7,271,241</u>
Disbursements:		
Public safety	1,835,151	1,597,730
Public works	845,668	778,778
Culture and recreation	1,053,102	1,137,463
Community and economic development	222,805	218,464
General government	511,335	533,257
Debt service	878,514	1,376,919
Capital projects	1,479,394	1,532,554
Refunded bond payments	1,356,335	-
Total disbursements	<u>8,182,304</u>	<u>7,175,165</u>

Change in cash basis net position before transfers	1,839,569	96,076
Transfers, net	<u>(221,758)</u>	<u>206,255</u>
Change in cash basis net position	1,617,811	302,331
Cash basis net position beginning of year	<u>4,941,414</u>	<u>4,639,083</u>
Cash basis net position end of year	<u><u>\$6,559,225</u></u>	<u><u>\$4,941,414</u></u>

The City's total receipts for governmental activities increased by 38% or approximately \$2,750,600. The total cost of all programs and services including refunded bond payments increased approximately \$1,007,100 or 14.0% with no new programs added this year. The change in receipts is primarily attributable to a increase in general obligation refunding bond proceeds of approximately \$2,125,000. The major changes in disbursements were due to a increase in payments for refunding bonds of approximately \$1,356,300 in fiscal year 2013.

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Changes in Cash Basis Net Position of Business Type Activities

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	Year ended June 30,	
	<u>2013</u>	<u>2012</u>
Receipts:		
Program receipts:		
Charges for service	\$2,622,686	\$2,301,983
Operating grants, contributions and restricted interest	-	-
Capital grants, contributions and restricted interest	93,870	370,453
General receipts:		
Unrestricted interest on investments	1,691	6,397
General obligation refunding note proceeds	-	-
Sewer revenue bond proceeds	<u>875,580</u>	<u>876,032</u>
	<u>3,593,827</u>	<u>3,554,865</u>
Disbursements:		
Sewer	2,745,141	3,205,508
Airport	<u>239,536</u>	<u>468,879</u>
Total disbursements	<u>2,984,677</u>	<u>3,674,387</u>
Change in cash basis net position before transfers	609,150	(119,522)
Transfers, net	<u>221,758</u>	<u>(206,255)</u>
Change in cash basis net position	830,908	(325,777)
Cash basis net position beginning of year	<u>3,466,075</u>	<u>3,791,852</u>
Cash basis net position end of year	<u><u>\$4,296,983</u></u>	<u><u>\$3,466,075</u></u>

The total business type activities cash balance increased \$830,908 from the prior year to a year end balance of approximately \$4,297,000. The increase in the cash balance was due primarily to the winding down of sewer construction projects and increased sewer charges received.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$5,860,262, an increase of approximately \$1,543,100 over last year's total of \$4,317,119. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$44,203 from the prior year to a year-end balance of \$450,135. Property tax receipts increased approximately \$98,900, partially due to a 2% increase in valuations. Disbursements increased approximately \$69,400.
- The Special Revenue, Road Use Tax Fund cash balance increased \$90,655 to a year-end balance of \$90,071, due primarily to decreased disbursements.
- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance decreased \$510,323 to a year-end balance of \$258,107. The decrease is due to increased capital projects.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$204,351 to a year-end balance of \$18,931. Tax increment financing receipts decreased \$76,387 and disbursements decreased \$90,334 due to decreased debt service payments.
- The Debt Service Fund cash balance decreased \$1,404,680 to a year-end deficit of \$73,850. Refunding bonds of \$1,356,335 were paid and debt service function disbursements decreased \$408,071.
- The Capital Projects Fund cash balance increased \$3,357,717 to a year-end balance of \$4,214,385. Disbursements decreased \$540,252 due to reduced construction costs. Bond and note proceeds increased approximately \$3,360,000.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Sewer Fund cash balance increased \$815,255 to a year-end balance of \$3,895,566. Disbursements decreased \$281,794, primarily due to reduced costs in constructing improvements and extensions to the municipal sanitary sewer system. In addition, receipts increased \$317,048. The current year bond proceeds were primarily from the State Revolving Fund.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City did not amend its budget.

The City's receipts were \$64,691 less than budgeted. Other city taxes were \$404,534 more than budgeted. Intergovernmental receipts were \$541,442 less than budgeted. Charges for services were \$531,701 more than budgeted.

Total disbursements were \$3,848,542 less than budgeted. However, the City exceeded the budget for the public works and general government function for the year ended June 30, 2013. Actual disbursements were less than budgeted for the public safety, debt service, culture and recreation, community and economic development, general government and business type activities functions by approximately \$39,600, \$210,300, \$423,800, \$11,000 and \$2,210,500, respectively.

## **DEBT ADMINISTRATION**

At June 30, 2013, the City had \$17,979,000 in bonds, notes and other long-term debt outstanding, compared to \$15,823,000 last year. The chart below segregates the City's debt into its component parts.

**Outstanding Debt at Year-End**  
(Expressed in Thousands)

	June 30	
	2013	2012
General obligation bonds	\$ 6,940	\$ 5,205
General obligation capital loan notes	1,520	1,675
Sewer revenue bonds	9,484	8,943
 Total	 <u>\$ 17,944</u>	 <u>\$ 15,823</u>

The City's general obligation bond rating carries an A-2 rating, a rating that has been assigned by National Rating Agencies to the City's debt. Debt changed as a result of the issuance of \$3,360,000 of general obligation corporate purpose bonds, \$340,000 of sewer revenue loans and for additional draw downs on the sewer series 2010A revenue bonds.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$8,702,597 (including \$242,597 of development and rebate agreements) is below its constitutional debt limit of approximately \$18 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 5.3% versus 5.8% a year ago. This compares with the State's unemployment rate of 4.8%.

The U.S. Consumer Price Index (CPI) is a measure of the change in retail prices of a fixed market grouping of consumer goods and services. The CPI-U for July 2012 was 228.723. For the 12 month period that ended in July, 2013 the CPI-U increased 1.90 percent.

The fiscal year 2014 levy is \$15.89976 per \$1,000 of taxable valuation. The City has reached its General Fund levy limit of \$8.10 per \$1,000 of taxable valuation. There was no emergency fund levy for fiscal year 2014. Special Revenue Fund levies have long been in place to support employee benefit costs.

