

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

JUNE 30, 2010

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Knoxville Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2009 election)		
Jeff Wallace	President	2011
Tim McDonald	Vice President	2011
Leslie Miller	Board Member	2011
Mike Husted	Board Member	2009
Dennis Goad	Board Member	2009
Board of Education (After September 2009 election)		
Jeff Wallace	President	2011
Tim McDonald	Vice President	2011
Leslie Miller	Board Member	2011
Stephanie Vickroy	Board Member	2013
Mark Mahoney	Board Member	2013
School Officials		
Dr. Randy Flack	Superintendent	2010
Craig Mobley	Business Manager and District Secretary/Treasurer	2010
Drew Bracken	Attorney	Indefinite

KNOXVILLE COMMUNITY SCHOOL DISTRICT

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, 2010, 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, 2010, 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 March 15, 2011 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 and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 46 are not required parts of the basic financial statements, but are supplementary 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 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 nine years ended June 30, 2009 (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.

March 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Knoxville Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$16,693,085 in fiscal 2009 to \$16,112,074 in fiscal 2010, while General Fund expenditures decreased from \$17,313,674 in fiscal 2009 to \$16,810,364 in fiscal 2010. This resulted in a decrease in the District's General Fund balance from \$365,647 in fiscal 2009 to a deficit balance of \$332,643 in fiscal 2010, a 190.97% decrease from the prior year.
- The decrease in General Fund revenues was primarily attributable to decreases in state sources in fiscal 2010. The decrease in expenditures was due primarily to an decrease in expenses in the support service functions.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) decreased as compared to fiscal 2009. At June 30, 2010 the District's solvency ratio was negative 3.67% as compared to positive 1.10% at June 30, 2009. The State School Budget Review Committee recommends a solvency ratio between 5% - 10%.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Knoxville Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Knoxville Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Knoxville Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

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.

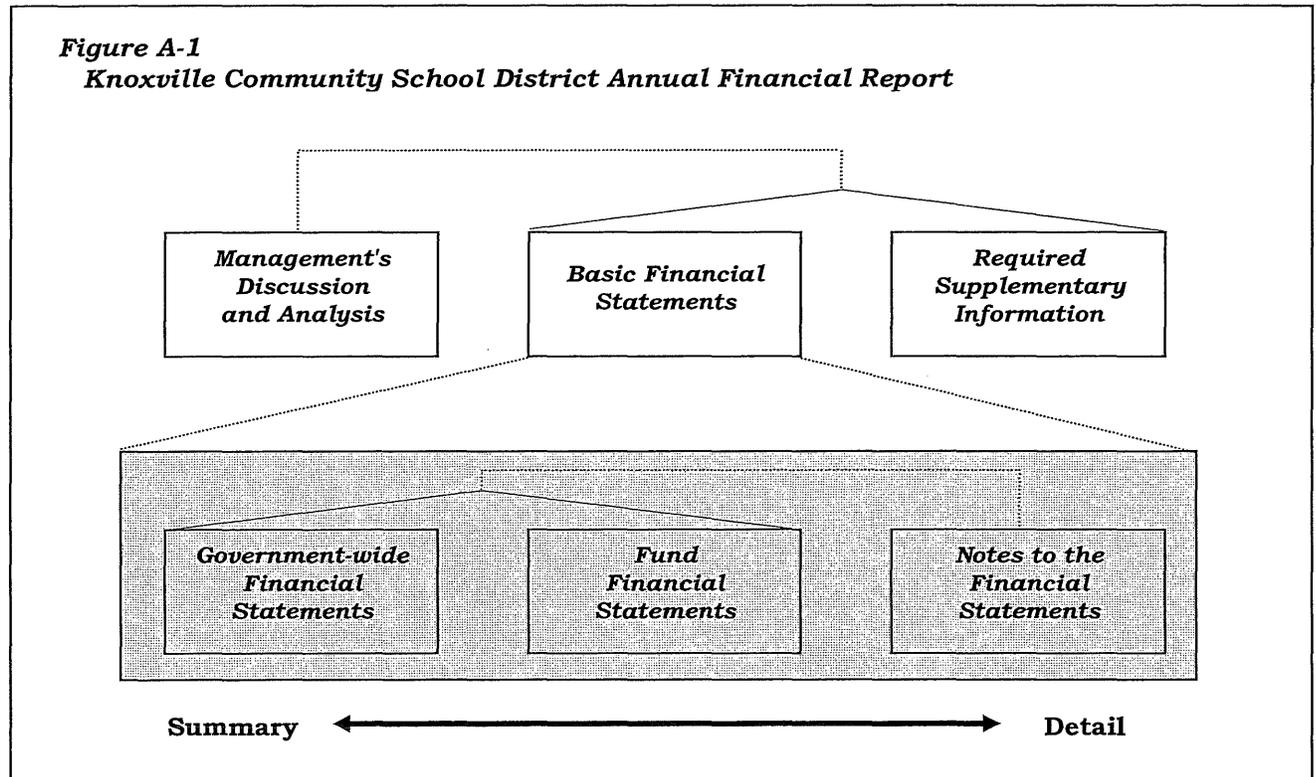


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
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.

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 and Capital Projects Fund.

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. The District's internal service funds, another type of proprietary fund, are the same as its governmental activities but provide more detail and additional information, such as cash flows. The District has two internal service funds: Self-funded Health Insurance and Self-funded Dental Insurance.

