

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

JUNE 30, 2004

NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Knoxville Community School District in Knoxville, Iowa.

The District's revenues for the governmental funds totaled \$15,569,540 for the year ended June 30, 2004 and included \$5,406,638 in local tax, \$8,566,918 from the state, \$525,896 from the federal government and \$24,615 in interest on investments.

Governmental fund expenditures for the year totaled \$15,479,335 and included \$8,820,137 for instruction, \$4,778,678 for support services and \$1,873,136 for other expenditures.

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

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Knoxville Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Mike Husted	President	2003
Vickie Janousek	Vice President	2004
Mike Helle	Board Member	2004
Dennis Goad	Board Member	2005
Scott Chambers	Board Member	2005
Board of Education (After September 2003 Election)		
Mike Helle	President	2004
Scott Chambers	Vice President	2005
Dennis Goad	Board Member	2005
Vickie Janousek	Board Member	2004
Mike Husted	Board Member	2006
School Officials		
Dr. Randy Flack	Superintendent	2004
Sue Kauzlarich	District Secretary	2004
Craig Mobley	District Treasurer and Business Manager	2004
Ed Bittle	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Knoxville Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Knoxville Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Knoxville Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 13, 2004 on our consideration of the Knoxville Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Knoxville Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

September 13, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Knoxville Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$13,149,896 in fiscal 2003 to \$13,367,863 in fiscal 2004, while General Fund expenditures increased from \$13,034,145 in fiscal 2003 to \$13,044,333 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$1,754,044 in fiscal 2003 to a balance of \$2,077,650 in fiscal 2004, an 18% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance increased is because the expenses were less than the District's General Fund revenue for fiscal 2004. As a result, the District's General Fund increased.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$28,288 in fiscal year 2003 to \$21,455 in fiscal year 2004.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Knoxville Community School District as a whole and present an overall view of the District'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 Knoxville Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Knoxville Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

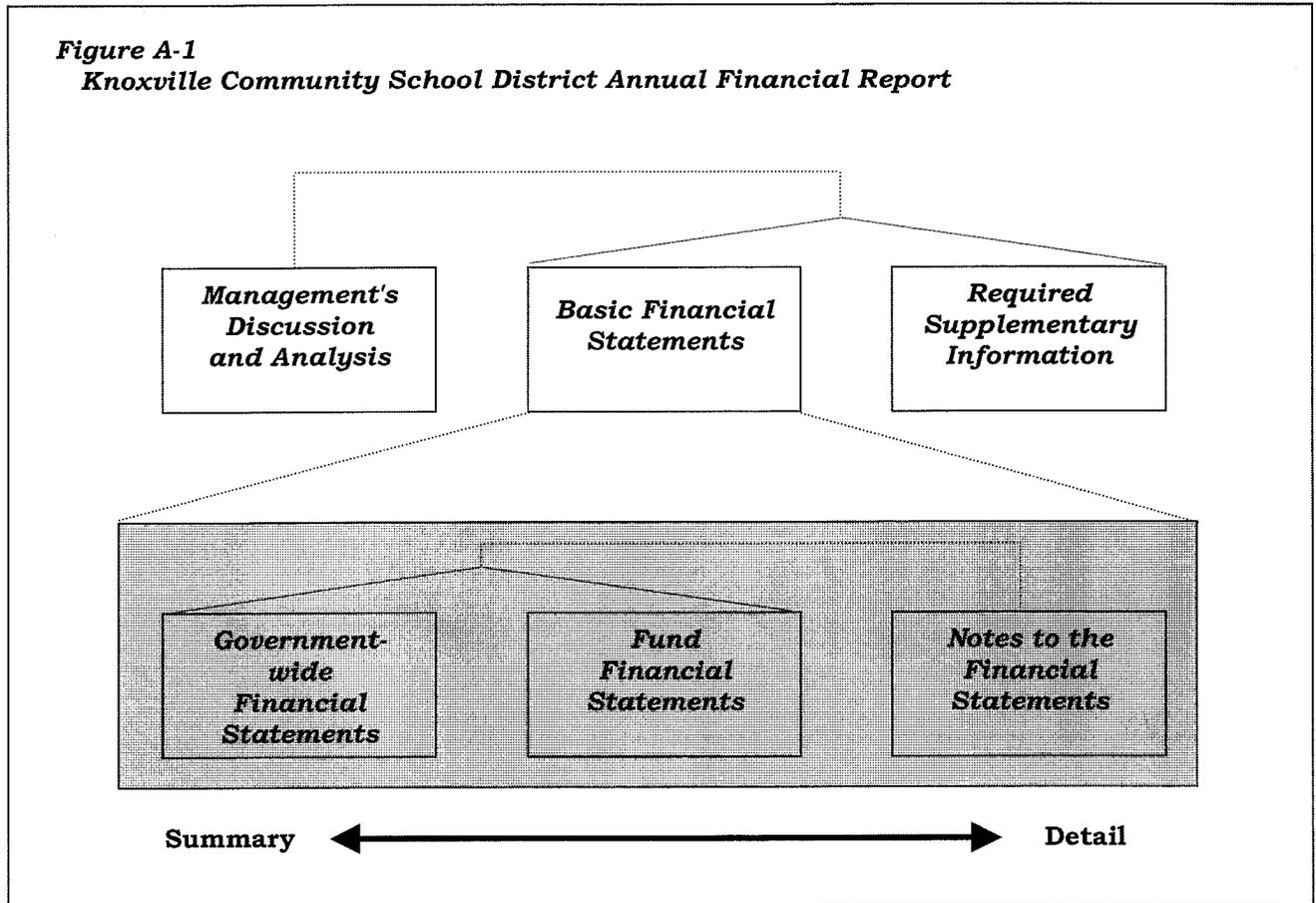


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Internal Service Fund, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Current and other assets	\$ 10,811,962	10,556,018	302,061	240,468	11,114,023	10,796,486	2.94%
Capital assets	8,931,384	8,805,305	9,337	1,874	8,940,721	8,807,179	1.52%
Total assets	19,743,346	19,361,323	311,398	242,342	20,054,744	19,603,665	2.30%
Long-term obligations	7,854,415	8,156,372	0	0	7,854,415	8,156,372	-3.70%
Other liabilities	8,407,697	8,220,920	64,181	60,875	8,471,878	8,281,795	2.30%
Total liabilities	16,262,112	16,377,292	64,181	60,875	16,326,293	16,438,167	-0.68%
Net assets:							
Invested in capital assets, net of related debt	2,862,574	2,145,305	9,337	1,874	2,871,911	2,147,179	33.75%
Restricted	235,333	481,540	0	0	235,333	481,540	-51.13%
Unrestricted	383,327	357,186	237,880	179,593	621,207	536,779	15.73%
Total net assets	\$ 3,481,234	2,984,031	247,217	181,467	3,728,451	3,165,498	17.78%