These parameters were taken into account when adopting the budget for fiscal year 2014.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

**City of Knoxville**

**Basic Financial Statements**

**CITY OF KNOXVILLE**

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,835,151	\$ 478,263	\$ 1,652	\$ -
Public works	845,668	6,390	700,336	-
Culture and recreation	1,053,102	368,276	57,003	-
Community and economic development	222,805	17,128	22,829	-
General government	511,335	59,923	248	-
Debt service	878,514	-	1,013	-
Capital projects	1,479,394	-	-	393,837
Total governmental activities	<u>6,825,969</u>	<u>929,980</u>	<u>783,081</u>	<u>393,837</u>
Business type activities:				
Sanitary sewer	2,745,141	2,549,091	-	-
Airport	239,536	73,595	-	93,870
Total business type activities	<u>2,984,677</u>	<u>2,622,686</u>	<u>-</u>	<u>93,870</u>
Total	<u>\$ 9,810,646</u>	<u>\$3,552,666</u>	<u>\$783,081</u>	<u>\$487,707</u>

**General receipts and transfers:**

Property and other city tax levied for:
General purposes
Debt service
Special assessments
Tax increment financing
Local option sales tax
Unrestricted interest on investments
General obligation refunding bond proceeds
Sewer revenue bonds proceeds
Refunded bond payments
Sale of capital assets
Miscellaneous
Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position, beginning of year, as restated

Cash basis net position, end of year

**Cash Basis Net Position**

Restricted:

    Nonexpendable:

        Permanent funds

    Expendable:

        Streets

        Local option sales tax

        Urban renewal purposes

        Debt service

        Capital projects

        Senior Citizen Center

        Other purposes

Unrestricted

**Total cash basis net position**

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (1,355,236)	\$ -	\$(1,355,236)
(138,942)	-	(138,942)
(627,823)	-	(627,823)
(182,848)	-	(182,848)
(451,164)	-	(451,164)
(877,501)	-	(877,501)
(1,085,557)	-	(1,085,557)
(4,719,071)	-	(4,719,071)
-	(196,050)	(196,050)
-	(72,071)	(72,071)
-	(268,121)	(268,121)
(4,719,071)	(268,121)	(4,987,192)
2,274,404	-	2,274,404
548,391	-	548,391
6,247	-	6,247
242,252	-	242,252
1,220,128	-	1,220,128
5,293	1,691	6,984
3,360,000	-	3,360,000
-	875,580	875,580
(1,356,335)	-	(1,356,335)
146,685	-	146,685
111,575	-	111,575
(221,758)	221,758	-
6,336,882	1,099,029	7,435,911
1,617,811	830,908	2,448,719
4,941,414	3,466,075	8,407,489
\$ 6,559,225	\$ 4,296,983	\$10,856,208
\$ 251,976	\$ -	\$ 251,976
90,071	-	90,071
258,107	-	258,107
18,931	-	18,931
-	793,827	793,827
4,214,385	-	4,214,385
165,697	-	165,697
657,157	-	657,157
902,901	3,503,156	4,406,057
\$ 6,559,225	\$ 4,296,983	\$10,856,208

**CITY OF KNOXVILLE**

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

As of and for the year ended June 30, 2013

	General	Special Revenue		
		Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
<b>Receipts:</b>				
Property tax	\$1,562,253	\$ -	\$ -	\$ -
Tax increment financing	-	-	-	242,252
Other City tax	509,803	-	672,951	-
Licenses and permits	20,168	-	-	-
Use of money and property	2,957	-	-	1,331
Intergovernmental	79,974	700,336	-	-
Charges for service	909,812	-	-	-
Special assessments	6,247	-	-	-
Miscellaneous	79,876	6,669	-	-
<b>Total receipts</b>	<b>3,171,090</b>	<b>707,005</b>	<b>672,951</b>	<b>243,583</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	1,394,925	-	-	-
Public works	49,673	616,350	-	-
Culture and recreation	877,993	-	-	-
Community and economic development	206,650	-	-	-
General government	449,363	-	-	-
Debt service	-	-	-	264,650
Capital projects	-	-	1,183,274	-
<b>Total disbursements</b>	<b>2,978,604</b>	<b>616,350</b>	<b>1,183,274</b>	<b>264,650</b>
Excess (deficiency) of receipts over (under) disbursements	192,486	90,655	(510,323)	(21,067)
<b>Other financing sources (uses):</b>				
Bond proceeds	-	-	-	-
Refunded bond payments	-	-	-	-
Operating transfers in	18,900	-	-	-
Operating transfers out	(167,183)	-	-	(183,284)
<b>Total other financing sources (uses)</b>	<b>(148,283)</b>	<b>-</b>	<b>-</b>	<b>(183,284)</b>
Net change in cash balances	44,203	90,655	(510,323)	(204,351)
Cash balances, beginning of year	405,932	(584)	768,430	223,282
Cash balances, end of year	\$ 450,135	\$ 90,071	\$ 258,107	\$ 18,931
<b>Cash Basis Fund Balances</b>				
Non spendable	\$ -	\$ -	\$ -	\$ -
<b>Restricted for:</b>				
Senior Citizen Center	165,697	-	-	-
Debt service	-	-	-	-
Other purposes	-	-	258,107	18,931
Unassigned	284,438	90,071	-	-
<b>Total cash basis fund balances</b>	<b>\$ 450,135</b>	<b>\$ 90,071</b>	<b>\$ 258,107</b>	<b>\$ 18,931</b>

See notes to financial statements.

	Debt Service	Capital Projects	Nonmajor	Total
	\$ 548,391	\$ -	\$ 712,151	\$ 2,822,795
	-	-	-	242,252
	16,115	-	21,259	1,220,128
	-	-	-	20,168
	1,013	25	427	5,753
	-	219,025	-	999,335
	-	-	-	909,812
	-	-	-	6,247
	-	174,787	25,030	286,362
	565,519	393,837	758,867	6,512,852
	-	-	349,957	1,744,882
	-	-	121,180	787,203
	-	-	154,717	1,032,710
	-	-	16,155	222,805
	-	-	56,745	506,108
	613,864	-	-	878,514
	-	396,120	-	1,579,394
	613,864	396,120	698,754	6,751,616
	(48,345)	(2,283)	60,113	(238,764)
	-	3,360,000	-	3,360,000
	(1,356,335)	-	-	(1,356,335)
	-	-	109,809	128,709
	-	-	-	(350,467)
	(1,356,335)	3,360,000	109,809	1,781,907
	(1,404,680)	3,357,717	169,922	1,543,143
	1,330,830	856,668	732,561	4,317,119
	\$ (73,850)	\$4,214,385	\$ 902,483	\$ 5,860,262
	\$ -	\$ -	\$ 251,976	\$ 251,976
	-	-	-	165,697
	(73,850)	-	-	(73,850)
	-	4,214,385	657,157	5,148,580
	-	-	(6,650)	367,859
	\$ (73,850)	\$4,214,385	\$ 902,483	\$ 5,860,262

CITY OF KNOXVILLE

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

As of and for the year ended June 30, 2013

**Total governmental funds cash balances (pages 18-19)** \$ 5,860,262

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the City’s health and property insurance and equipment and building replacement to individual funds. A portion of the cash balance of the Internal Service Funds are included in governmental activities in the Statement of Activities and Net Position.

698,963

**Cash basis net position of governmental activities (pages 16 -17)** \$ 6,559,225

**Net change in cash balances (pages 18-19)** 1,543,143

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

The Internal Service Fund is used by management to charge the costs of health and property insurance and equipment and building replacement to individual funds. A portion of the change in cash balance of the Internal Service Fund is reported with government activities.