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, 2010 compared to June 30, 2009.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business type		Total		Total Change
	Activities		Activities		School District		
	June 30, 2010	2009	June 30, 2010	2009	June 30, 2010	2009	
Current and other assets	\$ 10,010,053	12,825,858	422,782	360,314	10,432,835	13,186,172	-20.88%
Capital assets	15,193,760	15,244,299	181,320	194,820	15,375,080	15,439,119	-0.41%
Total assets	25,203,813	28,070,157	604,102	555,134	25,807,915	28,625,291	-9.84%
Long-term obligations	6,811,513	7,757,175	7,028	3,563	6,818,541	7,760,738	-12.14%
Other liabilities	7,828,949	10,015,347	67,758	67,738	7,896,707	10,083,085	-21.68%
Total liabilities	14,640,462	17,772,522	74,786	71,301	14,715,248	17,843,823	-17.53%
Net assets:							
Invested in capital assets, net of related debt	9,593,760	8,354,299	181,320	194,820	9,775,080	8,549,119	14.34%
Restricted	1,960,867	2,061,040	0	0	1,960,867	2,061,040	-4.86%
Unrestricted	(991,276)	(117,704)	347,996	289,013	(643,280)	171,309	-475.51%
Total net assets	\$ 10,563,351	10,297,635	529,316	483,833	11,092,667	10,781,468	2.89%

The District's combined net assets increased by 2.89%, or \$311,199, 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 decreased \$100,173, or 4.86%, over the prior year. This decrease in

restricted net assets was a result of the District's decrease in Capital Projects Fund balance. This was the result of revenue bond payments and continued construction costs in excess of statewide sales, services and use tax.

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 \$814,859, or 475.51%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance. This was the result of the ten percent across-the-board cut in state aid.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4
Changes of Net Assets

	Governmental		Business type		Total		Total Change
	Activities		Activities		School District		
	2010	2009	2010	2009	2010	2009	
Revenues:							
Program revenues:							
Charges for services	\$ 1,057,341	1,056,552	352,742	402,755	1,410,083	1,459,307	-3.37%
Operating grants and contributions and restricted interest	3,562,818	2,679,576	475,614	398,406	4,038,432	3,077,982	31.20%
Capital grants and contributions and restricted interest	14,519	259,596	0	0	14,519	259,596	-94.41%
General revenues:							
Property tax	5,463,669	5,287,166	0	0	5,463,669	5,287,166	3.34%
Income surtax	513,941	490,152	0	0	513,941	490,152	4.85%
Statewide sales and services tax	1,046,777	1,295,713	0	0	1,046,777	1,295,713	-19.21%
Unrestricted state grants	7,437,303	8,993,801	0	0	7,437,303	8,993,801	-17.31%
Other	144,267	201,110	823	775	145,090	201,885	-28.13%
Total revenues	19,240,635	20,263,666	829,179	801,936	20,069,814	21,065,602	-4.73%
Program expenses:							
Governmental activities:							
Instructional	12,499,525	12,342,414	0	0	12,499,525	12,342,414	1.27%
Support services	4,930,027	5,299,637	872	839	4,930,899	5,300,476	-6.97%
Non-instructional programs	0	0	782,824	772,090	782,824	772,090	1.39%
Other expenses	1,545,367	1,425,444	0	0	1,545,367	1,425,444	8.41%
Total expenses	18,974,919	19,067,495	783,696	772,929	19,758,615	19,840,424	-0.41%
Changes in net assets	265,716	1,196,171	45,483	29,007	311,199	1,225,178	-74.60%
Beginning net assets	10,297,635	9,101,464	483,833	454,826	10,781,468	9,556,290	12.82%
Ending net assets	\$ 10,563,351	10,297,635	529,316	483,833	11,092,667	10,781,468	2.89%

In fiscal 2010, property tax, income surtax, statewide sales and services tax and unrestricted state grants account for 75.16% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.90% of the revenue from business type activities.

The District's total revenues were approximately \$20.07 million of which approximately \$19.24 million was for governmental activities and approximately \$0.83 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.73% decrease in revenues and a 0.41% decrease in expenses. Revenues were decrease as the result of a 10% across the

board cut by the State of Iowa. Expenses were decreased in an effort to match this reduction in revenues.

Governmental Activities

Revenues for governmental activities were \$19,240,635 and expenses were \$18,974,919.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 12,499,525	12,342,414	1.27%	8,630,265	9,301,731	-7.22%
Support services	4,930,027	5,299,637	-6.97%	4,914,031	5,288,518	-7.08%
Other expenses	1,545,367	1,425,444	8.41%	795,945	481,522	65.30%
Totals	\$ 18,974,919	19,067,495	-0.49%	14,340,241	15,071,771	-4.85%

- The cost financed by users of the District’s programs was \$1,057,341.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,577,337.
- The net cost of governmental activities was financed with \$5,463,669 in property tax, \$513,941 in income surtax, \$1,046,777 in statewide sales and services tax, \$7,437,303 in unrestricted state grants, \$14,360 in interest income and \$129,907 in other general revenues.

Business type Activities

Revenues of the District’s business type activities were \$829,179 and expenses were \$783,696. 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 \$1,510,559, significantly below last year’s ending fund balance of \$2,335,140. The primary reason for the decrease in combined fund balance in fiscal 2010 is due to the decrease in the General Fund balance. The decrease in General Fund balance was the result of the ten percent across-the-board cut enacted by the State of Iowa.

Governmental Fund Highlights

- The District’s General Fund financial position is the product of many factors. The state budget cuts resulted in a decrease in revenues. The decrease in expenses was not enough to offset the decrease in revenues thus ensuring the decrease in General Fund balance.

-
- The General Fund balance decreased from a positive \$365,647 to a deficit of \$332,643, due to the 10% across-the-board reduction in state aid during fiscal 2010.
 - The Capital Projects Fund balance decreased from \$416,826 in fiscal 2009 to \$215,662 in fiscal 2010. This was largely the result of a significant decrease in revenues.
 - The Debt Service Fund balance increased from \$1,275,746 in fiscal 2009 to \$1,290,422 in fiscal 2010. This was the result of taxes levied in excess of long-term debt obligations. During the year the District issued \$2,300,000 in general obligation bonds to advance refund \$2,295,000 in general obligation bonds. This present value saving of this refunding is \$136,557.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$483,833 at June 30, 2009 to \$529,316 at June 30, 2010, representing an increase of 9.40%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Knoxville Community School District amended its annual budget one time to reflect additional expenditures related to the football stadium restoration project and other construction projects.

