

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2007

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Knoxville Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2006 election)</b>		
Dennis Goad	President	2008
Mike Husted	Vice President	2006
Mike Helle	Board Member	2007
Jeff Wallace	Board Member	2007
Scott Chambers	Board Member	2008
<b>Board of Education (After September 2006 election)</b>		
Mike Helle	President	2007
Scott Chambers	Vice President	2008
Jeff Wallace	Board Member	2007
Dennis Goad	Board Member	2008
Mike Husted	Board Member	2009
<b>School Officials</b>		
Dr. Randy Flack	Superintendent	2007
Craig Mobley	Business Manager and District Secretary/Treasurer	2007
Drew Bracken	Attorney	2007

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, 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, 2007, 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, 2007, 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 report dated February 22, 2008 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 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, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 11, 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.

February 22, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$14,699,225 in fiscal 2006 to \$15,335,471 in fiscal 2007, while General Fund expenditures increased from \$14,896,120 in fiscal 2006 to \$15,734,390 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$2,172,651 in fiscal 2006 to a balance of \$1,773,732 in fiscal 2007, a 18.36% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources in fiscal 2007. The increase in expenditures was due primarily to an increase in the instruction function.

### **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. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

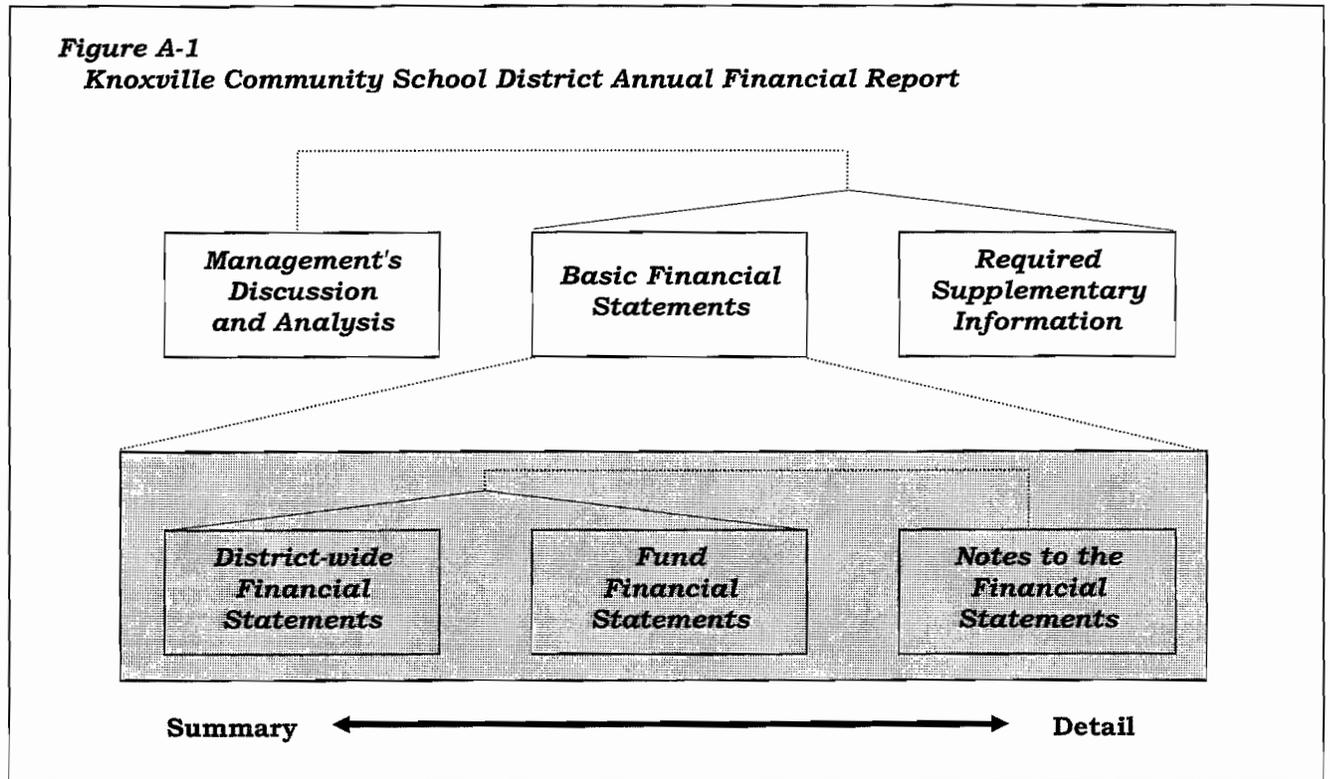


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-Wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary 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, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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	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	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
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	All additions and deductions 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.

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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 three 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.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund and Agency Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for Marion County Empowerment and Flex Spending accounts and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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 at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business-type		Total		Total Change 2006-07
	Activities		Activities		School District		
	2007	2006	2007	2006	2007	2006	
Current and other assets	\$ 10,696,565	12,790,742	281,928	393,519	10,978,493	13,184,261	-16.73%
Capital assets	14,954,437	12,227,027	223,153	75,497	15,177,590	12,302,524	23.37%
Total assets	25,651,002	25,017,769	505,081	469,016	26,156,083	25,486,785	2.63%
Long-term obligations	10,415,122	11,391,281	8,141	15,897	10,423,263	11,407,178	-8.63%
Other liabilities	6,664,727	7,582,725	63,609	62,777	6,728,336	7,645,502	-12.00%
Total liabilities	17,079,849	18,974,006	71,750	78,674	17,151,599	19,052,680	-9.98%
Net assets:							
Invested in capital assets, net of related debt	5,614,437	4,849,767	223,153	75,497	5,837,590	4,925,264	18.52%
Restricted	2,142,711	327,576	0	0	2,142,711	327,576	554.11%
Unrestricted	814,005	866,420	210,178	314,845	1,024,183	1,181,265	-13.30%
Total net assets	\$ 8,571,153	6,043,763	433,331	390,342	9,004,484	6,434,105	39.95%

The District's combined net assets increased by 39.95%, or \$2,570,379, 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 \$1,815,135, or 554.11%, over the prior year. This increase in restricted net assets was a result of the District's increase in the Debt Service Fund and reclassification of the Capital Projects Fund to restricted net assets.