The District's combined net assets increased by nearly 18% or \$562,953 over the prior year. The largest portion of the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$246,207 or 51 percent over the prior year.

Unrestricted net assets- the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirements-increased \$84,428 or 16 percent.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 1,045,397	1,047,606	456,696	455,622	1,502,093	1,503,228	-0.08%
Operating grants and contributions and restricted interest	1,511,144	1,569,761	281,635	257,538	1,792,779	1,827,299	-1.89%
Capital grants and contributions and restricted interest	69,381	0	0	0	69,381	0	100.00%
General revenues:							
Local tax	5,406,638	5,227,567	0	0	5,406,638	5,227,567	3.43%
Unrestricted state grants	7,512,289	7,652,831	0	0	7,512,289	7,652,831	-1.84%
Other	24,691	32,797	0	0	24,691	32,797	-24.72%
Total revenues	15,569,540	15,530,562	738,331	713,160	16,307,871	16,243,722	0.39%
Program expenses:							
Governmental activities:							
Instructional	9,131,689	9,376,966	0	0	9,131,689	9,376,966	-2.62%
Support services	4,834,044	4,677,370	0	0	4,834,044	4,677,370	3.35%
Non-instructional programs	0	34,060	672,581	687,578	672,581	721,638	-6.80%
Other expenses	1,106,604	1,235,685	0	0	1,106,604	1,235,685	-10.45%
Total expenses	15,072,337	15,324,081	672,581	687,578	15,744,918	16,011,659	-1.67%
Changes in net assets	497,203	206,481	65,750	25,582	562,953	232,063	142.59%
Net assets beginning of year	2,984,031	2,777,550	181,467	155,885	3,165,498	2,933,435	7.91%
Net assets end of year	\$ 3,481,234	2,984,031	247,217	181,467	3,728,451	3,165,498	17.78%

Property tax and unrestricted state grants account for 83% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 93% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$15,569,540 and expenses were \$15,072,337. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 9,131,689	7,061,700
Support services	4,834,044	4,824,187
Other expenses	1,106,604	560,528
Totals	\$ 15,072,337	12,446,415

- The cost financed by users of the District's programs was \$1,045,397.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,580,525.

-
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,580,525.
 - The net cost of governmental activities was financed with \$5,406,638 in local tax, \$7,512,289 in unrestricted state grants, and \$24,615 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$738,331 and expenses were \$672,581. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Knoxville Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,156,862, above last year's ending fund balances of a \$2,066,657. However, the primary reason for the increase was the increased revenues from local taxes.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in the tax levy during the year resulted in an increase in revenues. The increase in revenues was greater than the increase in General Fund expenditures ensuring the financial position of the District increase.
- The Management fund balance decreased from \$49,725 in 2003, to (\$77,314) in 2004, due to the increase in expenditures.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$110,814 to \$23,024, due to an increase in expenditures for the year.
- The Student Activity fund balance decreases from \$78,616 to \$58,187, due to an increase in expenditures and decrease in revenues.
- The Debt Service fund balance increased from \$70,203 to \$72,954. This was a result of increased revenues.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$181,467 at June 30, 2003 to \$247,217 at June 30, 2004, representing an increase of approximately 37%. For fiscal 2004, the District increased meal prices, resulting in increased revenues.

BUDGETARY HIGHLIGHTS

Over the course of the year, Knoxville Community School District amended its annual budget one time to reflect additional revenue and expenditures.

The District's revenues were \$174,249 less than budgeted revenues, a variance of 1%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$8.9 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 1.4% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$380,336.

The original cost of the District's capital assets was \$15.3 million. Governmental funds account for \$15 million with the remainder of \$0.3 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$8,208,525 at June 30, 2004, compared to \$7,984,425 reported at June 30, 2003.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total Change 2003-04
	Activities		Activities		School District		
	2004	2003	2004	2003	2004	2003	
Land	\$ 63,966	63,966	0	0	63,966	63,966	0.00%
Buildings	8,208,525	7,984,428	0	0	8,208,525	7,984,428	2.81%
Machinery and equipment	658,893	756,911	9,337	1,874	668,230	758,785	-11.93%
Total	\$ 8,931,384	8,805,305	9,337	1,874	8,940,721	8,807,179	1.52%

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$7,854,415 in general obligation bonds, and early retirement. This represents a decrease of approximately 3.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$6,120,000 at June 30, 2004.

The District also had total outstanding early retirement payable of \$1,734,415 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 6,120,000	6,660,000	-8.1%
Early retirement	1,734,415	1,496,372	15.9%
Total	\$ 7,854,415	8,156,372	-3.7%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced fluctuating enrollment for a few years, the District expects enrollment to stay stable.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Craig Mobley, District Treasurer and Business Manager, Knoxville Community School District, 309 W Main, Knoxville, Iowa, 50138.

