

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

JUNE 30, 2005

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Knoxville Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 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

Board of Education
(After September 2004 Election)

Scott Chambers	President	2005
Dennis Goad	Vice President	2005
Mike Husted	Board Member	2006
Mike Helle	Board Member	2007
Jeff Wallace	Board Member	2007

School Officials

Dr. Randy Flack	Superintendent	2005
Sue Kauzlarich	District Secretary	2005
Craig Mobley	District Treasurer and Business Manager	2005
Ed Bittle	Attorney	2005

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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, the business-type activities, each major fund, and the aggregate remaining fund information of the Knoxville Community School District, Knoxville, Iowa as of and for the year ended June 30, 2005, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Knoxville Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, 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 August 25, 2005 on our consideration of Knoxville Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of these reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 38 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 25, 2005

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$13,367,863 in fiscal 2004 to \$14,344,876 in fiscal 2005, while General Fund expenditures increased from \$13,044,333 in fiscal 2004 to \$14,052,980 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$2,077,650 in fiscal 2004 to a balance of \$2,369,546 in fiscal 2005, a 14% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local, state and federal sources in fiscal 2005. The increase in expenditures was due primarily to an increase in instruction and support services functional areas.

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 District government.

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.

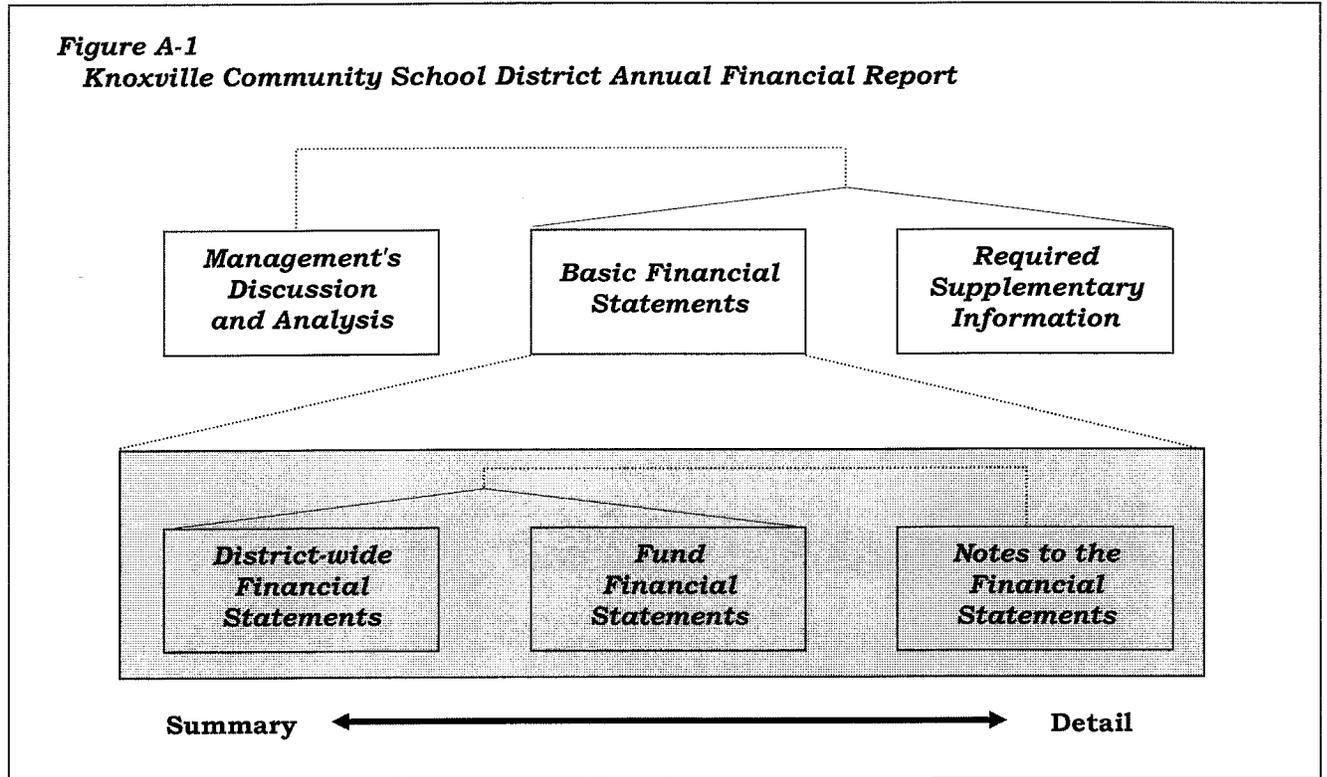


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, Debt Service Fund, Capital Projects Fund and the Internal Service Funds.

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, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 9,557,417	10,811,962	324,956	302,061	9,882,373	11,114,023	-11.08%
Capital assets	9,142,518	8,931,384	66,119	9,337	9,208,637	8,940,721	3.00%
Total assets	18,699,935	19,743,346	391,075	311,398	19,091,010	20,054,744	-4.81%
Long-term obligations	7,090,323	7,854,415	22,956	0	7,113,279	7,854,415	-9.44%
Other liabilities	6,725,771	8,407,697	61,899	64,181	6,787,670	8,471,878	-19.88%
Total liabilities	13,816,094	16,262,112	84,855	64,181	13,900,949	16,326,293	-14.86%
Net assets:							
Invested in capital assets, net of related debt	3,644,583	2,862,574	66,119	9,337	3,710,702	2,871,911	29.21%
Restricted	387,101	235,333	0	0	387,101	235,333	64.49%
Unrestricted	852,157	383,327	240,101	237,880	1,092,258	621,207	75.83%
Total net assets	\$ 4,883,841	3,481,234	306,220	247,217	5,190,061	3,728,451	39.20%