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 – decreased \$157,082, or 13.30%. This decrease in unrestricted net assets was a result of the District’s decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4  
Changes of Net Assets

	Governmental		Business-type		Total		Total Change 2006-07
	Activities		Activities		School District		
	2007	2006	2007	2006	2007	2006	
Revenues:							
Program revenues:							
Charges for services	\$ 1,023,856	1,029,533	384,624	454,569	1,408,480	1,484,102	-5.10%
Operating grants and contributions and restricted interest	1,943,336	1,740,022	345,943	321,141	2,289,279	2,061,163	11.07%
General revenues:							
Property tax	4,778,919	4,875,020	0	0	4,778,919	4,875,020	-1.97%
Income surtax	406,000	361,877	0	0	406,000	361,877	12.19%
Local option sales and services tax	1,188,601	1,199,400	0	0	1,188,601	1,199,400	-0.90%
Unrestricted state grants	8,997,980	8,442,048	0	0	8,997,980	8,442,048	6.59%
Other	297,840	306,772	15,262	10,618	313,102	317,390	-1.35%
Transfers	(2,067)	0	0	0	(2,067)	0	-100.00%
Total revenues and transfers	18,634,465	17,954,672	745,829	786,328	19,380,294	18,741,000	3.41%
Program expenses:							
Governmental activities:							
Instructional	10,897,381	10,174,383	0	0	10,897,381	10,174,383	7.11%
Support services	3,874,545	4,847,041	756	688	3,875,301	4,847,729	-20.06%
Non-instructional programs	0	(11,926)	702,084	701,518	702,084	689,592	1.81%
Other expenses	1,335,149	1,785,252	0	0	1,335,149	1,785,252	-25.21%
Total expenses	16,107,075	16,794,750	702,840	702,206	16,809,915	17,496,956	-3.93%
Changes in net assets	2,527,390	1,159,922	42,989	84,122	2,570,379	1,244,044	106.61%
Beginning net assets	6,043,763	4,883,841	390,342	306,220	6,434,105	5,190,061	23.97%
Ending net assets	\$ 8,571,153	6,043,763	433,331	390,342	9,004,484	6,434,105	39.95%

In fiscal 2007, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 82.49% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 97.95% of the revenue from business type activities.

The District’s total revenues were approximately \$19.3 million of which \$18.6 million was for governmental activities and more than \$.7 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.41% increase in revenues and a 3.93% decrease in expenses. The decrease in expenses related to the reclassification and capitalization of construction costs.

### Governmental Activities

Revenues and transfers for governmental activities were \$18,634,465 and expenses were \$16,107,075.

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		
	2007	2006	Change	2007	2006	Change
			2006-07			2006-07
Instruction	\$ 10,897,381	10,174,383	7.11%	8,644,103	7,999,713	8.06%
Support services	3,874,545	4,847,041	-20.06%	3,793,016	4,841,071	-21.65%
Non-instructional programs	0	(11,926)	-100.00%	0	(12,226)	-100.00%
Other expenses	1,335,149	1,785,252	-25.21%	702,764	1,196,637	-41.27%
Totals	\$ 16,107,075	16,794,750	-4.09%	13,139,883	14,025,195	-6.31%

- The cost financed by users of the District's programs was \$1,023,856.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,943,336.
- The net cost of governmental activities was financed with \$4,778,919 in property tax, \$406,000 in income surtax, \$1,186,001 in local option sales and services tax, \$8,997,980 in unrestricted state grants, \$228,422 in interest income and \$69,418 in miscellaneous sources.

### Business-Type Activities

Revenues of the District's business-type activities were \$745,829 and expenses were \$702,840. 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 \$3,608,535, below last year's ending fund balance of \$4,930,049. The primary reason for the decrease in combined fund balance in fiscal 2007 is due to the decrease in the Capital Projects Fund balance.

### Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in state grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures decreasing the District carryover fund balance which will be used in the future to meet its financial obligations during the next year.
- The General Fund balance decreased from \$2,172,651 to \$1,773,732, due in part to the increase in negotiated salary and benefits settlement, as well as the District paid for property and liability insurance premiums.

- 
- The Capital Projects Fund balance decreased from \$2,004,866 in fiscal 2006 to \$612,898 in fiscal 2007. The District completed and capitalized the Middle School, Northstar Elementary and East Elementary construction projects that were started in the previous year.
  - The Debt Service Fund balance increased from \$733,023 in fiscal 2006 to \$1,244,466 in fiscal 2007. The District is funding a debt sinking fund reserve required from the issuance of \$5,010,000 in local option sales and services tax revenue bonds.

### **Proprietary Fund Highlights**

The Proprietary Fund net assets increased from \$390,342 at June 30, 2006 to \$433,331 at June 30, 2007, representing an increase of 11.01%.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Knoxville Community School District amended its annual budget one time to reflect additional expenditures in the Capital Project Fund.

The District's revenues were \$327,748 less than budgeted revenues, a variance of 1.66%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2007, the District had invested \$15,177,590, 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 18.94% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$465,537.

The original cost of the District's capital assets was \$22,879,479. Governmental funds account for \$22,317,472 with the remainder of \$562,007 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 \$63,771 at June 30, 2007, compared to \$3,575,008 reported at June 30, 2006. This decrease resulted from the completion of the Middle School, Northstar Elementary and East Elementary construction projects.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
	Land	\$ 63,966	63,966	0	0	63,966	63,966
Construction in progress	63,771	3,575,008	0	0	63,771	3,575,008	-5506.01%
Buildings	14,251,045	8,050,494	0	0	14,251,045	8,050,494	43.51%
Machinery and equipment	575,655	537,559	223,153	75,497	798,808	613,056	23.25%
Total	\$ 14,954,437	12,227,027	223,153	75,497	15,177,590	12,302,524	18.94%

### Long-Term Debt

At June 30, 2007, the District had \$10,415,122 in general obligation and other long-term debt outstanding. This represents a decrease of 8.57% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$4,330,000 at June 30, 2007.

The District had outstanding revenue bonds of \$5,010,000 at June 30, 2007.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$1,075,122 at June 30, 2007.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2007	2006	
General obligation bonds	\$ 4,330,000	4,955,000	-12.61%
Revenue bonds	5,010,000	5,010,000	0.00%
Early Retirement	1,075,122	1,426,281	-24.62%
Totals	\$ 10,415,122	11,391,281	-8.57%

### 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 slightly decline over the next few years.
- 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.

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## **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, 2007