The District's revenues were \$1,196,260 less than budgeted revenues, a variance of 5.64%. The most significant positive variance resulted from the District receiving more in federal sources than originally anticipated. The negative variances in local and state source revenues were not enough to offset the positive variance created by the federal source revenues.

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, 2010, the District had invested \$15,375,080, 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 decrease of less than 1% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$638,119.

The original cost of the District's capital assets was \$24,659,186. Governmental funds account for \$24,064,503 with the remainder of \$594,683 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$147,095 at June 30, 2010, compared to \$101,506 reported at June 30, 2009. This increase resulted from continued work on the utility replacement at the administrative office and beginning work on the middle school gym.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 63,966	63,966	0	0	63,966	63,966	0.00%
Construction in progress	147,095	101,506	0	0	147,095	101,506	44.91%
Buildings	14,439,186	14,514,762	0	0	14,439,186	14,514,762	-0.52%
Machinery and equipment	543,513	564,065	181,320	194,820	724,833	758,885	-4.49%
Total	\$ 15,193,760	15,244,299	181,320	194,820	15,375,080	15,439,119	-0.41%

Long-Term Debt

At June 30, 2010, the District had \$6,818,541 in general obligation and other long-term debt outstanding. This represents a decrease of 12.14% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$2,300,000 at June 30, 2010.

The District had outstanding revenue bonds of \$3,300,000 at June 30, 2010.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$948,260 at June 30, 2010.

The District has a Net OPEB liability of \$270,281 as of June 30, 2010.

Figure A-7
Outstanding Long-Term Obligations

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
General obligation bonds	\$ 2,300,000	3,000,000	0	0	2,300,000	3,000,000	-23.33%
Revenue bonds	3,300,000	3,890,000	0	0	3,300,000	3,890,000	-15.17%
Early retirement	948,260	733,715	0	0	948,260	733,715	29.24%
Net OPEB obligation	263,253	133,460	7,028	3,563	270,281	137,023	97.25%
Total	\$ 6,811,513	7,757,175	7,028	3,563	6,818,541	7,760,738	-12.14%

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 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. The fiscal 2010 ten percent across-the-board reduction caused the district to implement cost-saving measures and put together a plan for the remainder of the 2010/2011 year. The Board of Education will have to determine what cost saving measures we will implement and how much we can spend from our reserves.

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 Secretary/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, 2010

	Governmental Activities	Business type Activities	Total
ASSETS			
Cash and pooled investments:			
U.S. Treasury Securities	\$ 1,175,398	0	1,175,398
Other	2,149,596	381,532	2,531,128
Receivables:			
Property tax:			
Delinquent	107,274	0	107,274
Succeeding year	5,623,226	0	5,623,226
Income surtax	485,870	0	485,870
Accounts	153,727	8,573	162,300
Due from other governments	314,962	0	314,962
Inventories	0	32,677	32,677
Capital assets, net of accumulated depreciation	15,193,760	181,320	15,375,080
TOTAL ASSETS	25,203,813	604,102	25,807,915
LIABILITIES			
Accounts payable	362,359	4,159	366,518
Salaries and benefits payable	1,554,355	50,338	1,604,693
Interest payable	65,888	0	65,888
Deferred revenue:			
Succeeding year property tax	5,623,226	0	5,623,226
Other	223,121	0	223,121
Unearned revenue	0	13,261	13,261
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	750,000	0	750,000
Revenue bonds payable	615,000	0	615,000
Early retirement payable	364,032	0	364,032
Portion due after one year:			
General obligation bonds payable	1,550,000	0	1,550,000
Revenue bonds payable	2,685,000	0	2,685,000
Early retirement payable	584,228	0	584,228
Net OPEB liability	263,253	7,028	270,281
TOTAL LIABILITIES	14,640,462	74,786	14,715,248
NET ASSETS			
Invested in capital assets, net of related debt	9,593,760	181,320	9,775,080
Restricted for:			
Debt service	1,290,422	0	1,290,422
Categorical funding	257,367	0	257,367
Physical plant and equipment levy	1,825	0	1,825
Capital projects	215,662	0	215,662
Other special revenue purposes	195,591	0	195,591
Unrestricted	(991,276)	347,996	(643,280)
TOTAL NET ASSETS	\$ 10,563,351	529,316	11,092,667