74,668

**Change in cash basis net position of governmental activities (pages 16-17)** \$ 1,617,811

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, 2013

	Enterprise			Internal Service
	Sewer	Nonmajor Airport	Total	
Operating receipts:				
Charges for service	\$ 2,549,091	\$ 73,595	\$ 2,622,686	\$ 484,825
Total operating receipts	2,549,091	73,595	2,622,686	484,825
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	156,269
Public works	-	-	-	167,973
Culture and recreation	-	-	-	20,392
General Government	-	-	-	137,274
Business type activities:	1,140,066	110,091	1,250,157	46,920
Net operating disbursements	1,140,066	110,091	1,250,157	528,828
Excess (deficiency) of operating receipts over (under) operating disbursements	1,409,025	(36,496)	1,372,529	(44,003)
Non-operating receipts (disbursements):				
Intergovernmental	-	93,870	93,870	-
Sale of capital assets	-	-	-	146,685
Interest on investments	1,691	-	1,691	2,336
Revenue bond proceeds	875,580	-	875,580	-
Capital projects	(964,857)	(129,445)	(1,094,302)	-
Debt service	(670,568)	-	(670,568)	-
Net non-operating receipts (disbursements)	(758,154)	(35,575)	(793,729)	149,021
Excess (deficiency) of receipts over (under) disbursements	650,871	(72,071)	578,800	105,018
Transfers:				
Transfers in	183,284	57,374	240,658	-
Transfers (out)	(18,900)	-	(18,900)	-
Net transfers	164,384	57,374	221,758	-
Change in cash balances	815,255	(14,697)	800,558	105,018
Cash balances, beginning of year	3,080,311	(292,872)	2,787,439	1,302,931
Cash balances, end of year	\$ 3,895,566	\$ (307,569)	\$ 3,587,997	\$ 1,407,949
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Debt service	\$ 793,827	\$ -	\$ 793,827	-
Unrestricted	3,101,739	(307,569)	2,794,170	1,407,949
Total cash basis fund balances	\$ 3,895,566	\$ (307,569)	\$ 3,587,997	\$ 1,407,949

See notes to financial statements.

**CITY OF KNOXVILLE**

Reconciliation of the Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
to the Statement of Activities and Net Position -  
*Proprietary Funds*

As of and for the year ended June 30, 2013

**Total enterprise funds cash balances (page 21)** \$ 3,587,997

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

The Internal Service Funds are used by management to charge the costs of partial self funding of the City’s health and property insurance and equipment and building replacement to individual funds. A portion of the cash balance of the Internal Service Funds is included in business type activities in the Statement of Activities and Net Position.

708,986

**Cash basis net assets of business type activities (pages 16 -17)** \$ 4,296,983

**Net change in cash balances (page 21)** \$ 800,558

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

The Internal Service Funds are used by management to charge the costs of partial self funding of the City’s health and property insurance and equipment and building replacement to individual funds. A portion of the change in cash balance of the Internal Service Funds is included in business type activities in the Statement of Activities and Net Position.

30,350

**Change in cash basis net position business type activities (pages 16 - 17)** \$ 830,908

See notes to financial statements.

# CITY OF KNOXVILLE

## Notes to Financial Statements

June 30, 2013

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Knoxville is a political subdivision of the State of Iowa located in Marion County. It was first incorporated in 1853 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides sewer utilities and airport services for its citizens.

#### A. Reporting Entity

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

These financial statements present the City of Knoxville (the primary government) and exclude some of the City's component units. The component units discussed below are not included in the City's reporting entity although their operational or financial relationship with the City is significant.

#### Excluded Component Units

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

The Fire/Rescue Association of Knoxville, Iowa was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The Association's Board of Trustees shall be a minimum of three and not more than seven in number.

# CITY OF KNOXVILLE

## Notes to Financial Statements - Continued

June 30, 2013

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Jointly Governed Organizations

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

#### Related Organization

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

#### B. Basis of Presentation

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

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Nonexpendable restricted net position* is subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds.

*Expendable restricted net position* result when constraints placed the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on resources imposed by management, which can be removed or modified.

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

# CITY OF KNOXVILLE

## Notes to Financial Statements - Continued

June 30, 2013

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax and related construction projects authorized by the local option sales tax resolution.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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

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

The City reports the following major proprietary fund:

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

The City also reports the following proprietary funds:

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

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

# CITY OF KNOXVILLE

## Notes to Financial Statements - Continued

June 30, 2013

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

#### D. Governmental Cash Basis Fund Balances

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

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

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

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

Unassigned - All amounts not included in other spendable classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the general government and debt service functions.

# CITY OF KNOXVILLE

## Notes to Financial Statements - Continued

June 30, 2013

### (2) CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2013, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,158,919 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in Iowa Public Agency Investment Trust is unrated.

### (3) BONDS AND NOTES PAYABLE

The following is a summary of the changes in the outstanding long-term debt of the City for the year ended June 30, 2013:

	Balance June 30, 2012	Issued	Redeemed	Balance June 30, 2013
Governmental activities:				
General obligation bonds	\$5,205,000	\$3,660,000	\$1,625,000	\$6,940,000
General obligation notes	1,675,000	-	155,000	1,520,000
Total	<u>\$6,880,000</u>	<u>\$3,660,000</u>	<u>\$1,780,000</u>	<u>\$8,460,000</u>
Business type activities:				
Revenue bonds	<u>\$8,943,185</u>	<u>\$ 875,580</u>	<u>\$ 335,000</u>	<u>\$9,483,765</u>

Interest rates range from .70% to 4.30% on the general obligation bonds and notes. The revenue bond interest rates are from 2.25% to 4.85%. The City paid \$476,044 in interest on debt obligations for the year ended June 30, 2013.

**CITY OF KNOXVILLE**

Notes to Financial Statements - Continued

June 30, 2013

**(3) BONDS AND NOTES PAYABLE - CONTINUED**

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

Year Ending June 30,	Bonds		General Obligation Capital Loan Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 790,000	\$ 98,262	\$ 160,000	\$ 52,073	\$ 455,000	\$ 300,700	\$ 1,405,000	\$ 451,035
2015	800,000	94,230	155,000	46,226	820,000	285,889	1,775,000	426,345
2016	715,000	87,005	210,000	40,421	495,000	268,962	1,420,000	396,388
2017	735,000	79,940	220,000	33,001	510,000	250,964	1,465,000	363,905
2018	745,000	70,245	220,000	25,111	428,000	232,438	1,393,000	327,794
2019-2023	3,155,000	170,015	555,000	39,154	2,455,000	890,973	6,165,000	1,100,142
2024-2028	-	-	-	-	3,142,000	346,423	3,142,000	346,423
2029	-	-	-	-	8,765	-	8,765	-
	<u>\$6,940,000</u>	<u>\$599,697</u>	<u>\$1,520,000</u>	<u>\$235,986</u>	<u>\$8,313,765</u>	<u>\$2,576,349</u>	<u>\$16,773,765</u>	<u>\$3,412,032</u>

(1)

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

Crossover Refunding Bonds

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

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

The bonds were redeemed and the escrow balance is \$-0- at June 30, 2013.

Sewer Revenue Bonds

On February 16, 2010, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, Iowa N.A. for the issuance of \$2,756,000 of sewer revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of Code of Iowa and the American Recovery and Reinvestment Act of 2009 for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal sanitary sewer system of the City. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. An initiation fee of 1%, or \$27,560, of the authorized borrowing for the sewer revenue bonds was charged by the Iowa Finance Authority and withheld during the year ended June 30, 2010. At June 30, 2013, the City had drawn down \$2,078,756 of the authorized amount. A final repayment schedule has not yet been adopted. However, during the year ended June 30, 2013, the City paid no principal and \$33,025 of interest on these bonds.