BASIC FINANCIAL STATEMENTS

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP (Note 4)	\$ 1,974,176	0	1,974,176
Other	3,333,185	279,302	3,612,487
Receivables:			
Property tax:			
Delinquent	111,521	0	111,521
Succeeding year	4,965,578	0	4,965,578
Income surtax	314,514	0	314,514
Interfund	68,076	0	68,076
Accounts	1,901	3,247	5,148
Due from other governments	43,011	0	43,011
Inventories	0	19,512	19,512
Capital assets, net of accumulated depreciation (Note 5)	8,931,384	9,337	8,940,721
TOTAL ASSETS	19,743,346	311,398	20,054,744
LIABILITIES			
Interfund payable	68,076	0	68,076
Accounts payable	18,755	0	18,755
Interest payable	21,764	0	21,764
Incurred but not reported claims	28,447	0	28,447
Salaries and benefits payable	1,314,077	51,052	1,365,129
ISCAP warrants payable (Note 4)	1,991,000	0	1,991,000
Deferred revenue:			
Succeeding year property tax	4,965,578	0	4,965,578
Other	0	13,129	13,129
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	565,000	0	565,000
Early retirement	338,861	0	338,861
Portion due after one year:			
General obligation bonds	5,555,000	0	5,555,000
Early retirement	1,395,554	0	1,395,554
TOTAL LIABILITIES	16,262,112	64,181	16,326,293
NET ASSETS			
Investment in capital assets, net of related debt	2,862,574	9,337	2,871,911
Restricted for:			
Early intervention	13,338	0	13,338
Talented and gifted	111,743	0	111,743
Teacher quality	828	0	828
Phase III	25,852	0	25,852
Physical plant & equipment levy	23,024	0	23,024
Other special revenue purposes	60,548	0	60,548
Unrestricted	383,327	237,880	621,207
TOTAL NET ASSETS	\$ 3,481,234	247,217	3,728,451

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 5,788,525	334,470	958,838	69,381
Special instruction	2,141,573	50,355	0	0
Other instruction	1,201,591	656,945	0	0
	<u>9,131,689</u>	<u>1,041,770</u>	<u>958,838</u>	<u>69,381</u>
Support services:				
Student services	671,888	0	0	0
Instructional staff services	673,089	0	0	0
Administration services	1,521,260	0	0	0
Operation and maintenance of plant services	1,399,766	0	0	0
Transportation services	494,512	3,627	6,230	0
Central support services	73,529	0	0	0
	<u>4,834,044</u>	<u>3,627</u>	<u>6,230</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	24,200	0	0	0
Long-term debt interest	288,568	0	0	0
AEA flowthrough	546,076	0	546,076	0
Depreciation(unallocated) *	247,760	0	0	0
	<u>1,106,604</u>	<u>0</u>	<u>546,076</u>	<u>0</u>
Total governmental activities	15,072,337	1,045,397	1,511,144	69,381
Business-Type activities:				
Non-instructional programs:				
Nutrition services	672,581	456,696	281,635	0
Total business-type activities	<u>672,581</u>	<u>456,696</u>	<u>281,635</u>	<u>0</u>
Total	\$ 15,744,918	1,502,093	1,792,779	69,381

General Revenues:

Property tax levied for:
 General purposes
 Debt services
 Capital outlay
Unrestricted state grants
Unrestricted investment earnings
Sale of materials

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(4,425,836)	0	(4,425,836)
(2,091,218)	0	(2,091,218)
(544,646)	0	(544,646)
(7,061,700)	0	(7,061,700)
(671,888)	0	(671,888)
(673,089)	0	(673,089)
(1,521,260)	0	(1,521,260)
(1,399,766)	0	(1,399,766)
(484,655)	0	(484,655)
(73,529)	0	(73,529)
(4,824,187)	0	(4,824,187)
(24,200)	0	(24,200)
(288,568)	0	(288,568)
0	0	0
(247,760)	0	(247,760)
(560,528)	0	(560,528)
(12,446,415)	0	(12,446,415)
0	65,750	65,750
0	65,750	65,750
(12,446,415)	65,750	(12,380,665)
\$ 4,277,737	0	4,277,737
832,140	0	832,140
296,761	0	296,761
7,512,289	0	7,512,289
24,615	0	24,615
76	0	76
12,943,618	0	12,943,618
497,203	65,750	562,953
2,984,031	181,467	3,165,498
\$ 3,481,234	247,217	3,728,451

KNOXVILLE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	Other Governmental		Total
	General	Funds	
ASSETS			
Cash and pooled investments			
ISCAP (Note 4)	\$ 1,974,176	0	1,974,176
Other	3,311,900	45,261	3,357,161
Receivables:			
Property tax			
Delinquent	77,570	33,951	111,521
Succeeding year	3,610,073	1,355,505	4,965,578
Income surtax	314,514	0	314,514
Interfund	30,500	0	30,500
Accounts	1,901	0	1,901
Due from other governments	43,011	0	43,011
TOTAL ASSETS	\$ 9,363,645	1,434,717	10,798,362
LIABILITIES AND FUND BALANCES			
Liabilities:			
Interfund payable	\$ 37,576	0	37,576
Accounts payable	18,755	0	18,755
Salaries and benefits payable	1,314,077	0	1,314,077
ISCAP warrants payable (Note 4)	1,991,000	0	1,991,000
Deferred revenue:			
Succeeding year property tax	3,610,073	1,355,505	4,965,578
Income surtax	314,514	0	314,514
Total liabilities	<u>7,285,995</u>	<u>1,355,505</u>	<u>8,641,500</u>
Fund balances:			
Reserved for:			
Debt service	0	72,954	72,954
Early intervention	13,338	0	13,338
Talented and gifted	111,743	0	111,743
Teacher quality	828	0	828
Phase III	25,852	0	25,852
Unreserved:			
Designated for special purpose	500,000	0	500,000
Undesignated	1,425,889	6,258	1,432,147
Total fund balances	<u>2,077,650</u>	<u>79,212</u>	<u>2,156,862</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,363,645	1,434,717	10,798,362