The District's combined net assets increased by 39.2%, or \$1,461,610, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$151,768, or 64.49% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$471,051, or 75.83%. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 1,081,120	1,045,397	463,252	456,696	1,544,372	1,502,093	2.81%
Operating grants and contributions and restricted interest	1,647,524	1,511,144	293,019	281,635	1,940,543	1,792,779	8.24%
Capital grants and contributions and restricted interest	0	69,381	0	0	0	69,381	-100.00%
General revenues:							
Property tax	5,323,536	5,406,638	0	0	5,323,536	5,406,638	-1.54%
Local option sales and services tax	952,187	0	0	0	952,187	0	100.00%
Unrestricted state grants	8,145,863	7,512,289	0	0	8,145,863	7,512,289	8.43%
Other	87,389	24,691	2,062	0	89,451	24,691	262.28%
Total revenues	17,237,619	15,569,540	758,333	738,331	17,995,952	16,307,871	10.35%
Program expenses:							
Governmental activities:							
Instructional	9,537,565	9,131,689	0	0	9,537,565	9,131,689	4.44%
Support services	4,940,895	4,834,044	0	0	4,940,895	4,834,044	2.21%
Non-instructional programs	(5,240)	0	699,330	672,581	694,090	672,581	3.20%
Other expenses	1,361,792	1,106,604	0	0	1,361,792	1,106,604	23.06%
Total expenses	15,835,012	15,072,337	699,330	672,581	16,534,342	15,744,918	5.01%
Changes in net assets	1,402,607	497,203	59,003	65,750	1,461,610	562,953	159.63%
Beginning net assets	3,481,234	2,984,031	247,217	181,467	3,728,451	3,165,498	17.78%
Ending net assets	\$ 4,883,841	3,481,234	306,220	247,217	5,190,061	3,728,451	39.20%

Property tax and unrestricted state grants account for 75% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will ever be fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs.

Governmental Activities

Revenues for governmental activities were \$17,237,619 and expenses were \$15,835,012. 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, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 9,537,565	7,382,060
Support services	4,940,895	4,933,991
Non-instructional programs	(5,240)	(5,240)
Other expenses	1,361,792	795,557
Totals	<u>\$ 15,835,012</u>	<u>13,106,368</u>

- The cost financed by users of the District's programs was \$1,081,120.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,647,524.
- The net cost of governmental activities was financed with \$5,323,536 in property tax, \$952,187 in local option sales and services tax, \$8,145,863 in state foundation aid and \$87,389 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$758,333 and expenses were \$699,330. 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 \$2,543,614, above last year's ending fund balance of \$2,156,862. The primary reason for the increase in combined fund balance in fiscal 2005 is due to the local option sales and services tax monies.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors:
 - The increase in revenues during fiscal year 2005 helped to increase the General Fund financial position.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$247,217 at June 30, 2004 to \$306,220 at June 30, 2005, representing an increase of 24%. For fiscal 2005, the District had an increase in revenues of \$20,002.

BUDGETARY HIGHLIGHTS

The District's revenues were \$307,479 less than budgeted revenues, a variance of 1.7%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$9,208,637, 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 2.91% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$599,758.

The original cost of the District's capital assets was \$16,268,374. Governmental funds account for \$15,843,587 with the remainder of \$424,787 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$195,650 at June 30, 2005, compared to \$0 reported at June 30, 2004. This increase resulted from the construction project being started.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 63,966	63,966	0	0	63,966	63,966	0.00%
Construction in progress	195,650	0	0	0	195,650	0	100.00%
Buildings	8,321,630	8,208,525	0	0	8,321,630	8,208,525	1.36%
Machinery and equipment	561,272	658,893	66,119	9,337	627,391	668,230	-6.51%
Total	\$ 9,142,518	8,931,384	66,119	9,337	9,208,637	8,940,721	2.91%

Long-Term Debt

At June 30, 2005, the District had \$7,090,323 in general obligation and other long-term debt outstanding. This represents a decrease of 9.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding general obligation bonds of \$5,555,000 at June 30, 2005.

The District had total outstanding Early Retirement payable of \$1,535,323 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 5,555,000	6,120,000	-9.2%
Early Retirement	1,535,323	1,734,415	-11.5%
Totals	<u>\$ 7,090,323</u>	<u>7,854,415</u>	<u>-9.7%</u>

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, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 5)	\$ 369	0	369
Other	3,754,097	305,364	4,059,461
Receivables:			
Property tax:			
Delinquent	111,222	0	111,222
Succeeding year	5,049,444	0	5,049,444
Income surtax	319,218	0	319,218
Accounts	4,439	1,347	5,786
Due from other governments	318,628	0	318,628
Inventories	0	18,245	18,245
Capital assets, net of accumulated depreciation(Note 6)	9,142,518	66,119	9,208,637
TOTAL ASSETS	18,699,935	391,075	19,091,010
LIABILITIES			
Excess of warrants issued over bank balance	157,791	0	157,791
Accounts payable	87,823	276	88,099
Salaries and benefits payable	1,411,362	51,783	1,463,145
Accrued interest payable	19,351	0	19,351
Deferred revenue:			
Succeeding year property tax	5,049,444	0	5,049,444
Other	0	9,840	9,840
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds payable	600,000	0	600,000
Early retirement payable	353,030	0	353,030
Truck lease payable(Note 9)	0	7,389	7,389
Portion due after one year:			
General obligation bonds payable	4,955,000	0	4,955,000
Early retirement payable	1,182,293	0	1,182,293
Truck lease payable(Note 9)	0	15,567	15,567
TOTAL LIABILITIES	13,816,094	84,855	13,900,949
NET ASSETS			
Investment in capital assets, net of related debt	3,644,583	66,119	3,710,702
Restricted for:			
Talented and gifted	138,923	0	138,923
Salary improvement program	2,883	0	2,883
Capital projects	208,242	0	208,242
Physical plant and equipment levy	4,321	0	4,321
Other special revenue purposes	32,732	0	32,732
Unrestricted	852,157	240,101	1,092,258
TOTAL NET ASSETS	\$ 4,883,841	306,220	5,190,061