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Charges for Services	Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type. Activities		
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 7,934,494	463,347	2,182,960	0	(5,288,187)	0	(5,288,187)
Special	2,148,940	23,093	276,180	0	(1,849,667)	0	(1,849,667)
Other	2,416,091	564,065	359,615	0	(1,492,411)	0	(1,492,411)
	<u>12,499,525</u>	<u>1,050,505</u>	<u>2,818,755</u>	<u>0</u>	<u>(8,630,265)</u>	<u>0</u>	<u>(8,630,265)</u>
Support services:							
Student	400,022	0	0	0	(400,022)	0	(400,022)
Instructional staff	319,354	0	0	0	(319,354)	0	(319,354)
Administration	1,943,566	0	0	0	(1,943,566)	0	(1,943,566)
Operation and maintenance of plant	1,645,892	0	0	0	(1,645,892)	0	(1,645,892)
Transportation	621,193	6,836	9,160	0	(605,197)	0	(605,197)
	<u>4,930,027</u>	<u>6,836</u>	<u>9,160</u>	<u>0</u>	<u>(4,914,031)</u>	<u>0</u>	<u>(4,914,031)</u>
Other expenditures:							
Facilities and acquisitions	88,115	0	0	14,519	(73,596)	0	(73,596)
Long-term debt interest	232,107	0	0	0	(232,107)	0	(232,107)
AEA flowthrough	734,903	0	734,903	0	0	0	0
Depreciation(unallocated)*	490,242	0	0	0	(490,242)	0	(490,242)
	<u>1,545,367</u>	<u>0</u>	<u>734,903</u>	<u>14,519</u>	<u>(795,945)</u>	<u>0</u>	<u>(795,945)</u>
Total governmental activities	<u>18,974,919</u>	<u>1,057,341</u>	<u>3,562,818</u>	<u>14,519</u>	<u>(14,340,241)</u>	<u>0</u>	<u>(14,340,241)</u>
Business Type activities:							
Support services:							
Administration services	872	0	0	0	0	(872)	(872)
Non-instructional programs:							
Nutrition services	782,824	352,742	475,614	0	0	45,532	45,532
Total business type activities	<u>783,696</u>	<u>352,742</u>	<u>475,614</u>	<u>0</u>	<u>0</u>	<u>44,660</u>	<u>44,660</u>
Total	<u>\$ 19,758,615</u>	<u>1,410,083</u>	<u>4,038,432</u>	<u>14,519</u>	<u>(14,340,241)</u>	<u>44,660</u>	<u>(14,295,581)</u>
General Revenues:							
Property tax for:							
General purposes				\$ 4,588,653	0		4,588,653
Debt service				830,762	0		830,762
Capital outlay				44,254	0		44,254
Income surtax				513,941	0		513,941
Statewide sales, services and use tax				1,046,777	0		1,046,777
Unrestricted state grants				7,437,303	0		7,437,303
Unrestricted investment earnings				14,360	157		14,517
Other general revenues				129,907	666		130,573
Total general revenues				<u>14,605,957</u>	<u>823</u>		<u>14,606,780</u>
Changes in net assets				<u>265,716</u>	<u>45,483</u>		<u>311,199</u>
Net assets beginning of year				<u>10,297,635</u>	<u>483,833</u>		<u>10,781,468</u>
Net assets end of year				<u>\$ 10,563,351</u>	<u>529,316</u>		<u>11,092,667</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, 2010

	General	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
U.S. Treasury Securities	\$ 0	1,175,398	0	1,175,398
Other	1,466,429	98,102	333,772	1,898,303
Receivables:				
Property tax:				
Delinquent	79,616	16,922	10,736	107,274
Succeeding year	4,288,926	780,533	553,767	5,623,226
Income surtax	485,870	0	0	485,870
Accounts	139,577	0	14,150	153,727
Due from other governments	114,556	0	200,406	314,962
TOTAL ASSETS	\$ 6,574,974	2,070,955	1,112,831	9,758,760
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 355,345	0	6,284	361,629
Salaries and benefits payable	1,554,355	0	0	1,554,355
Deferred revenue:				
Succeeding year property tax	4,288,926	780,533	553,767	5,623,226
Income surtax	485,870	0	0	485,870
Other	223,121	0	0	223,121
Total liabilities	6,907,617	780,533	560,051	8,248,201
Fund balances:				
Reserved for:				
Debt service	0	1,290,422	0	1,290,422
Categorical funding	257,367	0	0	257,367
Unreserved	(590,010)	0	552,780	(37,230)
Total fund balances	(332,643)	1,290,422	552,780	1,510,559
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,574,974	2,070,955	1,112,831	9,758,760

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total fund balances of governmental funds (page 20)	\$	1,510,559
 <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.		15,193,760
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		250,563
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		485,870
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.		(65,888)
Long-term liabilities, including bonds payable, early retirement payable and other post employment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(6,811,513)</u>
Net assets of governmental activities (page 18)	\$	<u>10,563,351</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 4,554,487	830,762	1,589,422	6,974,671
Tuition	412,384	0	0	412,384
Other	159,140	2,684	655,977	817,801
State sources	9,422,841	0	0	9,422,841
Federal sources	1,563,222	0	0	1,563,222
Total revenues	16,112,074	833,446	2,245,399	19,190,919
EXPENDITURES:				
Current:				
Instruction:				
Regular	7,386,684	0	337,018	7,723,702
Special	2,163,846	0	0	2,163,846
Other	1,898,628	0	517,463	2,416,091
	11,449,158	0	854,481	12,303,639
Support services:				
Student	358,266	0	0	358,266
Instructional staff	319,171	0	0	319,171
Administration	1,919,119	0	15,865	1,934,984
Operation and maintenance of plant	1,506,879	0	148,667	1,655,546
Transportation	522,868	0	86,835	609,703
	4,626,303	0	251,367	4,877,670
Other expenditures:				
Facilities acquisitions	0	0	548,370	548,370
Long-term debt:				
Principal	0	1,295,000	0	1,295,000
Interest and fiscal charges	0	246,516	0	246,516
AEA flowthrough	734,903	0	0	734,903
	734,903	1,541,516	548,370	2,824,789
Total expenditures	16,810,364	1,541,516	1,654,218	20,006,098
Excess(deficiency) of revenues over over(under) expenditures	(698,290)	(708,070)	591,181	(815,179)
Other financing sources(uses):				
Transfer in	0	732,148	0	732,148
Transfer out	0	0	(732,148)	(732,148)
Refunding bond issuance	0	2,300,000	0	2,300,000
Payment to escrow	0	(2,295,000)	0	(2,295,000)
Issuance costs	0	(15,782)	0	(15,782)
Premium on issuance of bonds	0	7,440	0	7,440
Discount on issuance of bonds	0	(6,060)	0	(6,060)
Total other financing sources(uses)	0	722,746	(732,148)	(9,402)
Net change in fund balances	(698,290)	14,676	(140,967)	(824,581)
Fund balance beginning of year	365,647	1,275,746	693,747	2,335,140
Fund balance end of year	\$ (332,643)	1,290,422	552,780	1,510,559

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, 2010

Net change in fund balances - total governmental funds (page 22) \$ (824,581)

**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	\$ 560,939	
Depreciation expense	(611,478)	(50,539)

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 131,049

Proceeds from issuing long-term liabilities provide current financial resources to government funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issuances exceeded repayments, as follows:

Issued	\$ (2,300,000)	
Repaid	3,590,000	1,290,000

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. 14,409

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 49,716

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	(214,545)	
Other postemployment benefits	(129,793)	(344,338)