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balances of governmental funds (page 16)	\$ 2,156,862
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	8,931,384
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	(45,347)
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(21,764)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	314,514
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, are not reported as liabilities in the governemetal funds.	(7,854,415)
Net assets of governmental activites (page 13)	<u>\$ 3,481,234</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Other Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 3,851,819	1,554,819	5,406,638
Tuition	384,825	0	384,825
Other	107,486	577,401	684,887
Intermediate sources	300	0	300
State sources	8,565,883	1,035	8,566,918
Federal sources	457,550	68,346	525,896
Total revenues	<u>13,367,863</u>	<u>2,201,601</u>	<u>15,569,464</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	5,601,464	16,710	5,618,174
Special instruction	2,000,372	0	2,000,372
Other instruction	665,743	535,848	1,201,591
	<u>8,267,579</u>	<u>552,558</u>	<u>8,820,137</u>
Support services:			
Student services	679,112	502	679,614
Instructional staff services	360,614	312,475	673,089
Administration services	1,462,483	67,249	1,529,732
Operation and maintenance of plant services	1,273,261	121,856	1,395,117
Transportation services	379,045	48,552	427,597
Central support services	72,279	1,250	73,529
	<u>4,226,794</u>	<u>551,884</u>	<u>4,778,678</u>
Non-instructional:			
Food service	0	3,500	3,500
Community service and education operations	3,884	0	3,884
	<u>3,884</u>	<u>3,500</u>	<u>7,384</u>
Other expenditures:			
Facilities acquisitions	0	496,057	496,057
Long-term debt:			
Principal	0	540,000	540,000
Interest and fiscal charges	0	291,003	291,003
AEA flowthrough	546,076	0	546,076
	<u>546,076</u>	<u>1,327,060</u>	<u>1,873,136</u>
Total expenditures	<u>13,044,333</u>	<u>2,435,002</u>	<u>15,479,335</u>
Excess (deficiency) of revenues over (under) expenditures	323,530	(233,401)	90,129
Other financing sources:			
Sale of materials	76	0	76
Net change in fund balances	323,606	(233,401)	90,205
Fund balance beginning of year	1,754,044	312,613	2,066,657
Fund balance end of year	<u>\$ 2,077,650</u>	<u>79,212</u>	<u>2,156,862</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds (page 18) \$ 90,205

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 505,913	
Depreciation expense	(379,834)	126,079

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (23,473)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 540,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 2,435

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.
 Early retirement (238,043)

Changes in net assets of governmental activities (page 15) \$ 497,203

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2004

	Business-Type	
	Activities:	
	Enterprise	Governmental
	Fund	Activites:
	School	Internal
	Nutrition	Service Fund
ASSETS		
Cash and cash equivalents	\$ 279,302	(23,976)
Receivables:		
Interfund	0	37,576
Accounts	3,247	0
Inventories	19,512	0
Capital assets, net of accumulated depreciation	9,337	0
TOTAL ASSETS	311,398	13,600
LIABILITIES		
Interfund payable	0	30,500
Salaries and benefits payable	51,052	0
Incurred but not reported claims	0	28,447
Deferred revenues	13,129	0
TOTAL LIABILITES	64,181	58,947
NET ASSETS		
Invested in capital assets, net of related debt	9,337	0
Unrestricted	237,880	(45,347)
TOTAL NET ASSETS	\$ 247,217	(45,347)

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	Business-Type	
	Activities:	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Other local sources:		
Sale of lunches and breakfasts:		
Students	\$ 454,274	0
Miscellaneous	2,422	1,672,089
TOTAL OPERATING REVENUES	456,696	1,672,089
OPERATING EXPENSES:		
Salaries	228,192	0
Benefits	99,194	1,695,562
Services	13,189	0
Supplies	331,504	0
Depreciation	502	0
TOTAL OPERATING EXPENSES	672,581	1,695,562
OPERATING LOSS	(215,885)	(23,473)
NON-OPERATING REVENUES:		
State sources	8,379	0
Federal sources	273,256	0
TOTAL NON-OPERATING REVENUES	281,635	0
Net income(loss)	65,750	(23,473)
Retained earnings at beginning of year	181,467	(21,874)
Retained earnings end of year	\$ 247,217	(45,347)

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	Business-Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 456,084	0
Cash received from miscellaneous operating activities	2,422	2,015,589
Cash payments to employees for services	(326,884)	(1,878,230)
Cash payments to suppliers for goods or services	(312,058)	0
Net cash provided by(used in) operating activities	(180,436)	137,359
Cash flows from non-capital financing activities:		
State grants received	8,379	0
Federal grants received	266,261	0
Net cash provided by non-capital financing activities	274,640	0
Cash flows from capital financing activities:		
Purchase of assets	(7,965)	0
Net cash used by financing activities	(7,965)	0
Net increase in cash and cash equivalents	86,239	137,359
Cash and cash equivalents at beginning of year	193,063	(161,335)
Cash and cash equivalents at end of year	\$ 279,302	(23,976)
Reconciliation of operating loss to net cash provided by(used in) operating activities:		
Operating loss	\$ (215,885)	(23,473)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	33,341	0
Depreciation	502	0
Increase in inventories	(503)	0
Decrease in interfund receivable	0	343,500
Increase in accounts receivable	(1,197)	0
Decrease in accounts payable	(203)	0
Increase in salaries and benefits payable	502	0
Decrease in incurred but not reported claims	0	(182,668)
Increase in deferred revenue	3,007	0
Net cash provided by(used in) operating activities	\$ (180,436)	137,359
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 279,302	(23,976)
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
During the year ended June 30, 2004, the District received Federal commodities valued at \$33,341.		
SEE NOTES TO FINANCIAL STATEMENTS.		

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) **Summary of Significant Accounting Policies**

The Knoxville Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Knoxville, Iowa, and the predominate agricultural territory in Marion Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Knoxville Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District 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 District are such that exclusion would cause the District'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 District 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 District. The Knoxville Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally 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 support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues 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 that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental 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 District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following major proprietary fund:

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of

donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	2,000
Improvements other than buildings	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Live (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, no disbursements exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District 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 Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$3,413,182 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

The District had investments in certificates of deposit that are stated at a fair value of \$1,703 and are classified as risk category 2, which are investments that are insured and registered and held by the District or its agent in the District's name.