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 5,930,113	1,035,756	973,857
Special instruction	2,292,840	44,401	101,491
Other instruction	1,314,612	0	0
	<u>9,537,565</u>	<u>1,080,157</u>	<u>1,075,348</u>
Support services:			
Student services	671,029	0	0
Instructional staff services	821,959	0	0
Administration services	1,642,036	0	0
Operation and maintenance of plant services	1,361,674	0	0
Transportation services	442,447	963	5,941
Other support services	1,750	0	0
	<u>4,940,895</u>	<u>963</u>	<u>5,941</u>
Non-instructional programs:			
Food service operations	(5,240)	0	0
Other expenditures:			
Facilities and acquisitions	267,105	0	0
Long-term debt interest	259,352	0	0
AEA flowthrough	566,235	0	566,235
Depreciation(unallocated)*	269,100	0	0
	<u>1,361,792</u>	<u>0</u>	<u>566,235</u>
Total governmental activities	15,835,012	1,081,120	1,647,524
Business-Type activities:			
Non-instructional programs:			
Nutrition services	699,330	463,252	293,019
Total business-type activities	<u>699,330</u>	<u>463,252</u>	<u>293,019</u>
Total	<u>\$ 16,534,342</u>	<u>1,544,372</u>	<u>1,940,543</u>

General Revenues:

Local tax for:
 General purposes
 Debt Service
 Capital outlay
 Local option sales and services tax
 Unrestricted state grants
 Unrestricted investment earnings

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
(3,920,500)	0	(3,920,500)
(2,146,948)	0	(2,146,948)
(1,314,612)	0	(1,314,612)
<u>(7,382,060)</u>	<u>0</u>	<u>(7,382,060)</u>
(671,029)	0	(671,029)
(821,959)	0	(821,959)
(1,642,036)	0	(1,642,036)
(1,361,674)	0	(1,361,674)
(435,543)	0	(435,543)
(1,750)	0	(1,750)
<u>(4,933,991)</u>	<u>0</u>	<u>(4,933,991)</u>
5,240	0	5,240
(267,105)	0	(267,105)
(259,352)	0	(259,352)
0	0	0
(269,100)	0	(269,100)
<u>(795,557)</u>	<u>0</u>	<u>(795,557)</u>
(13,106,368)	0	(13,106,368)
0	56,941	56,941
0	56,941	56,941
<u>(13,106,368)</u>	<u>56,941</u>	<u>(13,049,427)</u>
\$ 4,416,794	0	4,416,794
827,292	0	827,292
79,450	0	79,450
952,187	0	952,187
8,145,863	0	8,145,863
87,389	2,062	89,451
<u>14,508,975</u>	<u>2,062</u>	<u>14,511,037</u>
1,402,607	59,003	1,461,610
<u>3,481,234</u>	<u>247,217</u>	<u>3,728,451</u>
<u>\$ 4,883,841</u>	<u>306,220</u>	<u>5,190,061</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments			
ISCAP (Note 5)	\$ 369	0	369
Other	3,614,896	120,536	3,735,432
Receivables:			
Property tax:			
Delinquent	81,471	29,751	111,222
Succeeding year	3,673,794	1,375,650	5,049,444
Income surtax	319,218	0	319,218
Interfund	30,500	0	30,500
Accounts	1,880	2,559	4,439
Due from other governments	78,786	239,842	318,628
TOTAL ASSETS	\$ 7,800,914	1,768,338	9,569,252
LIABILITIES AND FUND BALANCES			
Liabilities:			
Excess of warrants issued over bank balance	\$ 0	157,791	157,791
Accounts payable	26,994	60,829	87,823
Salaries and benefits payable	1,411,362	0	1,411,362
Deferred revenue:			
Succeeding year property tax	3,673,794	1,375,650	5,049,444
Income surtax	319,218	0	319,218
Total liabilities	5,431,368	1,594,270	7,025,638
Fund balances:			
Reserved for:			
Talented and gifted	138,923	0	138,923
Salary improvement program	2,883	0	2,883
Debt service	0	76,416	76,416
Unreserved:			
General	2,227,740	0	2,227,740
Management	0	(147,643)	(147,643)
Capital Projects	0	208,242	208,242
Physical plant and equipment levy	0	4,321	4,321
Other special revenue purposes	0	32,732	32,732
Total fund balances	2,369,546	174,068	2,543,614
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,800,914	1,768,338	9,569,252

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2005

Total fund balances of governmental funds (page 17)	\$	2,543,614
 <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 reported as assets in the governmental funds.		9,142,518
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		(11,835)
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		319,218
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(19,351)
Long-term liabilities, including early retirement and general obligation bonds are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(7,090,323)</u>
Net assets of governmental activities (page 14)	\$	<u><u>4,883,841</u></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, 2005