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2013

#### (3) BONDS AND NOTES PAYABLE - CONTINUED

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$10,826,000 of sewer revenue bonds issued in December 2008, February 2010 and March 2010. Proceeds from the bonds provided financing for the construction of improvements to the municipal sanitary sewer system of the City and refunded the City's outstanding Series 2002 sewer revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2028. Annual principal and interest payments on the bonds are expected to require less than 50% of net receipts. Excluding the principal and interest on revenue bonds issued in February 2010 which are not included since a repayment schedule has not been adopted, the total principal and interest remaining to be paid on the bonds is \$10,550,105. For the current year, principal and interest paid and total customer net receipts were \$631,810 and \$1,486,295 respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a sewer revenue reserve account until a specific minimum balances has been accumulated. This account is restricted for the purpose of paying, at maturity, principal or interest on the bonds when insufficient money shall be available in the sinking account.
- (d) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the average annual installments or principal and interest on the bonds falling due in the same year.

#### Forgivable Loan

On February 16, 2010, the City also entered into a forgivable loan agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, Iowa N.A. for the issuance of \$1,170,000 of sewer revenue bonds. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Reinvestment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal sanitary sewer system of the City. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements, are not met and the loan is not forgiven, the City will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2013, the City had drawn down \$1,170,000 of the authorized amount.

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2013

#### (3) BONDS AND NOTES PAYABLE - CONTINUED

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

On June 19, 2013 the City issued \$3,360,000 general obligation corporate purpose bonds, series 2031, with interest rates ranging from .40% to 1.85% per annum. The bonds were issued to provide funds to pay the costs of constructing streets, sidewalks, water system, storm water and sanitary sewer system improvements and installing street lighting.

On June 22, 2012 the City entered into an agreement for a \$375,000 sewer revenue loan and disbursement agreement anticipation project note for the purpose of paying authorized costs in connection with planning and design improvements and extensions of the municipal sanitary sewer system, payable at maturity, three years from issuance date. The City has drawn down \$340,000 on the loan as of June 30, 2013.

#### (4) PENSION AND RETIREMENT BENEFITS

##### Iowa Public Employees Retirement System

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

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$110,421, \$100,520 and \$91,320, respectively, equal to the required contributions for each year.

##### Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, West Des Moines, Iowa 50263.

# CITY OF KNOXVILLE

## Notes to Financial Statements - Continued

June 30, 2013

### (4) PENSION AND RETIREMENT BENEFITS - CONTINUED

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 26.12% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2013, 2012, and 2011 were \$157,131, \$143,063, and \$112,321, respectively, which met the required contribution for each year.

### (5) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 46 active and 4 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$443 for single coverage and \$1,076.49 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed \$398,620 and plan members eligible for benefits contributed \$57,254 to the plan.

### (6) COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and compensation hours for subsequent use or for payment upon termination, retirement, or death. City employees may also accumulate a limited amount of earned but unused sick leave hours for payment of subsequent health benefit costs upon retirement. The City also allows employees to accumulate compensatory time during the fiscal year in lieu of overtime pay. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned holiday, vacation, sick leave and compensatory time payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 83,334
Sick leave	891,474
Compensatory time	41,781
Total	<u>\$1,016,589</u>

This liability has been computed based on rates of pay as of June 30, 2013.

**CITY OF KNOXVILLE**

Notes to Financial Statements - Continued

June 30, 2013

**(7) INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise: Sewer	\$ 18,900
Special Revenue: Employee Benefits	General	109,809
Enterprise: Sewer Airport	Special Revenue: Urban Renewal Tax Increment General	183,284 <u>57,374</u>
Total		<u>\$ 369,367</u>

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

**(8) RISK MANAGEMENT**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 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.

# CITY OF KNOXVILLE

## Notes to Financial Statements - Continued

June 30, 2013

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, 2013 were \$128,014.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by The Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation, employee blanket bond and aviation liability the amount of \$1,000,000, \$100,000 and \$2,000,000, respectively. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### (9) DEFICIT BALANCES

The City had deficit balances at June 30, 2013 as follows:

<u>Fund</u>	<u>Amount</u>
Enterprise:	
Airport	\$307,569
Governmental:	
Debt Service	73,850
Special Revenue:	
K-9 Unit Program	6,650

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2013

#### **(10) CONSTRUCTION CONTRACTS**

At June 30, 2013, the City had entered into construction contracts of approximately \$1,236,965 for various projects. At June 30, 2013 these projects will require future payments of approximately \$234,698 upon completion.

#### **(11) ECONOMIC DEVELOPMENT LOAN**

On February 2, 2000, the City loaned \$25,000 to the Knoxville Chamber of Commerce to assist in funding a local business expansion. The interest free loan is to be repaid over five years. During the year ended June 30, 2013 \$3,000 was received on the loan. The loan balance at June 30, 2013 was \$19,000.

#### **(12) COMMUNITY ECONOMIC BETTERMENT ACCOUNT LOAN**

On June 19, 2008 the City was awarded a \$90,000 Community Economic Betterment Account loan on behalf of Five Star Industries, Inc., from the Iowa Department of Economic Development (IDED). The loan consists of a \$45,000 conventional interest free loan and a \$45,000 forgivable loan. Repayment of the conventional loan is to be made in 60 equal monthly payments of \$750, with the first payment due on June 1, 2009. Payments are made directly to IDED by Five Star Industries, Inc. The balance outstanding on the conventional loan at June 30, 2013 was \$17,250. At the project completion date, if the business has fulfilled at least 50% of its job creation/retention requirement, a pro rate percentage will be forgiven for each new FTE job created/retained at the time the repayment amount is calculated. Any balance will be amortized over a two year period in equal monthly payments, with 6% per annum interest.

#### **(13) IOWA DEPARTMENT OF ECONOMIC DEVELOPMENT**

On April 1, 2009, the city entered into a contract with the Iowa Department of Economic Development (IDED) for the Neighborhood Stabilization Program. The award amount of \$973,903 is for the purpose of benefitting low, moderate and middle income individuals for the redevelopment of abandoned and foreclosed homes and residential properties and the stabilization and revitalization of neighborhoods. On July 15, 2010, the award was reduced to \$779,542. As of June 30, 2013, the City has received the full \$779,542 funds from the award.

#### **(14) DEVELOPMENT AND REBATE AGREEMENTS**

In prior years, the City entered into development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental property tax paid by the developers in exchange for infrastructure improvements, rehabilitation and development of commercial projects constructed by the developers as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for a period ranging from ten to twenty years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. Certain agreements include provisions for payment of interest.

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2013

#### **(14) DEVELOPMENT AND REBATE AGREEMENTS - CONTINUED**

During the year ended June 30, 2013, the City rebated \$242,597 of incremental property tax to the developers, consisting of \$229,861 for principal and \$12,736 for interest. The outstanding principal balance on these agreements at June 30, 2013 is \$2,076,347.

No bonds or notes were issued for these projects. To the extent there is insufficient incremental property tax available on any payment date to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date without accruing any further interest.

These agreements are not a general obligation of the City. However, the debt payment in the succeeding year on one agreement with an annual appropriation clause and all of the amounts to be rebated for the remaining agreements are subject to the constitutional debt limitation of the City.

#### **(15) EMPLOYEE HEALTH INSURANCE PLAN**

The City established the Internal Service, Self Insurance Fund to account for the partial self funding of the City's health insurance benefit plan. The plan is funded by City contributions and is administered by Group Services, Inc. The City assumes liability for claims between \$250 and \$2,500 for single coverage and \$500 and \$5,000 for family coverage. Claims in excess of the deductible are insured through the purchase of insurance.