Changes in net assets of governmental activities (page 19) \$ 265,716

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2010

	Business Type	
	School Nutrition	Governmental Activities: Internal Service Fund
ASSETS		
Cash and pooled investments	\$ 381,532	251,293
Accounts receivable	8,573	0
Inventories	32,677	0
Capital assets, net of accumulated depreciation	181,320	0
TOTAL ASSETS	604,102	251,293
LIABILITIES		
Accounts payable	4,159	730
Salaries and benefits payable	50,338	0
Unearned revenue	13,261	0
Net OPEB liability	7,028	0
TOTAL LIABILITIES	74,786	730
NET ASSETS		
Invested in capital assets	181,320	0
Unrestricted	347,996	250,563
TOTAL NET ASSETS	\$ 529,316	250,563

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business Type	
	Enterprise Fund	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 352,742	2,351,871
Miscellaneous	666	0
TOTAL OPERATING REVENUES	<u>353,408</u>	<u>2,351,871</u>
OPERATING EXPENSES:		
Support services:		
Administration services:		
Benefits	0	2,220,822
Services	872	0
	<u>872</u>	<u>2,220,822</u>
Non-instructional programs:		
Food service operations:		
Salaries	257,521	0
Benefits	93,145	0
Services	22,020	0
Supplies	383,497	0
Depreciation	26,641	0
	<u>782,824</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>783,696</u>	<u>2,220,822</u>
OPERATING INCOME (LOSS)	<u>(430,288)</u>	<u>131,049</u>
NON-OPERATING REVENUES:		
State sources	8,557	0
Federal sources	467,057	0
Interest on investments	157	0
TOTAL NON-OPERATING REVENUES	<u>475,771</u>	<u>0</u>
Change in net assets	45,483	131,049
Net assets beginning of year	<u>483,833</u>	<u>119,514</u>
Net assets end of year	<u>\$ 529,316</u>	<u>250,563</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business Type	
	Enterprise Fund	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 347,692	0
Cash received from miscellaneous	666	2,369,535
Cash payments to employees for services	(348,696)	0
Cash payments to suppliers for goods or services	(343,917)	(2,222,251)
Net cash provided by(used in) operating activities	<u>(344,255)</u>	<u>147,284</u>
Cash flows from non-capital financing activities:		
State grants received	8,557	0
Federal grants received	399,273	0
Net cash provided by non-capital financing activities	<u>407,830</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(13,141)	0
Cash flows from investing activities:		
Interest on investments	157	0
Net increase in cash and cash equivalents	50,591	147,284
Cash and cash equivalents at beginning of year	330,941	104,009
Cash and cash equivalents at end of year	<u>\$ 381,532</u>	<u>251,293</u>
Reconciliation of operating income(loss) to net cash used in operating activities:		
Operating income(loss)	\$ (430,288)	131,049
Adjustments to reconcile operating income(loss) to net cash used in operating activities:		
Commodities consumed	67,784	0
Depreciation	26,641	0
Increase in inventories	(6,282)	0
Decrease(Increase) in accounts receivable	(5,595)	17,664
Increase(Decrease) in accounts payable	970	(1,429)
Decrease in salaries and benefits payable	(1,495)	0
Increase in unearned revenue	545	0
Increase in other postemployment benefits	3,465	0
Net cash used in operating activities	<u>\$ (344,255)</u>	<u>147,284</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$67,784.

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2010

	Private Purpose Trust Scholarship Fund	Agency Fund
ASSETS		
Cash and pooled investments	\$ 3,023	76,739
LIABILITIES		
Accounts payable	0	41,029
Due to other groups	0	35,710
Total liabilities	0	76,739
NET ASSETS		
Reserved for scholarships	\$ 3,023	0

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2010

	Private Purpose Trust
	Scholarship Fund
Additions:	
Local sources:	
Gifts and contributions	\$ 300
Interest income	251
Total additions	551
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	353
Change in net assets	198
Net assets beginning of year	2,825
Net assets end of year	\$ 3,023

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

(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 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 held 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 Balances

The following accounting policies are followed in preparing the financial statements:

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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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, equipment, and intangibles 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
Intangibles	50,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Capital assets 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
Intangibles	2 or more 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 Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2010 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, 2010 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$2,130,910 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

At June 30, 2010 the District had investments in U.S. Treasury Securities which are stated at the fair value of \$1,175,398. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

(3) Transfers

The detail of transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 732,148

The Capital Projects transfer to Debt Service was needed for principal and interest payments on the District's revenue bond indebtedness.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.50%. The interest rate on the 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. NA prime rate plus 50 basis points with a minimum interest rate of 4.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance			Balance End of Year
			Beginning of Year	Advances Received	Advances Repaid	
2009-10A	6/25/09	6/23/10	\$ 0	2,000,000	2,000,000	0
2009-10B	2/1/10	1/21/11	0	500,000	500,000	0
			\$ 0	2,500,000	2,500,000	0

During the year ended June 30, 2010, the District paid \$55,314 of interest on the ISCAP warrants.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 584,647	13,141	3,105	594,683
Less accumulated depreciation	389,827	26,641	3,105	413,363
Business type activities capital assets, net	\$ 194,820	(13,500)	0	181,320
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 63,966	0	0	63,966
Construction in progress	101,506	138,104	92,515	147,095
Total capital assets not being depreciated	165,472	138,104	92,515	211,061
Capital assets being depreciated:				
Buildings	20,520,368	414,666	0	20,935,034
Machinery and equipment	2,936,324	100,684	118,600	2,918,408
Total capital assets being depreciated	23,456,692	515,350	118,600	23,853,442
Less accumulated depreciation for:				
Buildings	6,005,606	490,242	0	6,495,848
Machinery and equipment	2,372,259	121,236	118,600	2,374,895
Total accumulated depreciation	8,377,865	611,478	118,600	8,870,743
Total capital assets being depreciated, net	15,078,827	(96,128)	0	14,982,699
Governmental activities capital assets, net	\$ 15,244,299	41,976	92,515	15,193,760