	Other Nonmajor Governmental		Total
	General	Funds	
REVENUES:			
Local sources:			
Local tax	\$ 3,961,448	2,309,571	6,271,019
Tuition	412,584	0	412,584
Other	177,457	578,468	755,925
State sources	9,266,712	0	9,266,712
Federal sources	526,675	0	526,675
Total revenues	<u>14,344,876</u>	<u>2,888,039</u>	<u>17,232,915</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	5,809,274	50,636	5,859,910
Special instruction	2,310,021	0	2,310,021
Other instruction	716,144	598,468	1,314,612
	<u>8,835,439</u>	<u>649,104</u>	<u>9,484,543</u>
Support services:			
Student services	688,674	0	688,674
Instructional staff services	464,943	357,016	821,959
Administration services	1,623,983	59,857	1,683,840
Operation and maintenance of plant services	1,345,758	30,133	1,375,891
Transportation services	518,572	22,998	541,570
Other support services	0	1,750	1,750
	<u>4,641,930</u>	<u>471,754</u>	<u>5,113,684</u>
Non-instructional programs	9,376	600	9,976
Other expenditures:			
Facilities acquisitions	0	844,960	844,960
Long-term debt:			
Principal	0	565,000	565,000
Interest and fiscal charges	0	261,765	261,765
AEA flowthrough	566,235	0	566,235
	<u>566,235</u>	<u>1,671,725</u>	<u>2,237,960</u>
Total expenditures	<u>14,052,980</u>	<u>2,793,183</u>	<u>16,846,163</u>
Excess(deficiency) of revenues over(under) expenditures	291,896	94,856	386,752
Other financing sources(uses):			
Operating transfers in	0	345,000	345,000
Operating transfers out	0	(345,000)	(345,000)
Total other financing sources	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balances	291,896	94,856	386,752
Fund balance beginning of year	<u>2,077,650</u>	<u>79,212</u>	<u>2,156,862</u>
Fund balance end of year	<u>\$ 2,369,546</u>	<u>174,068</u>	<u>2,543,614</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
 JUNE 30, 2005

Net change in fund balances - total governmental funds (page 19)	\$	386,752
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 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 and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	\$ 790,496	
Depreciation expense	<u>(579,362)</u>	211,134
 Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.		
		33,512
 Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		
		565,000
 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.		
		2,413
 Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		
		4,704
 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 funds.		
Early retirement		<u>199,092</u>
 Changes in net assets of governmental activities (page 16)	 \$	 <u><u>1,402,607</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	Business-Type	
	Enterprise:	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service Fund
ASSETS		
Cash and pooled investments	\$ 305,364	18,665
Accounts receivable	1,347	
Inventories	18,245	0
Capital assets, net of accumulated depreciation (Note 6)	66,119	0
TOTAL ASSETS	391,075	18,665
LIABILITIES		
Interfund payable	0	30,500
Accounts payable	276	0
Salaries and benefits payable	51,783	0
Truck lease payable	22,956	0
Deferred revenue:		
Other	9,840	0
TOTAL LIABILITIES	84,855	30,500
NET ASSETS		
Investment in capital assets, net of related debt	66,119	0
Unrestricted	240,101	(11,835)
TOTAL NET ASSETS	\$ 306,220	(11,835)

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	Business-Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 463,252	2,128,743
TOTAL OPERATING REVENUES	<u>463,252</u>	<u>2,128,743</u>
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	234,555	0
Benefits	92,195	0
Services	10,183	2,095,231
Supplies	342,001	0
Depreciation	20,396	0
TOTAL OPERATING EXPENSES	<u>699,330</u>	<u>2,095,231</u>
OPERATING INCOME (LOSS)	<u>(236,078)</u>	<u>33,512</u>
NON-OPERATING REVENUES:		
State sources	8,461	0
Federal sources	284,558	0
Interest on investments	2,062	0
TOTAL NON-OPERATING REVENUES	<u>295,081</u>	<u>0</u>
Change in net assets	59,003	33,512
Net assets beginning of year	<u>247,217</u>	<u>(45,347)</u>
Net assets end of year	<u>\$ 306,220</u>	<u>(11,835)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 457,055	0
Cash received from miscellaneous	4,808	2,128,743
Cash payments to employees for services	(326,019)	(2,123,678)
Cash payments to suppliers for goods or services	(313,660)	0
Net cash provided by (used in) operating activities	<u>(177,816)</u>	<u>5,065</u>
Cash flows from non-capital financing activities:		
State grants received	8,461	0
Federal grants received	247,577	0
Net cash provided by non-capital financing activities	<u>256,038</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Capital lease proceeds	22,956	0
Interfund loan collection	0	37,576
Purchase of capital assets	(77,178)	0
Net cash provided by (used in) capital and related financing activities	<u>(54,222)</u>	<u>37,576</u>
Cash flows from investing activities:		
Interest on investments	2,062	0
Net cash provided by investing activities	<u>2,062</u>	<u>0</u>
Net increase in cash and cash equivalents	26,062	42,641
Cash and cash equivalents at beginning of year	279,302	(23,976)
Cash and cash equivalents at end of year	<u>\$ 305,364</u>	<u>18,665</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating gain (loss)	\$ (236,078)	33,512
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	36,981	0
Depreciation	20,396	0
Decrease in inventories	1,267	0
Decrease in incurred but not reported claims	0	(28,447)
Decrease in accounts receivable	1,900	0
Increase in accounts payable	276	0
Increase in salaries and benefits payable	731	0
Decrease in deferred revenue	(3,289)	0
Net cash provided by (used in) operating activities	<u>\$ (177,816)</u>	<u>5,065</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	<u>\$ 305,364</u>	<u>18,665</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
During the year ended June 30, 2005, the District received Federal commodities valued at \$36,981.		

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

(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 County. 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 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's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The Nutrition fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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, furniture, 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
Land improvements	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 Lives (In Years)
Buildings	50 years
Land improvements	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.

(2) **Cash and Pooled Investments**

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

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

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 3,727,868</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) **Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Internal Service	<u>\$ 30,500</u>

(4) Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
PPEL	Capital Projects	<u>\$ 345,000</u>

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

(5) 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. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A			<u>\$ 369</u>	0	0	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. There was no advance activity during the year ended June 30, 2005.