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments			
U.S. Treasury Securities	\$ 1,143,957	0	1,143,957
Other	3,910,981	263,023	4,174,004
Receivables:			
Property tax:			
Delinquent	111,346	0	111,346
Succeeding year	4,817,012	0	4,817,012
Income surtax	360,995	0	360,995
Accounts	1,477	1,053	2,530
Due from other governments	350,797	0	350,797
Inventories	0	17,852	17,852
Capital assets, net of accumulated depreciation(Note 4)	14,954,437	223,153	15,177,590
<b>TOTAL ASSETS</b>	<b>25,651,002</b>	<b>505,081</b>	<b>26,156,083</b>
<b>LIABILITIES</b>			
Accounts payable	165,308	492	165,800
Salaries and benefits payable	1,578,625	49,923	1,628,548
Interest payable	103,782	0	103,782
Deferred revenue:			
Succeeding year property tax	4,817,012	0	4,817,012
Unearned revenue	0	13,194	13,194
Truck lease payable(Note 7)	0	8,141	8,141
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds payable	650,000	0	650,000
Revenue bonds payable	550,000	0	550,000
Early retirement payable	438,464	0	438,464
Portion due after one year:			
General obligation bonds payable	3,680,000	0	3,680,000
Revenue bonds payable	4,460,000	0	4,460,000
Early retirement payable	636,658	0	636,658
<b>TOTAL LIABILITIES</b>	<b>17,079,849</b>	<b>71,750</b>	<b>17,151,599</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,614,437	223,153	5,837,590
Restricted for:			
Debt service	1,244,466	0	1,244,466
Capital facility construction	356,451	0	356,451
Talented and gifted	235,257	0	235,257
Additional teacher contract day	1,160	0	1,160
Professional development	13,982	0	13,982
Capital projects	256,447	0	256,447
Physical plant and equipment levy	23,520	0	23,520
Other special revenue purposes	11,428	0	11,428
Unrestricted	814,005	210,178	1,024,183
<b>TOTAL NET ASSETS</b>	<b>\$ 8,571,153</b>	<b>433,331</b>	<b>9,004,484</b>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular instruction	\$ 6,498,246	465,777	1,086,139	(4,946,330)	0	(4,946,330)
Special instruction	2,175,948	40,132	144,067	(1,991,749)	0	(1,991,749)
Other instruction	2,223,187	517,163	0	(1,706,024)	0	(1,706,024)
	<u>10,897,381</u>	<u>1,023,072</u>	<u>1,230,206</u>	<u>(8,644,103)</u>	<u>0</u>	<u>(8,644,103)</u>
Support services:						
Student services	425,178	0	0	(425,178)	0	(425,178)
Instructional staff services	396,918	0	0	(396,918)	0	(396,918)
Administration services	1,863,008	0	0	(1,863,008)	0	(1,863,008)
Operation and maintenance of plant services	584,417	0	72,355	(512,062)	0	(512,062)
Transportation services	605,024	784	8,390	(595,850)	0	(595,850)
	<u>3,874,545</u>	<u>784</u>	<u>80,745</u>	<u>(3,793,016)</u>	<u>0</u>	<u>(3,793,016)</u>
Other expenditures:						
Long-term debt interest	383,433	0	0	(383,433)	0	(383,433)
AEA flowthrough	632,385	0	632,385	0	0	0
Depreciation(unallocated)*	319,331	0	0	(319,331)	0	(319,331)
	<u>1,335,149</u>	<u>0</u>	<u>632,385</u>	<u>(702,764)</u>	<u>0</u>	<u>(702,764)</u>
Total governmental activities	<u>16,107,075</u>	<u>1,023,856</u>	<u>1,943,336</u>	<u>(13,139,883)</u>	<u>0</u>	<u>(13,139,883)</u>
Business-Type activities:						
Support services:						
Administration services	756	0	0	0	(756)	(756)
Non-instructional programs:						
Nutrition services	702,084	384,624	345,943	0	28,483	28,483
Total business-type activities	<u>702,840</u>	<u>384,624</u>	<u>345,943</u>	<u>0</u>	<u>27,727</u>	<u>27,727</u>
Total	<u>\$ 16,809,915</u>	<u>1,408,480</u>	<u>2,289,279</u>	<u>(13,139,883)</u>	<u>27,727</u>	<u>(13,112,156)</u>
<b>General Revenues and Transfers:</b>						
General Revenues:						
Property tax for:						
General purposes				\$ 3,881,800	0	3,881,800
Debt Service				838,341	0	838,341
Capital outlay				58,778	0	58,778
Income surtax				406,000	0	406,000
Local option sales and services tax				1,188,601	0	1,188,601
Unrestricted state grants				8,997,980	0	8,997,980
Unrestricted investment earnings				228,422	15,262	243,684
Other general revenues				69,418	0	69,418
Transfers				(2,067)	0	(2,067)
Total general revenues and transfers				<u>15,667,273</u>	<u>15,262</u>	<u>15,682,535</u>
Changes in net assets				2,527,390	42,989	2,570,379
Net assets beginning of year				6,043,763	390,342	6,434,105
Net assets end of year				<u>\$ 8,571,153</u>	<u>433,331</u>	<u>9,004,484</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs.  
SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
<b>ASSETS</b>					
Cash and pooled investments:					
U.S. Treasury Securities	\$ 0	0	1,143,957	0	1,143,957
Other	3,269,884	401,575	81,567	33,620	3,786,646
Receivables:					
Property tax:					
Delinquent	80,393	0	18,942	12,011	111,346
Succeeding year	3,508,812	0	833,200	475,000	4,817,012
Income surtax	360,995	0	0	0	360,995
Accounts	678	0	0	799	1,477
Due from other governments	103,794	247,003	0	0	350,797
<b>TOTAL ASSETS</b>	<b>\$ 7,324,556</b>	<b>648,578</b>	<b>2,077,666</b>	<b>521,430</b>	<b>10,572,230</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Excess of warrants issued over bank balance	\$ 0	0	0	68,991	68,991
Accounts payable	102,392	35,680	0	0	138,072
Salaries and benefits payable	1,578,625	0	0	0	1,578,625
Deferred revenue:					
Succeeding year property tax	3,508,812	0	833,200	475,000	4,817,012
Income surtax	360,995	0	0	0	360,995
Total liabilities	5,550,824	35,680	833,200	543,991	6,963,695
Fund balances:					
Reserved for:					
Debt service	0	0	1,244,466	0	1,244,466
Capital facility construction	0	356,451	0	0	356,451
Talented and gifted	235,257	0	0	0	235,257
Additional teacher contract day	1,160	0	0	0	1,160
Professional development	13,982	0	0	0	13,982
Unreserved:					
General	1,523,333	0	0	0	1,523,333
Capital projects	0	256,447	0	0	256,447
Management levy	0	0	0	(57,509)	(57,509)
Physical plant and equipment levy	0	0	0	23,520	23,520
Other special revenue purposes	0	0	0	11,428	11,428
Total fund balances	1,773,732	612,898	1,244,466	(22,561)	3,608,535
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 7,324,556</b>	<b>648,578</b>	<b>2,077,666</b>	<b>521,430</b>	<b>10,572,230</b>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