(3) **Interfund Receivable and Payables**

The detail of interfund receivables and payables at June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Internal Service Fund	
	Self-funded Dental	
	Insurance	\$ 30,500
Internal Service Fund	General	
Self-funded Accidental		
Insurance		37,576
		<hr/>
Total		\$ 68,076
		<hr/>

The General Fund is paying the Internal Service Fund Self-funded Accidental Insurance for contributions made from employees. The General Fund is being repaid from the Internal Service Fund Self-funded Dental Insurance for claims made by employees. The balance will be repaid by June 30, 2005.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments		Accrued	
			Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ 1,974,176	0	1,991,000	0

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity was noted in the General Fund for the year ended June 30, 2004.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 63,966	0	0	63,966
Total capital assets not being depreciated	63,966	0	0	63,966
Capital assets being depreciated:				
Buildings	12,012,154	471,857	0	12,484,011
Machinery and equipment	2,490,013	34,056	18,955	2,505,114
Total capital assets being depreciated	14,502,167	505,913	18,955	14,989,125
Less accumulated depreciation for:				
Buildings	4,027,726	247,760	0	4,275,486
Machinery and equipment	1,733,102	132,074	18,955	1,846,221
Total accumulated depreciation	5,760,828	379,834	18,955	6,121,707
Total capital assets being depreciated, net	8,741,339	126,079	0	8,867,418
Governmental activities capital assets, net\$	8,805,305	126,079	0	8,931,384

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 339,644	7,965	0	347,609
Less accumulated depreciation	337,770	502	0	338,272
Business-type activities capital assets, net \$	1,874	7,463	0	9,337

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 42,697
Support services:		
Administration services		920
Operation and maintenance of plant services		2,395
Transportation		86,062
		132,074
Unallocated depreciation		247,760
Total governmental activities depreciation expense		\$ 379,834
Business-type activities:		
Food services		\$ 502

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 6,660,000	0	540,000	6,120,000	565,000
Early retirement	1,496,372	523,912	285,869	1,734,415	338,861
Total	\$ 8,156,372	523,912	825,869	7,854,415	903,861

General Obligation

Details of the District's June 30, 2004 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2003			Bond Issue of May 1, 2003			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2005	6.10%	\$ 320,000	19,520	3.75%	\$ 245,000	241,645	\$ 565,000	261,165
2006		-	-	3.85	600,000	232,213	600,000	232,213
2007		-	-	3.95	625,000	208,513	625,000	208,513
2008		-	-	4.05	650,000	183,200	650,000	183,200
2009		-	-	4.10	680,000	156,550	680,000	156,550
2010		-	-	4.15	705,000	128,330	705,000	128,330
2011		-	-	4.20	730,000	98,720	730,000	98,720
2012		-	-	4.30	765,000	67,695	765,000	67,695
2013		-	-	4.35	800,000	34,800	800,000	34,800
Total		\$ 320,000	19,520		\$ 5,800,000	1,351,666	\$ 6,120,000	1,371,186

Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Eligible certified employees must be at least age fifty-five. Eligible employees must be at the top of his/her salary schedule lane, or on Step 15 or above and they must be an employee of the district for at least 10 years. Non-certified employees must be an employee of the district for at least ten years. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 15 percent of their contracted salary (exclusive of supplemental pay or extended contract pay.) Early retirement benefits paid during the year ended June 30, 2004, totaled \$285,869. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

(7) Advance Refunding

On February 1, 1999, the District issued refunding bonds in the amount of \$6,510,000 to advance refund \$5,800,000 of outstanding

general obligation bonds. The proceeds of the refunding issue have been placed in an irrevocable escrow account and have been added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is insufficient to pay the refunded bonds. At June 30, 2004, \$5,605,000 of such bonds are outstanding. Repayment of principal and interest for the year was \$100,000 and \$412,905 respectively.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$491,312, \$480,745, and \$476,892 respectively, equal to the required contributions for each year.

(9) Risk Management

The District has a self-funded health, self-funded dental, and self-funded accidental insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$50,000 in insured claims for any one covered individual. Settle claims have not exceeded the commercial coverage in any of the past three years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was a deficit \$45,347 at June 30, 2004. The incurred but not recorded and unpaid claims liability of \$28,447 reported in the plan at June 30, 2004 based on the requirements of GASB Statement Number 10, is set up as a reserve in the fund balance.

In addition, the District is exposed to various risks to loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$546,076 for the year ended June 30, 2004 and is recorded in the General Fund

by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Fund Balances and Net Assets

At June 30, 2004, there was a deficit fund balance in the Management Fund of \$77,314. Also, there was a deficit net assets in the Internal Service Fund - Self-funded Health Insurance of \$31,991, and \$13,356 in the Internal Service Fund - Self-funded Dental Insurance.

REQUIRED SUPPLEMENTAL INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 6,560,421	458,506
Intermediate sources	300	0
State sources	8,580,759	8,379
Federal sources	472,659	299,602
Total receipts	<u>15,614,139</u>	<u>766,487</u>
Disbursements:		
Instruction	8,706,563	0
Support services	4,914,164	0
Non-instructional programs	7,384	680,248
Other disbursements	1,873,136	0
Total disbursements	<u>15,501,247</u>	<u>680,248</u>
Excess(deficiency) of receipts over(under) disbursements	112,892	86,239
Other financing sources, net	76	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	112,968	86,239
Balance beginning of year	<u>3,237,117</u>	<u>193,063</u>
Balance end of year	<u>\$ 3,350,085</u>	<u>279,302</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
7,018,927	6,961,158	6,961,158	57,769
300	0	0	300
8,589,138	9,003,717	9,003,717	(414,579)
772,261	590,000	590,000	182,261
16,380,626	16,554,875	16,554,875	(174,249)
8,706,563	10,188,385	9,988,385	1,281,822
4,914,164	5,154,945	5,154,945	240,781
687,632	813,718	813,718	126,086
1,873,136	1,762,112	1,962,112	88,976
16,181,495	17,919,160	17,919,160	1,737,665
199,131	(1,364,285)	(1,364,285)	1,563,416
76	5,000	5,000	5,076
199,207	(1,359,285)	(1,359,285)	1,568,492
3,430,180	2,906,552	2,906,552	523,628
3,629,387	1,547,267	1,547,267	2,092,120