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%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2005 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
Construction in progress	0	195,650	0	195,650
Total capital assets not being depreciated	<u>63,966</u>	<u>195,650</u>	<u>0</u>	<u>259,616</u>
Capital assets being depreciated:				
Buildings	12,484,011	382,205	0	12,866,216
Machinery and equipment	2,505,114	212,641	0	2,717,755
Total capital assets being depreciated	<u>14,989,125</u>	<u>594,846</u>	<u>0</u>	<u>15,583,971</u>
Less accumulated depreciation for:				
Buildings	4,275,486	269,100	0	4,544,586
Machinery and equipment	1,846,221	310,262	0	2,156,483
Total accumulated depreciation	<u>6,121,707</u>	<u>579,362</u>	<u>0</u>	<u>6,701,069</u>
Total capital assets being depreciated, net	<u>8,867,418</u>	<u>15,484</u>	<u>0</u>	<u>8,882,902</u>
Governmental activities capital assets, net	<u>\$ 8,931,384</u>	<u>211,134</u>	<u>0</u>	<u>9,142,518</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 347,609	77,178	0	424,787
Less accumulated depreciation	338,272	20,396	0	358,668
Business-type activities capital assets, net	<u>\$ 9,337</u>	<u>56,782</u>	<u>0</u>	<u>66,119</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 214,385
Support services:	
Administration	920
Operation and maintenance of plant	3,436
Transportation	91,521
	<u>310,262</u>
Unallocated depreciation	<u>269,100</u>
Total governmental activities depreciation expense	<u>\$ 579,362</u>
Business-type activities:	
Food services	\$ 20,396
Total business-type activities depreciation expense	<u>\$ 20,396</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 6,120,000	0	565,000	5,555,000	600,000
Early Retirement	1,734,415	155,372	354,464	1,535,323	353,030
Total	\$ 7,854,415	155,372	919,464	7,090,323	953,030

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2003			
	Interest Rates	Principal	Interest	Total
2006	3.85	\$ 600,000	\$ 232,213	832,213
2007	3.95	625,000	208,513	833,513
2008	4.05	650,000	183,200	833,200
2009	4.10	680,000	156,550	836,550
2010	4.15	705,000	128,330	833,330
2011	4.20	730,000	98,720	828,720
2012	4.30	765,000	67,695	832,695
2013	4.35	800,000	34,800	834,800
Total		\$ 5,555,000	1,110,021	6,665,021

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 10 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 100 percent of their contracted salary, paid out over a ten year period (exclusive of supplemental pay or extended contract pay.) Early retirement benefits paid during the year ended June 30, 2005, totaled \$354,464. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

(8) 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 issued 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, 2005, \$5,555,000 of such bonds are outstanding. Repayment of principal and interest for the year was \$115,000 and \$392,115.

(9) Capital Lease Payable - Enterprise Fund

The District entered into an agreement for the leasing of equipment. Since the leases meet the criteria for capital leases, the present value of the future lease payments using an imputed interest rate of 5.58% has been reported as a capital lease payable. The following schedule of the future minimum lease payments and the present value of the minimum lease payments under agreements in effect at June 30, 2005.

Year Ending June 30,	2004 Isuzu Truck Payments
2006	\$ 7,389
2007	7,756
2008	8,140
Total minimum lease payments	25,632
Less amount representing interest	2,676
Present value of future lease payments	<u>\$ 22,956</u>

(10) 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 covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$491,931, \$491,312, and \$480,745 respectively, equal to the required contributions for each year.

(11) Risk Management

The District has a self-funded dental insurance plan. Total out of pocket expense per participant is \$1,000. 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 \$11,835 at June 30, 2005.

Knoxville Community School District is exposed to various risks of 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. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from

these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) 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 \$566,235 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(13) Deficit Fund Balance

At June 30, 2005, there was a deficit fund balance in the Management Fund of \$147,643. Also, there was a deficit net assets in the Internal Service Fund of \$11,835.

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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 7,225,179	486,881
Intermediate sources	0	0
State sources	9,263,471	8,461
Federal sources	466,040	284,558
Total revenues	<u>16,954,690</u>	<u>779,900</u>
Disbursements:		
Instruction	9,640,745	0
Support services	4,986,645	0
Non-instructional programs	9,063	753,838
Other expenditures	2,060,181	0
Total expenditures	<u>16,696,634</u>	<u>753,838</u>
Excess(deficiency) of receipts over(under) disbursements	258,056	26,062
Balance beginning of year	<u>3,350,085</u>	<u>279,302</u>
Balance end of year	<u>\$ 3,608,141</u>	<u>305,364</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
7,712,060	7,965,630	7,965,630	(253,570)
0	1,000	1,000	(1,000)
9,271,932	9,340,439	9,340,439	(68,507)
750,598	735,000	735,000	15,598
<u>17,734,590</u>	<u>18,042,069</u>	<u>18,042,069</u>	<u>(307,479)</u>
9,640,745	10,190,208	10,190,208	549,463
4,986,645	5,324,500	5,324,500	337,855
762,901	855,500	855,500	92,599
2,060,181	2,660,007	2,660,007	599,826
<u>17,450,472</u>	<u>19,030,215</u>	<u>19,030,215</u>	<u>1,579,743</u>
284,118	(988,146)	(988,146)	(1,272,264)
3,629,387	3,126,693	3,126,693	502,694
<u>3,913,505</u>	<u>2,138,547</u>	<u>2,138,547</u>	<u>1,774,958</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 16,954,690	278,225	17,232,915
Expenditures	16,696,634	149,529	16,846,163
Net	258,056	128,696	386,752
Other financing sources, net	0	0	0
Beginning fund balances	3,350,085	(1,193,223)	2,156,862
Ending fund balances	\$ 3,608,141	(1,064,527)	2,543,614

	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 779,900	(21,567)	758,333
Expenditures	753,838	(54,508)	699,330
Net	26,062	32,941	59,003
Other financing sources, net	0	0	0
Beginning fund balances	279,302	(32,085)	247,217
Ending fund balances	\$ 305,364	856	306,220

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

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

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.