Total fund balances of governmental funds (page 16)	\$ 3,608,535
<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.	14,954,437
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	166,090
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	360,995
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.	(103,782)
Long-term liabilities, including bonds payable and early retirement payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(10,415,122)</u>
<b>Net assets of governmental activities (page 14)</b>	<b><u><u>\$ 8,571,153</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 3,792,533	1,188,601	838,341	512,268	6,331,743
Tuition	444,933	0	0	0	444,933
Other	231,044	49,331	49,103	621,640	951,118
State sources	10,383,090	0	0	0	10,383,090
Federal sources	483,871	0	0	0	483,871
Total revenues	15,335,471	1,237,932	887,444	1,133,908	18,594,755
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	6,316,743	0	0	488,781	6,805,524
Special instruction	2,192,323	0	0	0	2,192,323
Other instruction	1,702,428	0	0	520,759	2,223,187
	10,211,494	0	0	1,009,540	11,221,034
Support services:					
Student services	429,610	0	0	0	429,610
Instructional staff services	396,764	0	0	0	396,764
Administration services	1,924,872	35	3,083	626	1,928,616
Operation and maintenance of plant services	1,551,750	0	0	0	1,551,750
Transportation services	587,515	0	0	25,026	612,541
	4,890,511	35	3,083	25,652	4,919,281
Other expenditures:					
Facilities acquisitions	0	1,947,983	0	138,719	2,086,702
Long-term debt:					
Principal	0	0	625,000	0	625,000
Interest and fiscal charges	0	0	429,800	0	429,800
AEA flowthrough	632,385	0	0	0	632,385
	632,385	1,947,983	1,054,800	138,719	3,773,887
Total expenditures	15,734,390	1,948,018	1,057,883	1,173,911	19,914,202
Deficiency of revenues under expenditures	(398,919)	(710,086)	(170,439)	(40,003)	(1,319,447)
Other financing sources(uses):					
Transfer in	0	0	681,882	0	681,882
Transfer out	0	(681,882)	0	(2,067)	(683,949)
Total other financing sources(uses)	0	(681,882)	681,882	(2,067)	(2,067)
Net change in fund balances	(398,919)	(1,391,968)	511,443	(42,070)	(1,321,514)
Fund balance beginning of year	2,172,651	2,004,866	733,023	19,509	4,930,049
Fund balance end of year	\$ 1,773,732	612,898	1,244,466	(22,561)	3,608,535

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, 2007

Net change in fund balances - total governmental funds (page 18) \$ (1,321,514)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets 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	\$ 3,175,179	
Depreciation expense	<u>(447,769)</u>	2,727,410

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 57,191

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 625,000

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. 46,367

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 41,777

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 351,159

Changes in net assets of governmental activities (page 15) \$ 2,527,390

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2007

	Business-Type	
	Enterprise:	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service Fund
<b>ASSETS</b>		
Cash and pooled investments	\$ 263,023	193,326
Accounts receivable	1,053	0
Inventories	17,852	0
Capital assets, net of accumulated depreciation(Note 4)	223,153	0
<b>TOTAL ASSETS</b>	<b>505,081</b>	<b>193,326</b>
<b>LIABILITIES</b>		
Accounts payable	492	27,236
Salaries and benefits payable	49,923	0
Unearned revenue	13,194	0
Truck lease payable(Note 7)	8,141	0
<b>TOTAL LIABILITIES</b>	<b>71,750</b>	<b>27,236</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	223,153	0
Unrestricted	210,178	166,090
<b>TOTAL NET ASSETS</b>	<b>\$ 433,331</b>	<b>166,090</b>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2007

	Business-Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 384,624	2,323,966
TOTAL OPERATING REVENUES	<u>384,624</u>	<u>2,323,966</u>
OPERATING EXPENSES:		
Support services:		
Administration services:		
Benefits	0	2,266,775
Services	756	0
	<u>756</u>	<u>2,266,775</u>
Non-instructional programs:		
Food service operations:		
Salaries	234,479	0
Benefits	86,056	0
Services	8,529	0
Supplies	355,252	0
Depreciation	17,768	0
	<u>702,084</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>702,840</u>	<u>2,266,775</u>
OPERATING INCOME (LOSS)	<u>(318,216)</u>	<u>57,191</u>
NON-OPERATING REVENUES:		
State sources	9,251	0
Federal sources	336,692	0
Interest on investments	15,262	0
TOTAL NON-OPERATING REVENUES	<u>361,205</u>	<u>0</u>
Change in net assets	42,989	57,191
Net assets beginning of year	<u>390,342</u>	<u>108,899</u>
Net assets end of year	<u>\$ 433,331</u>	<u>166,090</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2007

	Business-Type Activites:	
	Enterprise Fund	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 385,597	0
Cash received from miscellaneous	93	2,323,486
Cash payments to employees for services	(319,245)	0
Cash payments to suppliers for goods or services	(330,292)	(2,289,616)
Net cash provided by(used in) operating activities	<u>(263,847)</u>	<u>33,870</u>
Cash flows from non-capital financing activities:		
State grants received	9,251	0
Federal grants received	295,131	0
Net cash provided by non-capital financing activities	<u>304,382</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Capital lease payments	(7,756)	0
Purchase of capital assets	(165,424)	0
Net cash used in capital and related financing activities	<u>(173,180)</u>	<u>0</u>
Cash flows from investing activities:		
Interest on investments	15,262	0
Net cash provided by investing activities	<u>15,262</u>	<u>0</u>
Net increase(decrease) in cash and cash equivalents	(117,363)	33,870
Cash and cash equivalents at beginning of year	380,406	159,456
Cash and cash equivalents at end of year	<u>\$ 263,023</u>	<u>193,326</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (318,216)	57,191
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	41,561	0
Depreciation	17,768	0
Increase in inventories	(5,375)	0
(Increase)Decrease in accounts receivable	(417)	480
Decrease in accounts payable	(1,941)	(23,801)
Decrease in salaries and benefits payable	(1,290)	0
Increase in unearned revenue	4,063	0
Net cash provided by(used in) operating activities	<u>\$ (263,847)</u>	<u>33,870</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>\$ 263,023</u>	<u>193,326</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
During the year ended June 30, 2007, the District received Federal commodities valued at \$41,561.		
During the year ended June 30, 2007, the District paid interest of \$788 as part of the 2004 Isuzu Truck capital lease.		

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2007

	Private Purpose Trust Scholarship Fund	Agency Fund
<b>ASSETS</b>		
Cash and pooled investments	\$ 1,970	218,181
Total assets	<u>1,970</u>	<u>218,181</u>
<b>LIABILITIES</b>		
Accounts payable	0	3,092
Due to other groups	0	215,089
Total liabilities	<u>0</u>	<u>218,181</u>
<b>NET ASSETS</b>		
Reserved for scholarships	<u>\$ 1,970</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust
	Scholarship Fund
Additions:	
Local sources:	
Gifts and contributions	\$ 400
Interest income	3
Total additions	403
Deletions:	
Non-instructional programs:	
Scholarships awarded	500
Total deletions	500
Change in net assets before other financing sources	(97)
Other financing sources:	
Transfer in	2,067
Change in net assets	1,970
Net assets beginning of year	0
Net assets end of year	\$ 1,970

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(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, 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 Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

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

The District reports the following proprietary funds:

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.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets help by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net

assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute,

the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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

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

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	2,000
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.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

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 Balance - 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, 2007 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, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 3,835,119</u>