Payments to the Internal Service, Self Insurance Fund are recorded as disbursements by the operating funds. Payments to Group Services, Inc. For service fees and medical claims for the year ended June 30, 2013 were \$135,617.

#### **(16) SEVERANCE AGREEMENT**

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

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

- a. Willful neglect of duty.
- b. Gross inefficiency or incompetence in office that is not corrected after a reasonable written notice.
- c. Malfeasance in office.

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

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

## **CITY OF KNOXVILLE**

Notes to Financial Statements - Continued

June 30, 2013

### **(17) SUBSEQUENT EVENTS**

The city has evaluated subsequent events through November 20, 2013, the date the financial statements were available to be issued.

## **Other Information**

## CITY OF KNOXVILLE

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds  
Other Information  
Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to Be Budgeted	Total
<b>Receipts:</b>				
Property tax	\$ 2,822,795	\$ -	\$ -	\$ 2,822,795
Tax increment financing	242,252	-	-	242,252
Other city tax	1,220,128	-	-	1,220,128
Licenses and permits	20,168	-	-	20,168
Uses of money and property	5,753	4,027	2,336	7,444
Intergovernmental	999,335	93,870	-	1,093,205
Charges for service	909,812	3,107,511	484,825	3,532,498
Special assessments	6,247	-	-	6,247
Miscellaneous	286,362	-	-	286,362
Total receipts	<u>6,512,852</u>	<u>3,205,408</u>	<u>487,161</u>	<u>9,231,099</u>
<b>Disbursements:</b>				
Public safety	1,744,882	156,269	156,269	1,744,882
Public works	787,203	167,973	167,973	787,203
Culture and recreation	1,032,710	20,392	20,392	1,032,710
Community and economic development	222,805	-	-	222,805
General government	506,108	137,274	137,274	506,108
Debt service	878,514	-	-	878,514
Capital projects	1,579,394	-	-	1,579,394
Business type activities	-	3,061,947	46,920	3,015,027
Total disbursements	<u>6,751,616</u>	<u>3,543,855</u>	<u>528,828</u>	<u>9,766,643</u>
Excess (deficiency) of receipts over (under) disbursements	(238,764)	(338,447)	(41,667)	(535,544)
Other financing sources, net	<u>1,781,907</u>	<u>1,244,023</u>	<u>146,685</u>	<u>2,879,245</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing sources	1,543,143	905,576	105,018	2,343,701
Balances beginning of year	<u>4,317,119</u>	<u>4,090,370</u>	<u>1,302,931</u>	<u>7,104,558</u>
Balances end of year	<u>\$5,860,262</u>	<u>\$ 4,995,946</u>	<u>\$1,407,949</u>	<u>\$ 9,448,259</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Actual Variance-Positive (Negative)
Original	Final	
\$ 2,867,956	\$ 2,867,956	\$ (45,161)
329,000	329,000	(86,748)
815,594	815,594	404,534
21,300	21,300	(1,132)
112,790	112,790	(105,346)
1,634,647	1,634,647	(541,442)
3,000,797	3,000,797	531,701
7,500	7,500	(1,253)
506,206	506,206	(219,844)
9,295,790	9,295,790	(64,691)
1,784,453	1,784,453	39,571
759,456	759,456	(27,747)
1,456,510	1,456,510	423,800
233,831	233,831	11,026
412,380	412,380	(93,728)
1,088,811	1,088,811	210,297
2,654,246	2,654,246	1,074,852
5,225,498	5,225,498	2,210,471
13,615,185	13,615,185	3,848,542
(4,319,395)	(4,319,395)	3,783,851
2,000,000	2,000,000	879,245
(2,319,395)	(2,319,395)	4,663,096
6,415,465	6,415,465	689,093
<u>\$ 4,096,070</u>	<u>\$ 4,096,070</u>	<u>\$ 5,352,189</u>

## CITY OF KNOXVILLE

### Required Supplemental Information

#### Notes To Other Information - Budgetary Reporting

June 30, 2013

The budgetary comparison is presented 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 the internal service funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, no budget amendment was made.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the general government and public works functions.

## **Supplementary Information**

**CITY OF KNOXVILLE**

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

As of and for the year ended June 30, 2013

	Employee Benefits- Health	Police Retirement	Urban Revitalization	Revolving Loan	Self- Supported Municipal Improvement District
<b>Receipts:</b>					
Property tax	\$505,216	\$190,481	\$ -	\$ -	\$ 16,454
Other city tax	15,438	5,821	-	-	-
Use of money and property	19	72	-	-	-
Miscellaneous	-	-	-	-	-
Total receipts	<u>520,673</u>	<u>196,374</u>	<u>-</u>	<u>-</u>	<u>16,454</u>
<b>Disbursements:</b>					
Operating:					
Public safety	180,167	157,131	-	-	-
Public works	121,180	-	-	-	-
Culture and recreation	150,003	-	-	-	-
Community and economic development	-	-	-	-	16,155
General government	56,745	-	-	-	-
Total disbursements	<u>508,095</u>	<u>157,131</u>	<u>-</u>	<u>-</u>	<u>16,155</u>
Excess (deficiency) of receipts over (under) disbursements	(12,578)	39,243	-	-	299
Other financing sources:					
Operating transfers in	<u>109,809</u>	-	-	-	-
Change in cash balances	(122,387)	39,243	-	-	299
Cash balances beginning of year	<u>(9,999)</u>	<u>296,516</u>	<u>3,906</u>	<u>115,745</u>	<u>-</u>
Cash balances end of year	<u>\$ 112,388</u>	<u>\$ 335,759</u>	<u>\$ 3,906</u>	<u>\$ 115,745</u>	<u>\$ 299</u>
<b>Cash Basis Fund Balances</b>					
Nonspendable:					
Cemetery Perpetual Care	\$ -	\$ -	\$ -	\$ -	\$ -
Reaver Trust	-	-	-	-	-
Restricted for Other purposes	112,388	335,759	3,906	115,745	299
Unassigned	-	-	-	-	-
Total cash basis fund balances	<u>\$ 112,388</u>	<u>\$ 335,759</u>	<u>\$ 3,906</u>	<u>\$ 115,745</u>	<u>\$ 299</u>