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 22,187
Support services:		
Student		231
Operation and maintenance of plant		10,804
Transportation		88,014
		<u>121,236</u>
Unallocated depreciation		<u>490,242</u>
Total governmental activities depreciation expense		<u>\$ 611,478</u>
Business type activities:		
Food services		<u>\$ 26,641</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 3,000,000	2,300,000	3,000,000	2,300,000	750,000
Revenue bonds	3,890,000	0	590,000	3,300,000	615,000
Early retirement	733,715	502,600	288,055	948,260	364,032
Net OPEB liability	133,460	129,793	0	263,253	0
Total	<u>\$ 7,757,175</u>	<u>2,932,393</u>	<u>3,878,055</u>	<u>6,811,513</u>	<u>1,729,032</u>
Business Type Activities:					
Net OPEB liability	\$ 3,563	3,465	0	7,028	0

General Obligation Bonds Payable

Details of the District's June 30, 2010 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of April 12, 2010			
	Interest Rates	Principal	Interest	Total
2011	1.00 %	\$ 750,000	30,533	780,533
2012	1.25	770,000	19,375	789,375
2013	1.25	780,000	9,750	789,750
Total		<u>\$ 2,300,000</u>	<u>59,658</u>	<u>2,359,658</u>

Revenue Bonds Payable

Details of the District's June 30, 2010 statewide sales, services and use tax revenue bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of October 1, 2005				
	Interest Rates		Principal	Interest	Total
2011	3.55	% \$	615,000	107,639	722,639
2012	3.55		635,000	85,451	720,451
2013	3.55		660,000	62,465	722,465
2014	3.60		680,000	38,510	718,510
2015	3.70		710,000	13,135	723,135
Total			\$ 3,300,000	307,200	3,607,200

The District has pledged future statewide sales, services and use tax revenue to repay the \$5,010,000 bonds issued in October 2005. The 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 statewide sales, services and use tax revenues received by the District and are payable through 2015. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds required 55.48% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$3,607,200. For the current year, principal and interest paid on the bonds was \$719,280 and statewide sales, services and use tax revenue were \$1,046,777.

The resolution providing for the issuance of the statewide sales, services and use 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 statewide sales, services and use 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 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, 2010, totaled \$288,055. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

(7) Advance Refunding

On April 12, 2010, the District issued \$2,300,000 in general obligation bonds to advance refund \$2,295,000 to call the outstanding general obligation bonds dated May 1, 2003. The new advance refunding bonds have been added to the appropriate financial statements and schedules. The present value savings of this bond refunding is \$136,557.

(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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$706,011, \$683,117, and \$619,611 respectively, equal to the required contributions for each year.

(9) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 234 active and 0 retired members in the plan. Employees must be age 55 or older at retirement and have ten or more years of service to the District.

The medical/prescription drug benefit, which is a fully-funded medical plan, is administered by United Healthcare of River Valley. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability. There is no subsidy or OPEB liability associated with the dental benefit.

Funding Policy - the contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a

level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 189,783
Interest on net OPEB obligation	3,426
Adjustment to annual required contribution	(6,385)
Annual OPEB cost (expense)	<u>186,824</u>
Contributions made	(53,566)
Increase in net OPEB obligation	<u>133,258</u>
Net OPEB obligation - beginning of year	<u>137,023</u>
Net OPEB obligation - end of year	<u>\$ 270,281</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2010.

For fiscal year 2010, the District contributed \$0 to the medical plan. Plan members receiving benefits contributed \$13,685, or 100% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/09	\$ 186,824	28.7%	\$ 270,281

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$1.385 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.385 million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.854 million, and the ratio of the UAAL to the covered payroll was 14.1%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information in the section following the Notes to the Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The ultimate medical trend rate is 6%. The medical trend rate is reduced by a percentage each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2009 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2009.

Projected claim costs of the medical plan are \$586 per month for retirees developed from a combination of age adjusted fully insured premiums and manual claims costs. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(10) Risk Management

The District has a self-funded dental insurance plan. Total out of pocket expense per participant is \$1,000. Settled 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 \$109,935 at June 30, 2010.

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.

(11) Deficit Net Assets

The General Fund had deficit unreserved fund balance at June 30, 2010 of \$590,010. The District also had a deficit unrestricted net assets balance in the governmental activities of \$991,276.

(12) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The

District's actual amount for this purpose totaled \$734,903 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(13) Categorical Funding

The District's ending reserved balances for categorical funding as of June 30, 2010 are broken out by the following projects:

<u>Project</u>	<u>Amount</u>
Talented and gifted	\$ 140,188
Salary improvement program	86,447
Core curriculum	30,732
Total	<u>\$ 257,367</u>

(14) Construction Commitment

The District has entered into various contracts totaling \$261,745. Projects included in the construction in progress are a middle school gym renovation and utility replacement at the administration office. As of June 30, 2010, costs of \$147,095 had been incurred against the contracts. The balance of \$114,650 remaining at June 30, 2010 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2010

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 8,204,856	353,565	8,558,421	8,758,677	8,758,677	(200,256)
State sources	9,422,841	8,557	9,431,398	11,428,681	11,428,681	(1,997,283)
Federal sources	1,563,222	467,057	2,030,279	1,029,000	1,029,000	1,001,279
Total revenues	19,190,919	829,179	20,020,098	21,216,358	21,216,358	(1,196,260)
Expenditures/Expenses:						
Instruction	12,303,639	0	12,303,639	12,362,224	12,362,224	58,585
Support services	4,877,670	872	4,878,542	5,916,100	5,916,100	1,037,558
Non-instructional programs	0	782,824	782,824	1,250,100	1,250,100	467,276
Other expenditures	2,824,789	0	2,824,789	2,807,266	2,957,266	132,477
Total expenditures/expenses	20,006,098	783,696	20,789,794	22,335,690	22,485,690	1,695,896
Excess (deficiency) of revenues over (under) expenditures/expenses	(815,179)	45,483	(769,696)	(1,119,332)	(1,269,332)	499,636
Other financing uses, net	(9,402)	0	(9,402)	0	0	9,402
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(824,581)	45,483	(779,098)	(1,119,332)	(1,269,332)	(490,234)
Balance beginning of year	2,335,140	483,833	2,818,973	2,542,387	2,542,387	276,586
Balance end of year	\$ 1,510,559	529,316	2,039,875	1,423,055	1,273,055	766,820