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

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

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

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Securities are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At June 30, 2007, the District had investments in U.S. Treasury Securities as follows:

	<u>Fair Value</u>
U.S. Treasury Securities	<u>\$ 1,143,957</u>

**(3) Transfers**

The detail of transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 681,882
Private Purpose Trust	Expendable Trust	<u>2,067</u>
Total		<u>\$ 683,949</u>

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

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 63,966	0	0	63,966
Construction in progress	3,575,008	3,008,645	6,519,882	63,771
Total capital assets not being depreciated	<u>3,638,974</u>	<u>3,008,645</u>	<u>6,519,882</u>	<u>127,737</u>
Capital assets being depreciated:				
Buildings	12,866,216	6,519,882	0	19,386,098
Machinery and equipment	2,727,603	166,534	90,500	2,803,637
Total capital assets being depreciated	<u>15,593,819</u>	<u>6,686,416</u>	<u>90,500</u>	<u>22,189,735</u>
Less accumulated depreciation for:				
Buildings	4,815,722	319,331	0	5,135,053
Machinery and equipment	2,190,044	128,438	90,500	2,227,982
Total accumulated depreciation	<u>7,005,766</u>	<u>447,769</u>	<u>90,500</u>	<u>7,363,035</u>
Total capital assets being depreciated, net	<u>8,588,053</u>	<u>6,238,647</u>	<u>0</u>	<u>14,826,700</u>
Governmental activities capital assets, net	<u>\$ 12,227,027</u>	<u>9,247,292</u>	<u>6,519,882</u>	<u>14,954,437</u>
Business-type activities:				
Machinery and equipment	\$ 396,583	165,424	0	562,007
Less accumulated depreciation	321,086	17,768	0	338,854
Business-type activities capital assets, net	<u>\$ 75,497</u>	<u>147,656</u>	<u>0</u>	<u>223,153</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 21,671
Support services:		
Instructional staff		154
Administration		920
Operation and maintenance of plant		10,428
Transportation		95,265
		<u>128,438</u>
Unallocated depreciation		<u>319,331</u>
Total governmental activities depreciation expense		<u>\$ 447,769</u>
Business-type activities:		
Food services		\$ 17,768
Total business-type activities depreciation expense		<u>\$ 17,768</u>

**(5) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance			Balance	Due
	Beginning	Additions	Deletions	End of	Within
	of Year			Year	One Year
General obligation bonds	\$ 4,955,000	0	625,000	4,330,000	650,000
Revenue bonds	5,010,000	0	0	5,010,000	550,000
Early retirement	1,426,281	89,824	440,983	1,075,122	438,464
Total	<u>\$ 11,391,281</u>	<u>89,824</u>	<u>1,065,983</u>	<u>10,415,122</u>	<u>1,638,464</u>

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness is as follows:

Year	Bond Issue of May 1, 2003				
	Ending	Interest	Principal	Interest	Total
June 30,	Rates				
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			<u>\$ 4,330,000</u>	<u>669,295</u>	<u>4,999,295</u>

Revenue Bonds Payable

Details of the District's June 30, 2007 local option sales and services tax revenue bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2003			
	Interest Rates	Principal	Interest	Total
2008	3.25-3.50 %	\$ 550,000	168,093	718,093
2009	3.50	570,000	149,181	719,181
2010	3.50-3.55	590,000	128,881	718,881
2011	3.55	615,000	107,639	722,639
2012	3.55	635,000	85,451	720,451
2013-2015	3.55-3.70	2,050,000	114,110	2,164,110
<b>Total</b>		<b>\$ 5,010,000</b>	<b>753,355</b>	<b>5,763,355</b>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$501,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

#### Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Eligible employees must be at least age fifty-five. Eligible 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 40-60% of their contracted annual salary (exclusive of supplemental pay or extended contract pay.) The percentage is determined by the number of consecutive number of years of service, and is paid out monthly over a three year period to a tax shelter annuity. Early retirement benefits paid during the year ended June 30, 2007, totaled \$440,983. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

**(6) 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, 2007, \$4,520,000 of such bonds are outstanding. Repayment of principal and interest for the year was \$500,000 and \$330,480.

**(7) 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, 2007.

<u>Year Ending June 30,</u>	<u>2004 Isuzu Truck Payments</u>
2008	\$ <u>8,544</u>
Total minimum lease payments	8,544
Less amount representing interest	<u>403</u>
Present value of future lease payments	<u>\$ 8,141</u>

**(8) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$550,069, \$512,473 and \$491,931 respectively, equal to the required contributions for each year.

**(9) 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 \$51,934 at June 30, 2007.

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.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$632,385 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Deficit Fund Balance**

At June 30, 2007, there was a deficit fund balance in the Special Revenue Fund, Management Fund of \$57,509.

**(12) Construction Commitment**

The District has entered into various contracts totaling \$420,222 for the Goal Alternative School Door Project, Ken Locke Stadium Restoration Project and Middle School Phone System Installation Project. As of June 30, 2007, costs of \$63,711 had been incurred against the contracts. The balance of \$356,451 remaining at June 30, 2007 will be paid as work on the project progresses and shown as a fund balance reserve for capital facility construction on the balance sheet.

**(13) Contingencies**

As of June 30, 2007, the District is involved in various claims and lawsuits against the District that arise in the normal course of operations, which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
<b>Revenues:</b>						
Local sources	\$ 7,727,794	399,886	8,127,680	8,119,305	8,119,305	8,375
State sources	10,383,090	9,251	10,392,341	10,708,757	10,708,757	(316,416)
Federal sources	483,871	336,692	820,563	840,000	840,000	(19,437)
Total revenues	<u>18,594,755</u>	<u>745,829</u>	<u>19,340,584</u>	<u>19,668,062</u>	<u>19,668,062</u>	<u>(327,478)</u>
<b>Expenditures:</b>						
Instruction	11,221,034	0	11,221,034	11,975,000	11,975,000	753,966
Support services	4,919,281	756	4,920,037	5,440,000	5,440,000	519,963
Non-instructional programs	0	702,085	702,085	902,600	902,600	200,515
Other expenditures	3,773,887	0	3,773,887	2,986,775	5,000,000	1,226,113
Total expenditures	<u>19,914,202</u>	<u>702,841</u>	<u>20,617,043</u>	<u>21,304,375</u>	<u>23,317,600</u>	<u>2,700,557</u>
Excess(deficiency) of revenues over(under) expenditures	(1,319,447)	42,988	(1,276,459)	(1,636,313)	(3,649,538)	(2,373,079)
Other financing uses, net	(2,067)	0	(2,067)	0	0	2,067
Excess(deficiency) of revenues over(under) expenditures and other financing uses	(1,321,514)	42,988	(1,278,526)	(1,636,313)	(3,649,538)	(2,371,012)
Balance beginning of year	4,930,049	390,343	5,320,392	4,278,546	4,278,546	1,041,846
Balance end of year	<u>\$ 3,608,535</u>	<u>433,331</u>	<u>4,041,866</u>	<u>2,642,233</u>	<u>629,008</u>	<u>3,412,858</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

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 GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted a budget amendment increasing budgeted expenditures by \$2,013,225.