See accompanying independent auditor's reports

Special Revenue							Permanent			
Police Department Trust	Fire Rescue Donations	Library Gifts/Memorials	Recreation Donations	Auld Park Playground Trust	K-9 Unit Program	I-Jobs	Cemetery Perpetual Care	Reaver Trust	Total	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$712,151	
-	-	-	-	-	-	-	-	-	21,259	
7	6	3	-	91	-	-	229	-	427	
15,053	390	4,952	-	-	21	-	4,614	-	25,030	
15,060	396	4,955	-	91	21	-	4,843	-	758,867	
6,772	4,822	-	-	-	1,065	-	-	-	349,957	
-	-	-	-	-	-	-	-	-	121,180	
-	-	4,714	-	-	-	-	-	-	154,717	
-	-	-	-	-	-	-	-	-	16,155	
-	-	-	-	-	-	-	-	-	56,745	
6,772	4,822	4,714	-	-	1,065	-	-	-	698,754	
8,288	(4,426)	241	-	91	(1,044)	-	4,843	-	60,113	
-	-	-	-	-	-	-	-	-	109,809	
8,288	(4,426)	241	-	91	(1,044)	-	4,843	-	169,922	
15,819	15,650	11,495	4,832	33,979	(5,606)	3,091	246,633	500	732,561	
\$24,107	\$11,224	\$11,736	\$4,832	\$34,070	\$(6,650)	3,091	251,476	\$ 500	\$902,483	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$251,476	\$ -	\$251,476	
-	-	-	-	-	-	-	-	500	500	
24,107	11,224	11,736	4,832	34,070	-	3,091	-	-	657,157	
-	-	-	-	-	(6,650)	-	-	-	(6,650)	
\$24,107	\$11,224	\$11,736	\$4,832	\$34,070	\$(6,650)	\$3,091	\$251,476	\$ 500	\$902,483	

## CITY OF KNOXVILLE

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

As of and for the year ended June 30, 2013

	Equipment Replacement	Building Replacement	Self Insurance	Self Insured Property Insurance	Total
Operating receipts:					
Charges for service	\$ -	\$ -	\$132,047	\$ -	\$ 132,047
Miscellaneous	146,685	-	-	-	146,685
Total operating receipts	146,685	-	132,047	-	278,732
Operating disbursements:					
Governmental activities:					
Public safety	156,269	-	-	-	156,269
Public works	167,973	-	-	-	167,973
Culture and recreation	20,392	-	-	-	20,392
General government	2,026	-	135,248	-	137,274
Business type activities:					
Sewer	46,920	-	-	-	46,920
Total operating disbursements	393,580	-	135,248	-	528,828
Excess (deficiency) of operating receipts over (under) operating disbursements	(246,895)	-	(3,201)	-	(250,096)
Non-operating receipts:					
Interest on investments	424	14	1,898	-	2,336
Excess (deficiency) of operating receipts over (under) operating disbursements	(246,471)	14	(1,303)	-	(247,760)
Transfers in	332,778	20,000	-	-	352,778
Change in cash balances	86,307	20,014	(1,303)	-	105,018
Cash balances beginning of year	943,387	70,188	289,043	313	1,302,931
Cash balances end of year	<u>\$1,029,694</u>	<u>\$90,202</u>	<u>\$287,740</u>	<u>\$ 313</u>	<u>\$1,407,949</u>
<b>Cash Basis Fund Balances</b>					
Unrestricted	<u>\$1,029,694</u>	<u>\$90,202</u>	<u>\$287,740</u>	<u>\$ 313</u>	<u>\$1,407,949</u>

See accompanying independent auditor's reports.

**City of Knoxville**

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**CITY OF KNOXVILLE**

Schedule of Indebtedness

Year ended June 30, 2013

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential corporate purpose Series 2005A	Jan 15, 2005	3.50 - 4.30%	\$ 2,200,000
Corporate and refunding Series 2010C	Sep 20, 2010	1.10 - 3.00%	3,640,000
Refunding Series 2013A	May 15, 2013	.70 - 1.80%	1,235,000
General corporate purpose Series 2013A	Jun 19, 2013	.40 - 1.85%	3,360,000
Total			
General obligation capital loan notes:			
Refunding Series 2007A	Sep 19, 2007	3.875- 4.05%	\$ 1,765,000
Sewer improvement Series 2010D	Nov 18, 2010	2.70%	710,000
Total			
Revenue Bonds:			
Sewer Series 2008	Dec 10, 2008	4.50 - 4.85%	\$ 5,370,000
Sewer Series 2010A	*Feb 16, 2010	3.00%	2,756,000
Sewer Series 2010 - Forgivable Loan	*Feb 16, 2010	3.00%	1,170,000
Sewer refunding Series 2010B	Mar 18, 2010	2.25 - 3.00%	1,705,000
Sewer SRF Planning and Design Loan	Jun 22, 2012	0.00%	375,000
Total			

\* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 1,330,000	\$ -	\$ 1,330,000	\$ -	\$ 52,670
2,640,000	-	295,000	2,345,000	52,945
1,235,000	-	-	1,235,000	15,923
-	3,360,000	-	3,360,000	-
<u>\$ 5,205,000</u>	<u>3,360,000</u>	<u>\$ 1,625,000</u>	<u>\$ 6,940,000</u>	<u>\$121,538</u>
\$ 990,000	\$ -	\$ 125,000	\$ 865,000	\$ 39,200
685,000	-	30,000	655,000	18,496
<u>\$ 1,675,000</u>	<u>\$ -</u>	<u>\$ 155,000</u>	<u>\$ 1,520,000</u>	<u>\$ 57,696</u>
\$ 4,970,000	\$ -	\$ 100,000	\$ 4,870,000	\$230,798
1,543,185	535,580	-	2,078,765	33,025
1,170,000	-	-	1,170,000	-
1,260,000	-	235,000	1,025,000	32,987
-	340,000	-	340,000	-
<u>\$ 8,943,185</u>	<u>\$ 875,580</u>	<u>\$ 335,000</u>	<u>\$ 9,483,765</u>	<u>\$ 296,810</u>

**CITY OF KNOXVILLE**

**Bond and Note Maturities**

June 30, 2013

Year Ending June 30,	General Obligation Bonds							Total
	Series 2010C		Series 2013A		Series 2013A			
	Corporate and Refunding		Refunding		Corporate Purpose			
	Issued September 20, 2010		Issued May 15, 2013		Issued June 19, 2013			
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
2014	1.10%	\$ 300,000	.70%	\$ 170,000	.40%	\$ 320,000	\$ 790,000	
2015	1.40	310,000	.85	170,000	.45	320,000	800,000	
2016	1.70	220,000	1.00	170,000	.50	325,000	715,000	
2017	1.95	230,000	1.20	175,000	.70	330,000	735,000	
2018	2.25	235,000	1.40	180,000	.85	330,000	745,000	
2019	2.50	245,000	1.60	185,000	1.00	335,000	765,000	
2020	2.65	255,000	1.80	185,000	1.20	340,000	780,000	
2021	2.80	270,000	-	-	1.50	345,000	615,000	
2022	3.00	280,000	-	-	1.70	355,000	635,000	
2023	-	-	-	-	1.85	360,000	360,000	
<b>Total</b>		<u>\$ 2,345,000</u>		<u>\$ 1,235,000</u>		<u>\$ 3,360,000</u>	<u>\$ 6,940,000</u>	

Year Ending June 30,	Revenue Bonds						Total
	Series 2008		Series 2010A		Series 2010B		
	Sewer		Sewer		Sewer Refunding		
	Issued December 10, 2008		Issued February 16, 2010		Issued March 18, 2010		
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2014	4.50%	\$ 200,000	3.00%	\$ 10,000	2.25%	\$ 245,000	
2015	4.50	210,000	3.00	20,000	2.75	250,000	
2016	4.50	210,000	3.00	25,000	3.00	260,000	
2017	4.50	215,000	3.00	25,000	3.00	270,000	
2018	4.50	275,000	3.00	153,000	-	-	
2019	4.50	285,000	3.00	158,000	-	-	
2020	4.50	305,000	3.00	164,000	-	-	
2021	4.55	320,000	3.00	169,000	-	-	
2022	4.60	340,000	3.00	174,000	-	-	
2023	4.65	360,000	3.00	180,000	-	-	
2024	4.70	380,000	3.00	186,000	-	-	
2025	4.75	405,000	3.00	192,000	-	-	
2026	4.80	430,000	3.00	198,000	-	-	
2027	4.80	455,000	3.00	205,000	-	-	
2028	4.85	480,000	3.00	211,000	-	-	
2029	-	-	3.00	8,765	-	-	
<b>Total</b>		<u>\$ 4,870,000</u>		<u>\$ 2,078,765</u>		<u>\$ 1,025,000</u>	

See accompanying independent auditor's report.