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 15,614,139	(44,675)	15,569,464
Expenses	15,501,247	(21,912)	15,479,335
Net	112,892	(22,763)	90,129
Other financing sources, net	76	0	76
Beginning fund balances	3,237,117	(1,170,460)	2,066,657
Ending fund balances	\$ 3,350,085	(1,193,223)	2,156,862

	Proprietary Fund Type		
	Cash Basis	Enterprise	
		Adjust- ments	Accrual Basis
Revenues	\$ 766,487	(28,156)	738,331
Expenses	680,248	(7,667)	672,581
Net	86,239	(20,489)	65,750
Beginning retained earnings	193,063	(11,596)	181,467
Ending retained earnings	\$ 279,302	(32,085)	247,217

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment which increased disbursements in the other expenditures, and decreased disbursements in the instruction functional area by \$200,000.

OTHER SUPPLEMENTAL INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

Special Revenue Funds

	Management	Physical Plant and Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ (86,847)	16,589	58,187	2,361	(9,710)	54,971	45,261
Receivables:							
Property tax:							
Current year delinquent	9,533	6,435	0	0	15,968	17,983	33,951
Succeeding year	450,000	79,340	0	0	529,340	826,165	1,355,505
TOTAL ASSETS	\$ 372,686	102,364	58,187	2,361	535,598	899,119	1,434,717
LIABILITIES AND FUND EQUITY							
Liabilities:							
Deferred revenue:							
Succeeding year property tax	\$ 450,000	79,340	0	0	529,340	826,165	1,355,505
	450,000	79,340	0	0	529,340	826,165	1,355,505
Fund equity:							
Fund balances:							
Reserved:							
Debt Service	0	0	0	0	0	72,954	72,954
Unreserved:							
Undesignated	(77,314)	23,024	58,187	2,361	6,258	0	6,258
Total fund balances	(77,314)	23,024	58,187	2,361	6,258	72,954	79,212
TOTAL LIABILITIES AND FUND EQUITY	\$ 372,686	102,364	58,187	2,361	535,598	899,119	1,434,717

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue						Total Nonmajor Governmental Funds
	Manage- ment	Physical Plant and Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 425,918	296,761	0	0	722,679	832,140	1,554,819
Other	0	61,262	514,224	301	575,787	1,614	577,401
State sources	0	1,035	0	0	1,035	0	1,035
Federal sources	0	68,346	0	0	68,346	0	68,346
TOTAL REVENUES	425,918	427,404	514,224	301	1,367,847	833,754	2,201,601
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	16,710	0	0	0	16,710	0	16,710
Other instruction	0	0	534,653	1,195	535,848	0	535,848
	16,710	0	534,653	1,195	552,558	0	552,558
Support services:							
Student support services	502	0	0	0	502	0	502
Instructional support services	312,475	0	0	0	312,475	0	312,475
Administration services	67,249	0	0	0	67,249	0	67,249
Operation and maintenance of plant services	121,856	0	0	0	121,856	0	121,856
Transportation services	29,415	19,137	0	0	48,552	0	48,552
Central support services	1,250	0	0	0	1,250	0	1,250
	532,747	19,137	0	0	551,884	0	551,884
Non-instructional:							
Food service	3,500	0	0	0	3,500	0	3,500
Other expenditures:							
Facility acquisition	0	496,057	0	0	496,057	0	496,057
Long-term debt:							
Principle	0	0	0	0	0	540,000	540,000
Interest and fiscal charges	0	0	0	0	0	291,003	291,003
	0	496,057	0	0	496,057	831,003	1,327,060
TOTAL EXPENDITURES	552,957	515,194	534,653	1,195	1,603,999	831,003	2,435,002
Excess (deficiency) over (under) expenditures	(127,039)	(87,790)	(20,429)	(894)	(236,152)	2,751	(233,401)
Fund balance beginning of year	49,725	110,814	78,616	3,255	242,410	70,203	312,613
Fund balance end of year	\$ (77,314)	23,024	58,187	2,361	6,258	72,954	79,212

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Boys basketball	\$ 33,279	7,848	7,767	33,360
Football	49,679	24,886	16,925	57,640
Boys soccer	4,233	2,185	4,045	2,373
Baseball	(39,881)	4,467	9,718	(45,132)
Boys track	(10,522)	3,581	3,557	(10,498)
Boys cross country	(7,470)	260	2,200	(9,410)
Boys tennis	(3,879)	287	769	(4,361)
Boys golf	(7,870)	268	1,199	(8,801)
Wrestling	(10,166)	3,302	3,831	(10,695)
Girls basketball	14,906	6,706	3,283	18,329
Volleyball	(3,097)	3,043	2,673	(2,727)
Girls soccer	(4,060)	1,745	2,896	(5,211)
Softball	(22,896)	3,191	6,792	(26,497)
Girls track	(14,200)	1,884	3,072	(15,388)
Girls cross country	(5,655)	305	1,005	(6,355)
Girls tennis	(3,519)	400	447	(3,566)
Girls golf	(7,159)	1,200	1,714	(7,673)
State tournament savings	13	2,321	2,049	285
HS general athletics	(98,785)	5,445	4,223	(97,563)
Drill team	(7,569)	0	917	(8,486)
Cheerleading	(5,186)	0	392	(5,578)
Pepsi pop fund	6,041	12,480	11,157	7,364
Ms baseball club	192	0	0	192
Panther basketball	2,039	4,511	6,072	478
HS cheerleaders	359	8,297	8,087	569
Drill team	5,405	25,938	30,253	1,090
Baseball club	5,297	17,151	10,874	11,574
Pantherette girls	1,373	1,697	2,351	719
Girls softball parents	5,785	8,266	6,407	7,644
Lift a thon	1,437	9,445	9,328	1,554
Panther club	3,685	3,684	3,290	4,079
Pantherette soccer	(2,845)	2,882	0	37
Volleyball club	939	1,125	1,582	482
Panther soccer	0	400	0	400
Construction trade	37,941	0	182	37,759
Farm account	6,835	0	6,045	790
FFA account	9,534	46,509	48,281	7,762
FCCLA account	2,235	4,959	4,323	2,871
HS band	3	2,113	1,809	307
HS vocal	11,917	27,127	33,786	5,258
HS science club	6,110	12,263	13,225	5,148
HS art club	23	0	23	0
HS camera club	1,984	13,826	12,962	2,848
HS drama club	0	4,445	3,955	490
MS band	(131)	145	0	14
MS vocal	15,125	4,177	2,202	17,100
MS advisory	23,550	21,569	19,568	25,551
Middle beta club	922	234	372	784
Freshman class	50	40	50	40
Sophomore class	98	0	48	50
Junior class	2,073	20,991	19,315	3,749
Senior class	683	33	0	716
Middle book fair	1,198	4,534	3,531	2,201
Team nutrition	0	3,042	631	2,411
International club	768	243	234	777
Miscellaneous general library	72	0	0	72