OTHER SUPPLEMENTAL INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds							Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Capital Projects	Debt Service	
ASSETS								
Cash and pooled investments	\$ 0	28,310	2,603	1,863	32,776	29,229	58,531	120,536
Receivables:								
Property tax:								
Current year delinquent	10,148	0	1,718	0	11,866	0	17,885	29,751
Succeeding year	450,000	0	93,437	0	543,437	0	832,213	1,375,650
Accounts	0	2,559	0	0	2,559	0	0	2,559
Due from other governments	0	0	0	0	0	239,842	0	239,842
TOTAL ASSETS	\$ 460,148	30,869	97,758	1,863	590,638	269,071	908,629	1,768,338
LIABILITIES AND FUND EQUITY								
Liabilities:								
Excess of warrants issued over bank balance	\$ 157,791	0	0	0	157,791	0	0	157,791
Accounts payable	0	0	0	0	0	60,829	0	60,829
Deferred revenue:								
Succeeding year property tax	450,000	0	93,437	0	543,437	0	832,213	1,375,650
	607,791	0	93,437	0	701,228	60,829	832,213	1,594,270
Fund equity:								
Fund balances:								
Reserved for:								
Debt Service	0	0	0	0	0	0	76,416	76,416
Unreserved:								
Undesignated	(147,643)	30,869	4,321	1,863	(110,590)	208,242	0	97,652
Total fund balances	(147,643)	30,869	4,321	1,863	(110,590)	208,242	76,416	174,068
TOTAL LIABILITIES AND FUND EQUITY	\$ 460,148	30,869	97,758	1,863	590,638	269,071	908,629	1,768,338

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, 2005

	Special Revenue Funds				Total Special Revenue Funds	Capital Projects	Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Trust				
REVENUES:								
Local sources:								
Local tax	\$ 450,642	0	79,450	0	530,092	952,187	827,292	2,309,571
Other	1,419	571,150	454	102	573,125	2,408	2,935	578,468
TOTAL REVENUES	452,061	571,150	79,904	102	1,103,217	954,595	830,227	2,888,039
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	50,636	0	0	0	50,636	0	0	50,636
Other instruction	0	598,468	0	0	598,468	0	0	598,468
Support services:								
Instructional staff services	357,016	0	0	0	357,016	0	0	357,016
Administration services	59,857	0	0	0	59,857	0	0	59,857
Operation and maintenance of plant services	30,133	0	0	0	30,133	0	0	30,133
Student transportation	22,998	0	0	0	22,998	0	0	22,998
Other support services	1,750	0	0	0	1,750	0	0	1,750
Non-instructional programs	0	0	0	600	600	0	0	600
Other expenditures:								
Facilities acquisitions	0	0	443,607	0	443,607	401,353	0	844,960
Long-term debt:								
Principal	0	0	0	0	0	0	565,000	565,000
Interest and fiscal charges	0	0	0	0	0	0	261,765	261,765
TOTAL EXPENDITURES	522,390	598,468	443,607	600	1,565,065	401,353	826,765	2,793,183
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(70,329)	(27,318)	(363,703)	(498)	(461,848)	553,242	3,462	94,856
OTHER FINANCING SOURCES (USES):								
Operating transfers in	0	0	345,000	0	345,000	0	0	345,000
Operating transfers out	0	0	0	0	0	(345,000)	0	(345,000)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	345,000	0	345,000	(345,000)	0	0
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(70,329)	(27,318)	(18,703)	(498)	(116,848)	208,242	3,462	94,856
FUND BALANCE BEGINNING OF YEAR	(77,314)	58,187	23,024	2,361	6,258	0	72,954	79,212
FUND BALANCE END OF YEAR	\$ (147,643)	30,869	4,321	1,863	(110,590)	208,242	76,416	174,068

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Boys Basketball	\$ 33,360	10,720	10,331	33,749
Football	57,640	15,964	22,743	50,861
Boys Soccer	2,373	2,209	2,813	1,769
Baseball	(45,132)	3,195	7,837	(49,774)
Boys Track	(10,498)	4,673	3,856	(9,681)
Boys Cross Country	(9,410)	270	1,892	(11,032)
Boys Tennis	(4,361)	235	689	(4,815)
Boys Golf	(8,801)	337	1,111	(9,575)
Wrestling	(10,695)	3,873	3,064	(9,886)
Girls Basketball	18,329	7,352	7,645	18,036
Volleyball	(2,727)	2,847	5,774	(5,654)
Girls Soccer	(5,211)	1,712	2,794	(6,293)
Softball	(26,497)	4,617	4,438	(26,318)
Girls Track	(15,388)	805	4,742	(19,325)
Girls Cross Country	(6,355)	270	1,387	(7,472)
Girls Tennis	(3,566)	256	484	(3,794)
Girls Golf	(7,673)	350	710	(8,033)
State Tournament	285	1,386	1,671	0
HS General Athletics	(97,563)	20,330	29,269	(106,502)
Drill Team	(8,486)	0	780	(9,266)
Cheerleading	(5,578)	0	0	(5,578)
Pepsi Pop Fund	7,364	15,812	14,212	8,964
MS Baseball Club	192	12	0	204
Panther Basketball	478	10,580	9,824	1,234
HS Cheerleaders	569	13,094	11,648	2,015
Drill Team	1,090	15,765	14,033	2,822
Baseball Club	11,574	16,224	17,767	10,031
Pantherette Girls	719	7,536	3,914	4,341
Girls Softball Parents	7,644	11,586	9,900	9,330
Lift A Thon	1,554	10,545	11,355	744
Panther Club	4,079	1,767	3,371	2,475
Pantherette Soccer	37	108	1	144
Volleyball Club	482	4,757	3,931	1,308
Panther Soccer	400	710	537	573
Construction Trades	37,759	0	0	37,759
Industrial Arts	0	173	0	173
Farm Account	790	0	0	790
FFA Account	7,762	42,400	44,858	5,304
FCCLA Account	2,871	5,160	6,289	1,742
HS Band	307	54,417	54,719	5
HS Vocal	5,258	5,599	10,001	856
HS Science Club	5,148	11,118	12,694	3,572
HS Camera Club	2,848	14,156	12,431	4,573
HS Drama Club	490	3,010	3,370	130
MS Band	14	41	16	39
MS Vocal	17,100	8,753	5,633	20,220
Middle Student Advisory	25,551	27,200	38,634	14,117
Middle Beta Club	784	195	290	689
Sophomore Class	50	0	10	40
Freshman Class	40	50	(5)	95
Senior Class	716	0	(438)	1,154
Junior Class	3,749	24,539	25,834	2,454
Middle Book Fair	2,201	3,849	4,426	1,624
Team Nutrition Club	2,411	2,425	3,372	1,464
International Club	777	1,171	1,100	848
Misc. General Library	72	0	0	72
Student Senate	397	3,090	2,826	661
Student Council	2,500	0	0	2,500
Activity Interest	2,662	15	1,120	1,557
K-Fund Yearbook	4,364	21,721	20,580	5,505
School Nurse	213	250	8	455