General Obligation Bonds Capital Loan Notes				
Refunding Series 2007A		Sewer Improvement Series 2010D		
Issued September 19, 2007		Issued November 18, 2010		
Interest		Interest		
Rates	Amount	Rates	Amount	Total
3.875%	\$ 130,000	2.70%	\$ 30,000	\$ 160,000
3.900	135,000	2.70	20,000	155,000
3.950	140,000	2.70	70,000	210,000
4.000	150,000	2.70	70,000	220,000
4.050	150,000	2.70	70,000	220,000
4.050	160,000	2.70	75,000	235,000
-	-	2.70	75,000	75,000
-	-	2.70	80,000	80,000
-	-	2.70	80,000	80,000
-	-	2.70	85,000	85,000
	<u>\$ 865,000</u>		<u>\$ 655,000</u>	<u>\$1,520,000</u>

Planning and Design Loan		
Issued June 22, 2012		
Interest		
Rates	Amount	Total
- %	\$ -	\$ 455,000
-	340,000	820,000
-	-	495,000
-	-	510,000
-	-	428,000
-	-	443,000
-	-	469,000
-	-	489,000
-	-	514,000
-	-	540,000
-	-	566,000
-	-	597,000
-	-	628,000
-	-	660,000
-	-	691,000
-	-	8,765
	<u>\$ 340,000</u>	<u>\$ 8,313,765</u>

**CITY OF KNOXVILLE**

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

For the Last Ten Years

	Years ended June 30,				
	2013	2012	2011	2010	2009
<b>Receipts:</b>					
Property tax	\$2,822,795	\$2,875,400	\$2,711,600	\$2,611,363	\$2,497,122
Tax increment financing	242,252	318,340	320,902	535,285	485,945
Other city tax	1,220,128	769,827	871,465	864,232	921,047
Licenses and permits	20,168	42,818	21,320	15,678	25,294
Use of money and property	5,753	3,884	65,552	77,345	94,747
Intergovernmental	999,335	939,941	1,690,173	1,136,792	1,082,430
Charges for service	909,812	873,937	745,648	639,917	627,050
Special assessments	6,247	2,756	7,433	10,874	5,231
Miscellaneous	286,362	206,141	203,690	380,054	411,077
<b>Total</b>	<b>\$6,512,852</b>	<b>\$6,033,044</b>	<b>\$6,637,783</b>	<b>\$6,271,540</b>	<b>\$6,149,943</b>
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	\$1,744,882	\$1,587,150	\$1,589,674	\$1,506,286	\$1,403,437
Public works	787,203	984,298	860,317	783,903	766,763
Health and social services	-	-	18,477	15,151	12,869
Culture and recreation	1,032,710	1,045,852	1,124,962	1,141,093	1,081,081
Community and economic development	222,805	214,944	55,290	102,266	500,686
General government	506,108	556,329	577,811	503,383	498,032
Debt service	878,514	1,376,919	1,246,308	1,974,144	1,760,500
Capital projects	1,579,394	1,632,554	2,759,921	1,334,631	676,191
<b>Total</b>	<b>\$6,751,616</b>	<b>\$7,398,046</b>	<b>\$8,232,760</b>	<b>\$7,360,857</b>	<b>\$6,699,559</b>

See accompanying independent auditor's report.

2008	2007	2006	2005	2004
\$2,315,591	\$2,170,476	\$2,129,393	\$1,981,319	\$2,069,054
436,811	403,700	368,655	390,497	327,032
874,009	945,409	833,292	746,387	286,303
30,932	51,121	49,200	36,614	44,374
156,478	144,598	191,752	48,159	42,281
927,964	1,067,614	1,390,093	1,502,408	805,600
552,542	467,204	439,924	467,822	423,250
3,796	-	-	-	14,329
152,616	109,627	101,254	130,398	93,178
<u>\$5,450,739</u>	<u>\$5,359,749</u>	<u>\$5,503,563</u>	<u>\$5,303,604</u>	<u>\$4,105,401</u>
\$1,278,799	\$1,140,287	\$1,087,731	\$1,173,206	\$1,143,333
711,474	667,084	757,366	713,930	728,691
17,776	14,846	14,307	-	-
973,213	908,901	865,491	963,405	954,891
420,046	274,588	145,002	325,700	197,729
329,067	433,227	417,467	414,694	423,033
1,272,801	976,788	2,507,606	913,064	777,558
864,294	867,751	1,479,908	1,059,329	99,340
<u>\$5,867,470</u>	<u>\$5,283,472</u>	<u>\$7,274,878</u>	<u>\$5,563,328</u>	<u>\$4,324,575</u>

**CITY OF KNOXVILLE**

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

As of and for the year ended June 30, 2013

	Cemetery Roads	Bike Trail Project	Sidewalks and Alleys	GO Bond Projects
<b>Receipts:</b>				
Use of money and property:				
Interest on investments	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Miscellaneous	1,173	-	1	1,245
<b>Total receipts</b>	<u>1,173</u>	<u>-</u>	<u>1</u>	<u>1,245</u>
<b>Disbursements:</b>				
Capital projects	-	500	-	113,789
<b>Total disbursements</b>	<u>-</u>	<u>500</u>	<u>-</u>	<u>113,789</u>
Excess (deficiency) of receipts over (under) disbursements	1,173	(500)	1	(112,544)
<b>Other financing sources (uses):</b>				
Bond proceeds	-	-	-	3,360,000
Operating transfers in	-	-	-	-
<b>Total other financing (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,360,000</u>
Net change in cash balances	1,173	(500)	1	3,247,456
Cash balances beginning of year	49,632	253,767	(1)	585,454
Cash balances end of year	<u>\$50,805</u>	<u>\$253,267</u>	<u>\$ -</u>	<u>\$3,832,910</u>
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Other purposes	<u>\$50,805</u>	<u>\$253,267</u>	<u>\$ -</u>	<u>\$3,832,910</u>
<b>Total cash basis fund balances</b>	<u>\$50,805</u>	<u>\$253,267</u>	<u>\$ -</u>	<u>\$3,832,910</u>

See accompanying independent auditor's reports.