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Student senate	805	1,866	2,274	397
Student council	2,500	0	0	2,500
Interest	2,814	509	661	2,662
K-fund yearbook	9,101	20,694	25,431	4,364
School nurse	213	0	0	213
Auditorium project savings	5,379	3	0	5,382
Collins fund	3,120	271	1,192	2,199
HS activity tickets	0	9,200	9,200	0
HS resale	2,587	9,005	8,905	2,687
HS student teacher	2,104	612	87	2,629
Panther club scholarship fund	11,565	0	939	10,626
Student senate scholarship fund	1,695	8	0	1,703
MS activity tickets	0	5,280	5,280	0
Middle resale	2,908	7,006	4,551	5,363
Middle student teachers	410	628	161	877
Middle music resale	52	779	831	0
6th grade resale	835	0	237	598
7th grade resale	4,237	3,570	3,942	3,865
8th grade resale	577	0	16	561
Middle annual/yearbook	2,839	5,520	5,662	2,697
Goal activity	1,785	994	1,155	1,624
HS Pepsi pop fund	14,493	41,140	38,529	17,104
FCCLA CD	1,240	23	0	1,263
HS athletics savings	3,690	0	2,027	1,663
West activity tickets	0	140	140	0
West resale	2,522	4,051	4,498	2,075
West student teachers	1,327	1,170	1,359	1,138
West book fair	3,477	7,902	9,736	1,643
West K-2 snacks	1,936	2,062	3,349	649
West student council	4,277	3,161	4,491	2,947
Northstar activity tickets	0	930	930	0
Northstar resale	8,534	12,881	13,883	7,532
Northstar student teachers	560	610	300	870
Northstar book fair	5,885	11,576	11,712	5,749
Northstar birthday book account	78	0	0	78
Northstar student council	244	407	386	265
East elementary activity tickets	0	400	400	0
East resale	0	114	114	0
East student teachers	0	700	700	0
Easat book fair	1,810	8,912	7,918	2,804
East doughnut resale	818	5,636	6,117	337
MS boys basketball	8,390	2,054	2,868	7,576
MS football	(12,086)	2,067	6,140	(16,159)
MS baseball	(7,061)	168	3,421	(10,314)
MS boys track	(4,448)	1,032	915	(4,331)
MS wrestling	(2,588)	774	314	(2,128)
MS girls basketball	2,455	1,822	2,149	2,128
MS volleyball	3,128	1,960	715	4,373
MS softball	(5,378)	60	1,958	(7,276)
MS girls track	1,480	982	1,001	1,461
MS general athletics	(12,586)	95	(1,358)	(11,133)
Total	\$ 78,616	514,224	534,653	58,187

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
 JUNE 30, 2004

	Locke Memorial	Tunie Memorial	Cox Scholarship	Norton Scholarship	Total
ASSETS					
Cash and pooled investments	\$ 576	579	601	605	2,361
TOTAL ASSETS	\$ 576	579	601	605	2,361
FUND EQUITY					
Fund Equity:					
Fund balances:					
Unreserved, undesignated	\$ 576	579	601	605	2,361

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2004

	Locke Memorial	Tunie Memorial	Cox Scholarship	Norton Scholarship	Total
REVENUES:					
Local sources:					
Interest on investments	\$ 1	0	0	0	1
Contributions and donations	0	0	300	0	300
TOTAL REVENUES	1	0	300	0	301
EXPENDITURES:					
Operation of non-instructional programs:					
Scholarships	600	0	0	595	1,195
TOTAL EXPENDITURES	600	0	0	595	1,195
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(599)	0	300	(595)	(894)
FUND BALANCE BEGINNING OF YEAR	1,175	579	301	1,200	3,255
FUND BALANCE END OF YEAR	\$ 576	579	601	605	2,361

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 INTERNAL SERVICE FUND
 JUNE 30, 2004

	Self-funded Health Insurance	Self-funded Dental Insurance	Self-funded Accidental Insurance	Total
ASSETS:				
Cash and pooled investments	\$ (3,544)	17,144	(37,576)	(23,976)
Receivables:				
Interfund	0	0	37,576	37,576
TOTAL ASSETS	(3,544)	17,144	0	13,600
LIABILITIES:				
Interfund payable	0	30,500	0	30,500
Incurred but not reported claims	28,447	0	0	28,447
TOTAL LIABILITIES	28,447	30,500	0	58,947
NET ASSETS	\$ (31,991)	(13,356)	0	(45,347)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 INTERNAL SERVICE FUND
 YEAR ENDED JUNE 30, 2004