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Auditorium Project	5,382	6	0	5,388
Collins Fund	2,199	1,145	1,057	2,287
HS Activity Tickets	0	8,540	8,540	0
HS Resale	2,687	4,621	6,367	941
HS Student Teacher	2,629	769	1,174	2,224
Panther Club Scholarship	10,626	53	0	10,679
Student Senate Scholarship	1,703	0	0	1,703
Middle Activity Tickets	0	5,740	5,740	0
Middle Resale	5,363	5,663	5,268	5,758
Middle Student Teachers	877	1,130	429	1,578
Middle Music Resale	0	1,192	1,159	33
6th Grade Resale	598	0	0	598
7th Grade Resale	3,865	3,160	3,008	4,017
8th Grade Resale	561	0	25	536
Middle Annual/Yearbook	2,697	5,505	6,191	2,011
Goal Activity	1,624	924	358	2,190
HS Pepsi Pop Fund	17,104	47,510	42,939	21,675
FCCLA CD	1,263	16	(1)	1,280
HS Athletic Savings	1,663	0	0	1,663
West Activity Tickets	0	60	60	0
West Resale	2,075	1,091	106	3,060
West Student Teachers	1,138	1,491	1	2,628
West Book Fair	1,643	7,603	6,354	2,892
West K-2 Snacks	649	1,972	2,462	159
West Student Council	2,947	1,043	1,407	2,583
Northstar Activity Tickets	0	590	590	0
Northstar Resale	7,532	11,433	7,604	11,361
Northstar Student Teachers	870	490	169	1,191
Northstar Book Fair	5,749	9,567	9,113	6,203
Northstar Birthday Book	78	0	0	78
Northstar Student Council	265	845	613	497
East Elem. Activity Tickets	0	370	370	0
East Resale	0	2,602	2,593	9
East Student Teachers	0	100	100	0
East Book Fair	2,804	9,889	8,244	4,449
East Doughnut Resale	337	6,891	6,272	956
MS Boys Basketball	7,576	1,957	2,134	7,399
MS Football	(16,159)	2,211	2,029	(15,977)
MS Baseball	(10,314)	84	2,469	(12,699)
MS Boys Track	(4,331)	954	(2,879)	(498)
MS Wrestling	(2,128)	655	(975)	(498)
MS Girls Basketball	2,128	1,271	1,305	2,094
MS Volleyball	4,373	1,661	2,609	3,425
MS Softball	(7,276)	0	982	(8,258)
MS Girls Track	1,461	1,027	2,494	(6)
MS General Athletics	(11,133)	90	(2,303)	(8,740)
Total	\$ 58,187	571,150	598,468	30,869

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
 JUNE 30, 2005

	Locke Memorial	Tunie Memorial	Cox Scholarship	Norton Scholarship	Total
ASSETS					
Cash and pooled investments	\$ 577	579	602	105	1,863
TOTAL ASSETS	\$ 577	579	602	105	1,863
FUND EQUITY					
Fund Equity:					
Fund balances:					
Unreserved, undesignated	\$ 577	579	602	105	1,863

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, 2005

	Locke Memorial	Tunie Memorial	Cox Scholarship	Norton Scholarship	Total
REVENUES:					
Local sources:					
Interest on investments	\$ 1	0	1	0	2
Contributions and donations	100	0	0	0	100
TOTAL REVENUES	101	0	1	0	102
EXPENDITURES:					
Operation of non-instructional programs:					
Scholarships	100	0	0	500	600
TOTAL EXPENDITURES	100	0	0	500	600
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1	0	1	(500)	(498)
FUND BALANCE BEGINNING OF YEAR	576	579	601	605	2,361
FUND BALANCE END OF YEAR	\$ 577	579	602	105	1,863

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 INTERNAL SERVICE FUND
 JUNE 30, 2005

	Self-funded Health Insurance	Self-funded Dental Insurance	Total
ASSETS:			
Cash and pooled investments	\$ (18,358)	37,023	18,665
TOTAL ASSETS	(18,358)	37,023	18,665
LIABILITIES:			
Interfund payable	0	30,500	30,500
TOTAL LIABILITIES	0	30,500	30,500
NET ASSETS	\$ (18,358)	6,523	(11,835)