OTHER SUPPLEMENTARY INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2007

	Nonmajor Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
<b>ASSETS</b>				
Cash and pooled investments	\$ 0	11,428	22,192	33,620
Receivables:				
Property tax:				
Current year delinquent	10,683	0	1,328	12,011
Succeeding year	475,000	0	0	475,000
Accounts	799	0	0	799
<b>TOTAL ASSETS</b>	<b>\$ 486,482</b>	<b>11,428</b>	<b>23,520</b>	<b>521,430</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Excess of warrants issued over bank balance	\$ 68,991	0	0	68,991
Deferred revenue:				
Succeeding year property tax	475,000	0	0	475,000
	543,991	0	0	543,991
Fund balances:				
Unreserved:				
Undesignated	(57,509)	11,428	23,520	(22,561)
Total fund balances	(57,509)	11,428	23,520	(22,561)
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 486,482</b>	<b>11,428</b>	<b>23,520</b>	<b>521,430</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2007

	Nonmajor Special Revenue Funds				Total Special Revenue Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	
REVENUES:					
Local sources:					
Local tax	\$ 453,490	0	58,778	0	512,268
Other	30,960	517,266	73,414	0	621,640
TOTAL REVENUES	484,450	517,266	132,192	0	1,133,908
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	488,781	0	0	0	488,781
Other instruction	0	520,759	0	0	520,759
Support services:					
Administration services	36	590	0	0	626
Student transportation	0	0	25,026	0	25,026
Other expenditures:					
Facilities acquisitions	0	0	138,719	0	138,719
TOTAL EXPENDITURES	488,817	521,349	163,745	0	1,173,911
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(4,367)	(4,083)	(31,553)	0	(40,003)
OTHER FINANCING USES:					
Transfers out	0	0	0	(2,067)	(2,067)
TOTAL OTHER FINANCING USES	0	0	0	(2,067)	(2,067)
Net change in fund balances	(4,367)	(4,083)	(31,553)	(2,067)	(42,070)
FUND BALANCE BEGINNING OF YEAR	(53,142)	15,511	55,073	2,067	19,509
FUND BALANCE END OF YEAR	\$ (57,509)	11,428	23,520	0	(22,561)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Academic Clubs:</u>				
HS Band	\$ (237)	3,120	3,086	(203)
HS Camera Club	3,117	10,718	11,459	2,376
HS Drama Club	638	3,598	3,919	317
HS Science Club	4,421	15,420	15,227	4,614
HS Vocal	1,337	16,848	9,017	9,168
Middle Beta Club	559	234	310	483
MS Band	130	250	0	380
MS Vocal	23,529	2,745	1,779	24,495
Middle Student Advisory	14,066	48,445	45,866	16,645
	<u>47,560</u>	<u>101,378</u>	<u>90,663</u>	<u>58,275</u>
<u>Athletic Support:</u>				
Baseball Club	11,402	20,072	15,821	15,653
Drill Team	3,031	13,288	11,499	4,820
Girls Softball Parents	9,426	3,421	6,460	6,387
HS Cheerleaders	1,706	4,223	5,582	347
Lift A Thon	(8)	9,331	8,941	382
MS Baseball Club	204	0	0	204
Panther Basketball	318	12,446	8,565	4,199
Panther Club	1,966	1,585	2,266	1,285
Panther Soccer	1,942	500	0	2,442
Pantherette Girls	1,922	9,496	9,013	2,405
Pantherette Soccer	109	0	0	109
Pepsi Pop Fund	9,840	9,290	17,319	1,811
Volleyball Club	1,600	9,073	8,751	1,922
	<u>43,458</u>	<u>92,725</u>	<u>94,217</u>	<u>41,966</u>
<u>Boys Athletics:</u>				
Baseball	(55,462)	2,938	7,603	(60,127)
Boys Basketball	35,623	9,701	6,793	38,531
Boys Cross Country	(11,432)	475	1,094	(12,051)
Boys Golf	(10,414)	300	923	(11,037)
Boys Soccer	1,683	1,747	1,630	1,800
Boys Tennis	(5,925)	220	976	(6,681)
Boys Track	(11,130)	1,605	3,786	(13,311)
Football	51,555	24,519	18,307	57,767
Wrestling	(12,192)	2,998	7,331	(16,525)
	<u>(17,694)</u>	<u>44,503</u>	<u>48,443</u>	<u>(21,634)</u>
<u>Classes:</u>				
Freshman Class	26	60	51	35
Sophomore Class	95	(68)	(1,112)	1,139
Junior Class	1,740	17,150	18,611	279
Senior Class	921	279	1,174	26
	<u>2,782</u>	<u>17,421</u>	<u>18,724</u>	<u>1,479</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>East Elementary Activities:</u>				
East Book Fair	2,014	10,030	11,044	1,000
East Doughnut Resale	1,812	9,670	9,878	1,604
East Elem. Activity Tickets	0	400	400	0
East Resale	76	(24)	52	0
	<u>3,902</u>	<u>20,076</u>	<u>21,374</u>	<u>2,604</u>
<u>General Athletics:</u>				
Cheerleading	(6,078)	300	146	(5,924)
Drill Team	(9,266)	740	1,330	(9,856)
HS General Athletics	(108,544)	11,005	7,973	(105,512)
State Tournament	0	3,700	3,700	0
	<u>(123,888)</u>	<u>15,745</u>	<u>13,149</u>	<u>(121,292)</u>
<u>Girls Athletics:</u>				
Girls Basketball	19,221	7,662	3,970	22,913
Girls Cross Country	(8,170)	310	1,002	(8,862)
Girls Golf	(8,492)	794	800	(8,498)
Girls Soccer	(8,522)	1,770	2,590	(9,342)
Girls Tennis	(3,569)	340	839	(4,068)
Girls Track	(20,499)	1,770	5,147	(23,876)
Softball	(29,876)	3,569	3,771	(30,078)
Volleyball	(8,371)	3,071	2,602	(7,902)
	<u>(68,278)</u>	<u>19,286</u>	<u>20,721</u>	<u>(69,713)</u>
<u>Middle School Boys Athletics:</u>				
MS Baseball	(15,403)	0	1,800	(17,203)
MS Boys Basketball	7,952	2,401	2,130	8,223
MS Boys Track	(3,621)	1,273	2,160	(4,508)
MS Cross Country	(20)	0	0	(20)
MS Football	(15,532)	2,455	3,155	(16,232)
MS Wrestling	(1,777)	460	275	(1,592)
	<u>(28,401)</u>	<u>6,589</u>	<u>9,520</u>	<u>(31,332)</u>
<u>Middle School General Athletics:</u>				
MS General Athletics	(7,385)	0	(2,327)	(5,058)
<u>Middle School Girls Athletics:</u>				
MS Girls Basketball	1,777	1,378	1,510	1,645
MS Girls Track	(807)	150	277	(934)
MS Softball	(9,489)	0	1,327	(10,816)
MS Volleyball	3,977	1,337	1,828	3,486
	<u>(4,542)</u>	<u>2,865</u>	<u>4,942</u>	<u>(6,619)</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Northstar Elementary Activities:</u>				
Northstar Activity Tickets	0	880	880	0
Northstar Birthday Book	78	0	0	78
Northstar Book Fair	5,365	9,383	11,000	3,748
Northstar Resale	13,537	5,000	4,184	14,353
Northstar Student Council	481	623	285	819
Northstar Student Teachers	1,398	500	0	1,898
	<u>20,859</u>	<u>16,386</u>	<u>16,349</u>	<u>20,896</u>
<u>Other Activities:</u>				
6th Grade Resale	598	0	41	557
7th Grade Resale	2,150	3,756	1,958	3,948
8th Grade Resale	871	644	0	1,515
Activity Interest	2,195	555	1,250	1,500
Student Council CD	2,500	0	0	2,500
Auditorium Project	5,396	0	(8)	5,404
Collins Fund	4,423	4,092	725	7,790
FCCLA CD	1,299	39	0	1,338
Goal Activity	3,477	1,834	1,576	3,735
HS Activity Tickets	0	8,826	8,846	(20)
HS Resale	2,231	4,687	5,834	1,084
HS Student Teacher	2,523	1,140	1,349	2,314
HS Athletic Savings	3,058	(2,019)	0	1,039
HS Pepsi Pop Fund	24,875	47,317	52,222	19,970
International Club	1,123	296	319	1,100
ISJIT	0	(1,953)	(3,951)	1,998
K-Fund Yearbook	9,588	24,318	21,717	12,189
Middle Activity Tickets	0	5,090	4,770	320
Middle Annual/Yearbook	1,369	5,610	5,931	1,048
Middle Music Resale	20	168	178	10
Middle Resale	5,783	8,808	12,629	1,962
Middle Student Teachers	1,063	351	1,297	117
Misc. General Library	72	0	0	72
Middle Book Fair	2,816	4,662	4,138	3,340
Panther Club Scholarship	10,955	383	0	11,338
School Nurse	455	0	0	455
Spanish Club	333	0	0	333
Student Senate	400	4,370	4,659	111
Student Senate Scholarship	1,710	37	0	1,747
Team Nutrition Club	(373)	2,106	1,265	468
	<u>90,910</u>	<u>125,117</u>	<u>126,745</u>	<u>89,282</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Vocational Clubs:</u>				
Construction Trades	38,759	0	1,043	37,716
Farm Account	790	0	0	790
FCCLA Account	1,453	4,738	4,048	2,143
FFA Account	9,888	35,643	40,653	4,878
Industrial Arts	336	362	0	698
	<u>51,226</u>	<u>40,743</u>	<u>45,744</u>	<u>46,225</u>
<u>West Elementary Activities:</u>				
West Activity Tickets	0	500	500	0
West Book Fair	924	9,692	9,120	1,496
West K-2 Snacks	(8)	8	0	0
West Resale	2,555	694	647	2,602
West Student Teachers	174	1,150	0	1,324
West Student Council	1,357	2,388	2,818	927
	<u>5,002</u>	<u>14,432</u>	<u>13,085</u>	<u>6,349</u>
Total	<u>\$ 15,511</u>	<u>517,266</u>	<u>521,349</u>	<u>11,428</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 FIDUCIARY FUND - PRIVATE PURPOSE TRUSTS  
 JUNE 30, 2007