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

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 \$150,000.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(IN THOUSANDS)

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2009	July 1 ,2008	-	\$ 1,385	1,385	0.0%	\$ 9,011	15.4%
2010	July 1 ,2008	-	1,385	1,385	0.0%	9,854	14.1%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Nonmajor Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 130,404	195,870	3,231	329,505	4,267	333,772
Receivables:						
Property tax:						
Delinquent	9,834	0	902	10,736	0	10,736
Succeeding year	500,000	0	53,767	553,767	0	553,767
Accounts	34	0	0	34	14,116	14,150
Due from other governments	0	0	0	0	200,406	200,406
TOTAL ASSETS	\$ 640,272	195,870	57,900	894,042	218,789	1,112,831
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 570	279	2,308	3,157	3,127	6,284
Deferred revenue:						
Succeeding year property tax	500,000	0	53,767	553,767	0	553,767
Total liabilities	500,570	279	56,075	556,924	3,127	560,051
Unreserved fund balances	139,702	195,591	1,825	337,118	215,662	552,780
TOTAL LIABILITIES AND FUND BALANCES	\$ 640,272	195,870	57,900	894,042	218,789	1,112,831

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2010

	Nonmajor Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 498,391	0	44,254	542,645	1,046,777	1,589,422
Other	62,984	564,068	204	627,256	28,721	655,977
TOTAL REVENUES	561,375	564,068	44,458	1,169,901	1,075,498	2,245,399
EXPENDITURES:						
Current:						
Instruction:						
Regular	337,018	0	0	337,018	0	337,018
Other	0	517,463	0	517,463	0	517,463
Support services:						
Administration	15,266	177	0	15,443	422	15,865
Operation and maintenance of plant	148,667	0	0	148,667	0	148,667
Student transportation	11,888	0	0	11,888	74,947	86,835
Other expenditures:						
Facilities acquisitions	0	0	79,225	79,225	469,145	548,370
TOTAL EXPENDITURES	512,839	517,640	79,225	1,109,704	544,514	1,654,218
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	48,536	46,428	(34,767)	60,197	530,984	591,181
OTHER FINANCING USES:						
Transfer out	0	0	0	0	(732,148)	(732,148)
NET CHANGE IN FUND BALANCES	48,536	46,428	(34,767)	60,197	(201,164)	(140,967)
FUND BALANCE BEGINNING OF YEAR	91,166	149,163	36,592	276,921	416,826	693,747
FUND BALANCE END OF YEAR	\$ 139,702	195,591	1,825	337,118	215,662	552,780

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund & Intrafund Transfers	Balance End of Year
<u>Academic Clubs:</u>					
HS Band	\$ 46	0	0	0	46
HS Camera Club	3,517	8,433	8,929	30	3,051
HS Drama Club	811	3,106	3,656	192	453
HS Science Club	2,251	20,981	16,981	0	6,251
HS Vocal	2,610	7,940	5,270	46	5,326
MS Band	315	0	0	0	315
MS Vocal	0	0	200	0	(200)
Knoxville Art Club	0	1,750	0	0	1,750
Middle Student Advisory	10,405	30,251	29,196	392	11,852
	<u>19,955</u>	<u>72,461</u>	<u>64,232</u>	<u>660</u>	<u>28,844</u>
<u>Athletic Support:</u>					
Baseball Club	23,174	19,969	20,520	0	22,623
Drill Team	9,650	11,350	16,277	0	4,723
Girls Softball Club	8,303	2,514	6,988	0	3,829
MS Cheerleaders	0	0	500	0	(500)
HS Cheerleaders	209	7,078	4,485	200	3,002
MS Baseball Club	419	0	0	0	419
Panther Basketball	5,166	10,216	10,282	0	5,100
Panther Club	1,617	0	0	0	1,617
Panther Football Club	6,757	9,339	8,165	0	7,931
Panther Soccer	3,411	4,606	1,633	2,168	8,552
Pantherette Girls	2,791	56,495	52,433	(30)	6,823
Panther Girls Track Club	820	12,381	13,510	0	(309)
Pantherette Soccer	109	1,321	2,140	818	108
Pepsi Pop Fund	958	6,760	5,417	0	2,301
MS Softball Club	0	1,099	0	0	1,099
Wrestling Club	3,146	14,147	16,719	(200)	374
Volleyball Club	341	6,963	4,905	0	2,399
Bowling Club	4,998	5,589	1,473	0	9,114
Girls Golf Club	26	950	876	0	100
Girls Cross Country	689	1,967	1,707	0	949
7th Grade Girls Basketball Club	0	673	90	(416)	167
	<u>72,584</u>	<u>173,417</u>	<u>168,120</u>	<u>2,540</u>	<u>80,421</u>
<u>Boys Athletics:</u>					
Baseball	(62,793)	3,768	6,211	0	(65,236)
Boys Basketball	45,022	9,558	5,536	0	49,044
Boys Cross Country	(14,950)	410	2,276	0	(16,816)
Boys Golf	(11,749)	360	1,599	0	(12,988)
Boys Soccer	710	4,705	1,805	(2,168)	1,442
Boys Tennis	(8,030)	180	923	0	(8,773)
Boys Track	(14,790)	1,563	2,813	0	(16,040)
Football	74,791	21,372	15,987	0	80,176
Wrestling	(17,387)	3,173	2,092	0	(16,306)
	<u>(9,176)</u>	<u>45,089</u>	<u>39,242</u>	<u>(2,168)</u>	<u>(5,497)</u>
<u>Classes:</u>					
Freshman Class	30	0	0	(30)	0
Sophomore Class	60	0	0	(30)	30
Junior Class	3,799	17,186	14,811	(2,300)	3,874
Senior Class	553	400	2,474	1,760	239
	<u>4,442</u>	<u>17,586</u>	<u>17,285</u>	<u>(600)</u>	<u>4,143</u>