Entrance Signs	2007 CDBG Housing Rehab	2009 CDBG NSP Grant	Capital Project Library	Total
\$ 25	\$ -	\$ -	\$ -	\$ 25
-	179,286	39,739	-	219,025
-	-	-	172,368	174,787
25	179,286	39,739	172,368	393,837
-	146,735	2,312	132,784	396,120
-	146,735	2,312	132,784	396,120
25	32,551	37,427	39,584	(2,283)
-	-	-	-	3,360,000
-	-	-	-	-
-	-	-	-	3,360,000
25	32,551	37,427	39,584	3,357,717
3,430	(32,347)	(21,304)	18,037	856,668
\$ 3,455	\$ 204	\$ 16,123	\$ 57,621	\$4,214,385
\$ 3,455	\$ 204	\$ 16,123	\$ 57,621	\$4,214,385
\$ 3,455	\$ 204	\$ 16,123	\$ 57,621	\$4,214,385



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

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Knoxville, Iowa as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 20, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the primary government of the City of Knoxville's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Knoxville's internal control. Accordingly, we do not express an opinion on the effectiveness of the primary government of the City of Knoxville's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the primary government of the City of Knoxville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-A-13 through II-E-13 and II-J-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-F-13 through II-I-13 and II-K-13 through II-L-13 to be significant deficiencies.

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## The City of Knoxville's Responses to Findings

The primary government of the City of Knoxville's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Knoxville's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

*Martens & Company, CPA, LLP*

West Des Moines, Iowa  
November 20, 2013

# CITY OF KNOXVILLE

## Schedule of Findings

Year ended June 30, 2013

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

- (a) Unqualified opinion was issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

# CITY OF KNOXVILLE

## Schedule of Findings - Continued

Year ended June 30, 2013

### Part II: Findings Related to the Financial Statements:

#### SIGNIFICANT DEFICIENCIES:

- II-A-13 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the following functions are not entirely segregated: cash receipts, general ledger posting, reconciliations and investment control and custody.

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

Response - We will consider this.

Conclusion - Response acknowledged.

- II-B-13 Knoxville Municipal Waterworks -The Waterworks provides billing and collection services for the City's sewer and water fees. The sewer receipts are remitted to the City. The Waterworks provides a reconciliation of billings, collections and receivable balances to the City, but the City does not review the reconciliation.

Recommendation -The City should perform an independent review of the reconciliation of billings, collections and receivable balances for sewer fees received from the Waterworks.

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

Conclusion - Response accepted.

- II-C-13 Recreation Center - One employee is responsible for opening the mail, collecting receipts, recording receipts and preparing the deposit. In addition, an initial listing of receipts is not prepared.

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

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

Conclusion - Response accepted.

## CITY OF KNOXVILLE

### Schedule of Findings - Continued

Year ended June 30, 2013

- II-D-13 Knoxville Senior Citizens Center - One employee is responsible for collecting receipts, recording receipts, deposit preparation, opening mail and disbursements. Also, deposits are not made intact and timely. In addition, an initial listing of receipts is not prepared.

The Knoxville Senior Citizens Center does not prepare accurate financial statements or have an investment register.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Knoxville Senior Citizens Center should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Additionally, deposits should be made intact and timely.

In addition, the Center should prepare accurate financial statements at the end of each month to reconcile book and bank balances and the reconciliations should be reviewed by an independent person. The Center should also maintain an investment register.

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

Conclusion - Response accepted.

- II-E-13 Records of Account - The Knoxville Senior Citizens Center and the Knoxville Friends of the Library maintained checking and savings accounts separate from the City Clerk's records. The transactions and the resulting balances were not reported to the City Council each month and the transactions were not recorded in the City Clerk's records. Also, the Knoxville Senior Citizens Center was not included in the City's budget.

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

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

## CITY OF KNOXVILLE

### Schedule of Findings - Continued

Year ended June 30, 2013

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

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

Conclusion - Response accepted.

II-F-13 Electronic Data Processing Systems - During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- A disaster recovery plan.

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

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

Conclusion - Response accepted.

II-G-13 Petty Cash and Change Funds - The Library, Police Department and Recreation Center maintain petty cash or change funds. The funds at the Library and the Police Department are not maintained on an imprest basis. The Police Department's change/petty cash was also co-mingled with employee funds used for such items as greeting cards. In addition, the City's records do not accurately reflect the balance of all cash on hand at the end of the fiscal year.

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

Conclusion - Response accepted.

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

## CITY OF KNOXVILLE

### Schedule of Findings - Continued

Year ended June 30, 2013

II-H-13 Travel Policy - The City has not adopted a travel reimbursement policy, including an approved mileage rate. Additionally, the city is not monitoring when withholding is required for taxable travel.

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

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

Conclusion - Response accepted.

II-I-13 Travel Disbursements and Payroll of City Officials - The City Manager and other Department heads periodically travel. Travel costs are generally charged to a City credit card. The detailed credit card charges and receipts are not reviewed by anyone to ensure travel disbursements are appropriate.

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

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

Conclusion - Response accepted.

II-J-13 Financial Reporting - During the audit, we identified a material amount of bond disbursements not recorded on the City's books. A material amount of revenue was not transferred from the Recreation Department to general checking. Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

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

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

Conclusion - Response accepted.

## CITY OF KNOXVILLE

### Schedule of Findings - Continued

Year ended June 30, 2013

II-K-13 Deposits and Investments - The City had deposits in one financial institution in excess of the amount approved by resolution as to the maximum approved for the financial institution.

Recommendation - The City either needs to deposit funds in other approved financial institutions when amounts will exceed authorized maximums or pass a resolution to increase the maximum if current maximums are considered too low.

Response - We will monitor the amounts and take the necessary action as approved by the City council.

Conclusion - Response accepted.

II-L-13 Transfers - Not all transfers between funds were recorded in the designated transfer accounts and approved by resolution.

Recommendation - The City should record all transfers in designated transfer accounts and have them approved by resolution.

Response - We will record all transfers and have them approved by resolution.

Conclusion - Response accepted.

#### **INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

## CITY OF KNOXVILLE

### Schedule of Findings - Continued

Year ended June 30, 2013

#### **Part III: Other Findings Related to Required Statutory Reporting:**

III-A-13 Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public works and general government functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response - In the future the City will amend the budget prior to disbursements exceeding budgeted amounts.

Conclusion - Response accepted.

III-B-13 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-C-13 Travel Expenses - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-13 Business Transactions - No business transactions between the City and City officials or employees were noted.

III-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council Minutes but were not.

Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for four meetings tested were not published within fifteen days. Two minutes lacked signatures.

Recommendation - The City should comply with the Code of Iowa and publish City Council minutes within fifteen days of the meeting. All minutes should be signed.

Response - Staff will comply with chapter 21 of the Code of Iowa, publish minutes as required and sign all minutes

Conclusion - Response accepted.

III-G-13 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

# CITY OF KNOXVILLE

## Schedule of Findings - Continued

Year ended June 30, 2013

III-H-13 Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.

III-I-13 Financial Condition - the City had deficit balances at June 30, 2013 as follows:

<u>Fund</u>	<u>Amount</u>
Enterprises:	
Airport	\$307,569
Governmental:	
Debt Service	73,850
Special Revenue:	
K-9 Unit Program	6,650

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

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

Conclusion - Response accepted.

III-J-13 Urban Renewal Annual Report - The Urban renewal annual report was approved and certified to the Iowa Department of Management on or before December 1.

The City's beginning and ending cash balances of the special revenue, urban renewal tax increment fund reported on the levy authority summary do not agree with the City's general ledger.

Recommendation - the City should ensure that the cash balances and debit amounts reported on the levy authority summary agree with the City's records.

Response - These items will be reported on next year's report.

Conclusion - Response accepted.