	Private Purpose Trust - Scholarship Fund				
	Locke	Tunie	Cox	Norton	Total
	Memorial	Memorial	Scholarship	Scholarship	
ASSETS					
Cash and pooled investments	\$ 379	582	904	105	1,970
TOTAL ASSETS	\$ 379	582	904	105	1,970
NET ASSETS:					
Reserved for scholarships	\$ 379	582	904	105	1,970

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN NET ASSETS  
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS  
 YEAR ENDED JUNE 30, 2007

	Private Purpose Trust - Scholarship Fund				Total
	Locke Memorial	Tunie Memorial	Cox Scholarship	Norton Scholarship	
REVENUES:					
Local sources:					
Gifts and contributions	\$ 100	0	300	0	400
Interest income	1	1	1	0	3
TOTAL REVENUES	101	1	301	0	403
EXPENSES:					
Non-instructional programs:					
Other enterprise operations:					
Scholarships	200	0	300	0	500
TOTAL EXPENSES	200	0	300	0	500
Change in net assets before other financing sources	(99)	1	1	0	(97)
OTHER FINANCING SOURCES:					
Transfer in	478	581	903	105	2,067
Change in net assets	379	582	904	105	1,970
NET ASSETS BEGINNING OF YEAR	0	0	0	0	0
NET ASSETS END OF YEAR	\$ 379	582	904	105	1,970

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<u>MARION COUNTY EMPOWERMENT</u>				
ASSETS				
Cash and pooled investments	\$ 0	499,046	290,965	208,081
LIABILITIES				
Due to other groups	\$ 0	499,046	290,965	208,081
<u>KCSD EMPLOYEE FLEX SPENDING</u>				
ASSETS				
Cash and pooled investments	\$ 0	10,100	0	10,100
LIABILITIES				
Accounts payable	\$ 0	3,092	0	3,092
Due to other groups	0	7,008	0	7,008
	\$ 0	10,100	0	10,100
<u>TOTALS - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and pooled investments	\$ 0	509,146	290,965	218,181
LIABILITIES				
Accounts payable	\$ 0	3,092	0	3,092
Due to other groups	0	506,054	290,965	215,089
	\$ 0	509,146	290,965	218,181

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Health Insurance	Self-funded Dental Insurance	Total
ASSETS:			
Cash and pooled investments	\$ 141,392	51,934	193,326
TOTAL ASSETS	141,392	51,934	193,326
LIABILITIES:			
Accounts payable	27,236	0	27,236
TOTAL LIABILITIES	27,236	0	27,236
NET ASSETS	\$ 114,156	51,934	166,090

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
INTERNAL SERVICE FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2007

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Health Insurance	Self-funded Dental Insurance	Total
OPERATING REVENUES:			
Local sources:			
Employee contributions	\$ 2,147,250	176,716	2,323,966
TOTAL OPERATING REVENUE	<u>2,147,250</u>	<u>176,716</u>	<u>2,323,966</u>
OPERATING EXPENSES:			
Support services:			
Administration services:			
Benefits	2,123,447	143,328	2,266,775
TOTAL OPERATING EXPENSES	<u>2,123,447</u>	<u>143,328</u>	<u>2,266,775</u>
CHANGE IN NET ASSETS	23,803	33,388	57,191
NET ASSETS BEGINNING OF YEAR	90,353	18,546	108,899
NET ASSETS END OF YEAR	<u>\$ 114,156</u>	<u>51,934</u>	<u>166,090</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
INTERNAL SERVICE FUND  
COMBINING STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2007