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, 2005

	Self-funded Health Insurance	Self-funded Dental Insurance	Total
OPERATING REVENUES:			
Local sources:			
Employee contributions	\$ 1,965,162	163,581	2,128,743
TOTAL OPERATING REVENUE	<u>1,965,162</u>	<u>163,581</u>	<u>2,128,743</u>
OPERATING EXPENDITURES			
Non-instructional:			
Benefits	1,951,529	143,702	2,095,231
TOTAL OPERATING EXPENDITURES	<u>1,951,529</u>	<u>143,702</u>	<u>2,095,231</u>
NET INCOME	13,633	19,879	33,512
NET ASSETS BEGINNING OF YEAR	<u>(31,991)</u>	<u>(13,356)</u>	<u>(45,347)</u>
NET ASSETS END OF YEAR	<u>\$ (18,358)</u>	<u>6,523</u>	<u>(11,835)</u>

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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 6,271,019	5,406,638	4,913,053	4,835,920
Tuition	412,584	384,825	381,387	361,980
Other	755,925	684,887	699,016	721,930
Intermediate sources	0	300	1,000	0
State sources	9,266,712	8,566,918	8,786,235	8,453,282
Federal sources	526,675	525,896	435,357	339,941
Total	\$ 17,232,915	15,569,464	15,216,048	14,713,053
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 5,859,910	5,618,174	5,589,416	5,192,544
Special instruction	2,310,021	2,000,372	1,901,912	1,853,914
Other instruction	1,314,612	1,201,591	1,226,426	1,308,972
Support services:				
Student services	688,674	679,614	699,172	730,852
Instructional staff services	821,959	673,089	632,391	674,561
Administration services	1,683,840	1,529,732	1,539,928	1,428,344
Operation and maintenance of plant services	1,375,891	1,395,117	1,369,916	1,338,341
Transportation services	541,570	427,597	452,659	547,922
Central support services	1,750	73,529	93,511	100,378
Non-instructional programs				
Food service	0	3,500	6,080	8,139
Community service and education operations	9,976	3,884	0	0
Other expenditures:				
Facilities acquisitions	844,960	496,057	187,865	143,766
Long-term debt:				
Principal	565,000	540,000	505,000	475,000
Interest	261,765	291,003	325,532	350,943
AEA flow-through	566,235	546,076	585,932	580,772
Total	\$ 16,846,163	15,479,335	15,115,740	14,734,448

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 05	\$ <u>36,981</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	43,293
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	<u>204,284</u>
			<u>247,577</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3375-G	<u>210,749</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.298	FY 04	73
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.298	FY 05	<u>10,304</u>
			<u>10,377</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 05	<u>11,135</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 05	<u>75,058</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES			
	84.369	FY 05	<u>12,366</u>
FUND FOR THE IMPROVEMENT OF EDUCATION			
	84.215K	FY 05	<u>964</u>
STAR SCHOOLS			
	84.203	FY 05	<u>25,000</u>
DEPARTMENT OF DEFENSE:			
FLOOD CONTROL PROJECTS	12.106	FY 05	<u>12,800</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	24,685
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 05	15,171
			<u>39,856</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 05	101,491
TOTAL			<u>\$ 784,354</u>

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Knoxville Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 25, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the 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 Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Compliance and Other Matters

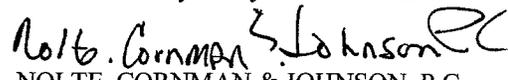
As part of obtaining reasonable assurance about whether Knoxville Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have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

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the 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.

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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

August 25, 2005

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 on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of Knoxville Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. 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 grant agreements 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, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Knoxville Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on 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, 2005.

Internal Control Over Compliance

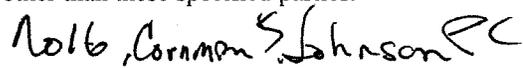
The management of Knoxville Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Knoxville 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

federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

August 25, 2005

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part I: Summary of the Independent Auditor's Report

- (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 were 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, 2005

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-05 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 - Grant coding has been corrected to be in conformity with the Uniform Financial Accounting Manual.

Conclusion - Response accepted.

II-B-05 Student Activity Fund - We noted during our audit that the Student Activity Fund included accounts with negative balances and we also noted that savings bonds were given to students out of the Student Activity Fund.

Recommendation - The District should review procedures in order to bring the negative account balances to a positive. Savings bonds should not be given to students.

Response - We are aware of these issued and are working to correct them.

Conclusion - Response accepted.

II-C-05 Uniform Allowance - We noted during our audit that the cooks are receiving a uniform Allowance, but the amount received by the employees was not added to the employees W-2.

Recommendation - The amount given to the employees as a uniform allowance should be added to the employees W-2, unless the employees are providing support for expenditures.

Response - We are working to correct this matter.

Conclusion - Response accepted.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

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: 2005
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Federal Award Year: 2005
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-05 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 - Grant coding has been corrected to be in conformity with the Uniform Financial Accounting Manual.

Conclusion - Response accepted.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part IV: Other Findings Related to Statutory Reporting

IV-A-05 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, 2005.

IV-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, did not exceed the certified budget amounts in the functional areas.

IV-C-05 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-05 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-05 Business Transactions - No business transactions between the District and District Officials or employees were noted.

IV-F-05 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-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will provide the minutes within two weeks of the Board meetings.

Conclusion - Response accepted.

IV-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-05 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 have talked to the bank and the error has been corrected.

Conclusion - Response accepted.

IV-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely. We noted no significant deficiencies in the amounts reported.

IV-K-05 Financial Condition - The District had a deficit undesignated fund balance of \$147,643 in the Management Fund, and a deficit undesignated fund balance of \$11,835 in the Internal Service Fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We are taking the appropriate action to bring these funds to a positive balance.

Conclusion - Response accepted.