	Self-funded Health Insurance	Self-funded Dental Insurance	Total
OPERATING REVENUES:			
Local sources:			
Employee contributions	\$ 1,564,600	107,489	1,672,089
TOTAL OPERATING REVENUE	1,564,600	107,489	1,672,089
OPERATING EXPENDITURES			
Non-instructional:			
Benefits	1,560,419	135,143	1,695,562
TOTAL OPERATING EXPENDITURES	1,560,419	135,143	1,695,562
NET INCOME (LOSS)	4,181	(27,654)	(23,473)
NET ASSETS BEGINNING OF YEAR	(36,172)	14,298	(21,874)
NET ASSETS END OF YEAR	\$ (31,991)	(13,356)	(45,347)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 5,406,638	4,913,053	4,835,920	4,772,508
Tuition	384,825	381,387	361,980	329,652
Other	684,887	699,016	721,930	801,575
Intermediate sources	300	1,000	0	0
State sources	8,566,918	8,786,235	8,453,282	8,368,970
Federal sources	525,896	435,357	339,941	423,092
Total	\$ 15,569,464	15,216,048	14,713,053	14,695,797
Expenditures:				
Instruction:				
Regular instruction	\$ 5,618,174	5,589,416	5,192,544	5,324,125
Special instruction	2,000,372	1,901,912	1,853,914	1,518,227
Other instruction	1,201,591	1,226,426	1,308,972	1,152,825
Support services:				
Student services	679,614	699,172	730,852	683,615
Instructional staff services	673,089	632,391	674,561	531,408
Administration services	1,529,732	1,539,928	1,428,344	1,434,740
Operation and maintenance of plant services	1,395,117	1,369,916	1,338,341	1,297,707
Transportation services	427,597	452,659	547,922	488,721
Central support services	73,529	93,511	100,378	165,474
Non-instructional:				
Food service	3,500	6,080	8,139	12,154
Community service and education operations	3,884	0	0	0
Other expenditures:				
Facilities acquisitions	496,057	187,865	143,766	215,113
Long Term Debt:				
Principal	540,000	505,000	475,000	460,000
Interest	291,003	325,532	350,943	378,613
AEA flow-through	546,076	585,932	580,772	588,579
Total	\$ 15,479,335	15,115,740	14,734,448	14,251,301

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ 33,341
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	40,278
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	199,637
			<u>239,915</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3375-G	210,996
MIGRANT EDUCATION - BASIC STATE GRANTS			
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.298	FY 03	4,875
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 04	10,030
			<u>14,905</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 03	2,953
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	3,884
			<u>6,837</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 04	76,800
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES			
	84.369	FY 04	12,300
ENHANCING EDUCATION THROUGH TECHNOLOGY			
	84.318	FY 04	836
FUND FOR THE IMPROVEMENT OF EDUCATION			
	84.215	FY 04	68,346
IOWA PUBLIC TELEVISION:			
STAR SCHOOLS	84.203	FY 04	2,542

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC			
GRANTS TO STATES	84.048	FY 04	22,145
SPECIAL EDUCATION - GRANTS TO STATES(SUCCESS 4)			
	84.027	FY 03	960
SPECIAL EDUCATION - GRANTS TO STATES(SUCCESS 4)			
	84.027	FY 04	1,419
			2,379
SPECIAL EDUCATION - GRANTS TO STATES(PART B)			
	84.027	FY 04	77,472
DEPARTMENT OF HUMAN SERVICES:			
LEARN AND SERVE AMERICA - SCHOOL AND COMMUNITY BASED PROGRAMS (COMSERVE)			
	94.004	FY 04	1,713
TOTAL			\$ 770,527

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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

To the Board of Education of the
Knoxville Community School District:

We have audited the financial statements of Knoxville Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 13, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for IV-K-04.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Knoxville Community School District 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.


NOLTE, CORNMAN & JOHNSON, P.C.

September 13, 2004

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

To the Board of Education of
Knoxville Community School District

Compliance

We have audited the compliance of Knoxville Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Knoxville Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Knoxville Community School District's management. Our responsibility is to express an opinion on Knoxville Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Knoxville Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Knoxville Community School District's compliance with those requirements.

In our opinion, Knoxville Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

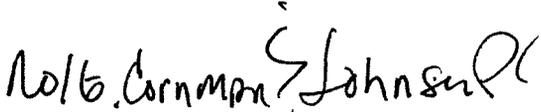
We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Knoxville Community School District's ability to administer a major

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federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulation, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weaknesses.

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


NOLTE, CORNMAN & JOHNSON, P.C.

September 13, 2004

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are considered a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, none of which are considered a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Knoxville Community School District did not qualify as a low-risk auditee.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - We will comply.

Conclusion - Response accepted.

II-B-04 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

Recommendation - Interest should be allocated out at year-end to various accounts.

Response - We will make the necessary changes.

Conclusion - Response accepted.

II-C-04 Student Activity Fund - We noted during our audit that the Student Activity fund included a library account and resale accounts.

Recommendation - The receipts and expenditures made from this account appear to be more appropriately accounted for in the General fund. The District should review the transactions in this account and make the necessary transfers.

Response - The library account is a fundraising account run by the students for library materials. The resale accounts are run by the student council as a revenue generating activity.

Conclusion - Response acknowledged. If fundraisers are held, the purpose of the proceeds should be considered, to determine which fund it should be placed. If fundraisers are held for library materials, the proceeds should be receipted into the General Fund. Library materials should be purchased by the General Fund.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2004
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Numbers: 3357-G
Federal Award Year: 2004
U.S. Department of Education
Passed Through the Iowa Department of Education

III-A-04 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - We will comply.

Conclusion - Response accepted.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

- IV-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.
- IV-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-E-04 Business Transactions - No business transactions between the District and District officials were noted.
- IV-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.
- Recommendation - The District should contact the appropriate bank and rectify the situation.
- Response - We contacted the appropriate bank in order to receive the proper interest rate.
- Conclusion - Response accepted.
- IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- IV-K-04 Financial Condition - During our audit we noted that the District had negative account balances in the Student Activity Fund. We also noted a deficit balance of \$77,314 in the Special Revenue- Management fund, a deficit balance of \$31,991 in the Internal Service Fund - Self-funded Health Insurance, and a deficit balance of \$13,356 in the Internal Service Fund - Self-funded Dental Insurance.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - We will monitor these funds and investigate any available options to eliminate this deficit.

Conclusion- Response accepted