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Health Insurance	Self-funded Dental Insurance	Total
Cash flows from operating activities:			
Cash received from miscellaneous	\$ 2,146,770	176,716	2,323,486
Cash payments to employees for services	(2,146,288)	(143,328)	(2,289,616)
Net cash provided by operating activities	482	33,388	33,870
Net increase in cash and cash equivalents	482	33,388	33,870
Cash and cash equivalents at beginning of year	140,910	18,546	159,456
Cash and cash equivalents at end of year	\$ 141,392	51,934	193,326
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 23,803	33,388	57,191
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease in accounts receivable	480	0	480
Decrease in accounts payable	(23,801)	0	(23,801)
Net cash provided by operating activities	\$ 482	33,388	33,870
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 141,392	51,934	193,326

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,			
	2007	2006	2005	2004
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 6,373,520	6,436,297	6,271,019	5,406,638
Tuition	444,933	435,713	412,584	384,825
Other	951,118	900,892	755,925	684,887
Intermediate sources	0	0	0	300
State sources	10,383,090	9,666,649	9,266,712	8,566,918
Federal sources	483,871	515,121	526,675	525,896
<b>Total</b>	<b>\$ 18,636,532</b>	<b>17,954,672</b>	<b>17,232,915</b>	<b>15,569,464</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular instruction	\$ 6,805,524	6,232,711	5,859,910	5,618,174
Special instruction	2,192,323	2,059,686	2,310,021	2,000,372
Other instruction	2,223,187	2,192,156	1,314,612	1,201,591
Support services:				
Student services	429,610	429,577	688,674	679,614
Instructional staff services	396,764	389,630	821,959	673,089
Administration services	1,928,616	1,859,177	1,683,840	1,529,732
Operation and maintenance of plant services	1,551,750	1,514,703	1,375,891	1,395,117
Transportation services	612,541	537,821	541,570	427,597
Other support services	0	0	1,750	73,529
Non-instructional programs				
Food service	0	0	0	3,500
Community service and education operations	0	0	9,976	3,884
Other enterprise operations	0	100	0	0
Other expenditures:				
Facilities acquisitions	2,086,702	3,903,561	844,960	496,057
Long-term debt:				
Principal	625,000	600,000	565,000	540,000
Interest	429,800	270,500	261,765	291,003
AEA flow-through	632,385	588,615	566,235	546,076
<b>Total</b>	<b>\$ 19,914,202</b>	<b>20,578,237</b>	<b>16,846,163</b>	<b>15,479,335</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION	10.550	FY 07	\$ <u>41,561</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	50,417
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	<u>244,714</u>
			<u>295,131</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3375-G	<u>215,201</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 07	<u>2,415</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	<u>10,695</u>
SPECIAL EDUCATION - GRANTS TO STATES (POSITIVE BEHAVIOR SUPPORT)	84.027	FY 07	<u>10,000</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 07	<u>73,902</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 07	<u>7,207</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 07	<u>30,384</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>106,478</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
MEDICAL ASSISTANCE PROGRAM (MEDICAID)	93.778	FY 07	<u>27,589</u>
TOTAL			<u>\$ 820,563</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 basic 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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 22, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Knoxville Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Knoxville Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Knoxville Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Knoxville Community School District's financial statements that is more than inconsequential will not be prevented or detected by Knoxville Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies 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 such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Knoxville Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Knoxville Community School District's responses and, accordingly, we express no opinion on them.

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.

February 22, 2008

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

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

To the Board of Education of  
Knoxville Community School District

Compliance

We have audited the compliance of Knoxville Community School District with the types of compliance requirements described in 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, 2007. 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, 2007.

Internal Control Over Compliance

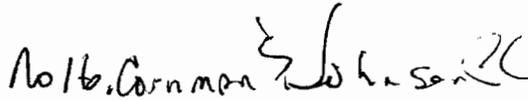
The management of Knoxville Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Knoxville 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Knoxville Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above.

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.

February 22, 2008

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Report

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies 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) No significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (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, 2007

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events, which was receipted into the Student Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - The school district will begin to deposit the rental portion of payments received for hosting district and regional sporting events into the general fund.

Conclusion - Response accepted.

II-B-07 Student Activity Fund - During our audit issues arose about the propriety of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. These accounts are Pop Fund, Book Fair, Donut Resale, Student Teacher, School Nurse, Team Nutrition, Library and Industrial Arts. These accounts appear to not be student run organization accounts and should be closed and transferred to the General Fund. In addition, there are inactive accounts that need to be reviewed and closed if not being used.

There are ISJIT and CD accounts. These accounts should be allocated among the Student Activity Funds that earned the interest and principal CD balances. The interest allocation should be done at least annually. Interest earned should be distributed to individual accounts within the Student Activity Fund.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The District should review the propriety of receipts and expenditures that are

recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be received and expended.

Response - The school district will review the propriety of receipts and expenditures in all activities that are recorded in the Student Activity Fund to ensure compliance with Iowa Administrative Code 281-12.6(1).

Conclusion - Response accepted.

II-C-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In an effort to comply with the Department of Labor requirements on wage per hour contracts, the District should keep track of the hours worked for non-certified staff coaches. The District should also review its payroll procedures to ensure that supporting documentation is kept for all employees who receive checks.

Response - The school district will begin the process of reviewing payroll policies and procedures so that all non-certified coaches and sponsors are keeping track of hours worked in the proper way.

Conclusion - Response accepted.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were reported.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- IV-B-07 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-C-07 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-D-07 Business Transactions - No business transactions between the District and District officials were noted.
- IV-E-07 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-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-07 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were open enrolled out was overstated by 3 students.
- Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.
- Response - We will contact the Iowa Department of Education and the Department of Management.
- Conclusion - Response accepted.
- IV-H-07 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.
- IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- IV-J-07 Financial Condition - The District had a deficit undesignated fund balance of \$57,509 in the Special Revenue, Management Fund. We also noted several accounts in the Special Revenue, Student Activity Fund that had deficit balances at the end of the year.
- Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits. The District should consider additional approval of bills from the Student Activity Fund. A workout plan for the deficit accounts should also be considered for the Student Activity Fund.

Response - The District is addressing the deficits. The Special Revenue, Management Fund deficit will be impacted by the District lowering next year early retirement payout and by paying property and liability insurance out of the General Fund. The Special Revenue, Student Activity Fund accounts are going to be reviewed by a student activity budget committee to address the deficit accounts.

Conclusion - Response accepted.