Schedule 3

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund & Intrafund Transfers	Balance End of Year
<u>East Elementary Activities:</u>					
East Book Fair	2,461	6,629	6,078	0	3,012
East Doughnut Resale	1,104	4,782	5,874	0	12
East Elem. Activity Tickets	0	450	0	(450)	0
	<u>3,565</u>	<u>11,861</u>	<u>11,952</u>	<u>(450)</u>	<u>3,024</u>
<u>General Athletics:</u>					
Cheerleading	(6,464)	300	0	0	(6,164)
Drill Team	(9,870)	0	0	0	(9,870)
HS General Athletics	(62,743)	43,136	48,956	14,055	(54,508)
State Tournament	3,386	4,170	1,505	0	6,051
	<u>(75,691)</u>	<u>47,606</u>	<u>50,461</u>	<u>14,055</u>	<u>(64,491)</u>
<u>Girls Athletics:</u>					
Girls Basketball	24,860	8,121	5,515	0	27,466
Girls Cross Country	(9,449)	410	1,509	0	(10,548)
Girls Golf	(8,822)	120	1,033	0	(9,735)
Girls Soccer	(9,056)	2,533	2,245	(848)	(9,616)
Girls Tennis	(5,210)	60	128	0	(5,278)
Girls Track	(24,324)	1,356	2,037	0	(25,005)
Softball	(34,432)	3,087	3,011	0	(34,356)
Volleyball	(11,130)	4,552	2,753	0	(9,331)
Bowling	397	901	178	0	1,120
	<u>(77,166)</u>	<u>21,140</u>	<u>18,409</u>	<u>(848)</u>	<u>(75,283)</u>
<u>Middle School Boys Athletics:</u>					
MS Baseball	(19,400)	1,129	845	0	(19,116)
MS Boys Basketball	7,626	2,503	1,655	0	8,474
MS Boys Track	(5,051)	170	1,739	0	(6,620)
MS Cross Country	(20)	0	0	0	(20)
MS Football	(19,274)	1,920	3,790	0	(21,144)
MS Wrestling	(2,795)	840	498	0	(2,453)
	<u>(38,914)</u>	<u>6,562</u>	<u>8,527</u>	<u>0</u>	<u>(40,879)</u>
<u>Middle School General Athletics:</u>					
MS General Athletics	1,363	0	50	4,685	5,998
<u>Middle School Girls Athletics:</u>					
MS Girls Basketball	1,429	2,747	2,163	416	2,429
MS Girls Track	728	400	2,011	0	(883)
MS Softball	(12,996)	114	593	0	(13,475)
MS Volleyball	3,672	1,606	1,266	0	4,012
	<u>(7,167)</u>	<u>4,867</u>	<u>6,033</u>	<u>416</u>	<u>(7,917)</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund & Intrafund Transfers	Balance End of Year
<u>Northstar Elementary Activities:</u>					
Northstar Activity Tickets	0	875	0	(875)	0
Northstar Birthday Book	78	0	0	0	78
Northstar Book Fair	3,518	7,094	6,119	(110)	4,383
Northstar Resale	13,484	4,334	4,184	200	13,834
Northstar Student Council	1,221	707	1,492	0	436
Northstar Student Teachers	1,984	0	872	0	1,112
	<u>20,285</u>	<u>13,010</u>	<u>12,667</u>	<u>(785)</u>	<u>19,843</u>
<u>Other Activities:</u>					
6th Grade Resale	62	0	0	0	62
7th Grade Resale	5,042	3,535	1,963	0	6,614
8th Grade Resale	1,775	0	0	0	1,775
Activity Interest	4,678	1,633	(1)	(239)	6,073
Student Council CD	2,500	305	0	(305)	2,500
Auditorium Project	5,415	0	0	3	5,418
Collins Fund	87,465	0	1,316	0	86,149
FCCLA CD	1,440	0	0	31	1,471
Goal Activity	7,123	2,022	532	0	8,613
HS Activity Tickets	90	11,525	0	(11,565)	50
HS Book Fair	118	690	527	0	281
HS Resale	768	864	976	0	656
HS Student Teacher	1,693	410	682	0	1,421
HS Pepsi Pop Fund	10,306	37,435	30,345	765	18,161
International Club	1,040	0	0	0	1,040
ISJIT	2,201	0	0	3	2,204
K-Fund Yearbook	9,557	6,261	8,642	305	7,481
Middle Activity Tickets	100	5,025	0	(5,025)	100
Middle Annual/Yearbook	1,638	5,980	556	0	7,062
Middle Resale	3,261	5,075	491	(392)	7,453
Middle Student Teachers	398	227	184	0	441
Middle Book Fair	1,098	3,316	3,564	0	850
National Honor Society	343	250	131	0	462
Panther Club Scholarship	12,004	0	0	115	12,119
Spanish Club	333	0	0	0	333
Student Senate	1,991	6,679	7,826	(30)	814
Student Senate Scholarship	1,865	0	0	42	1,907
Team Nutrition Club	698	1,035	1,238	0	495
	<u>165,002</u>	<u>92,267</u>	<u>58,972</u>	<u>(16,292)</u>	<u>182,005</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund & Intrafund Transfers	Balance End of Year
<u>Vocational Clubs:</u>					
Construction Trades	37,716	0	171	0	37,545
FCCLA Account	4,832	1,340	971	0	5,201
FFA Account	8,551	43,042	44,411	(188)	6,994
Industrial Arts	698	0	0	0	698
	<u>51,797</u>	<u>44,382</u>	<u>45,553</u>	<u>(188)</u>	<u>50,438</u>
<u>West Elementary Activities:</u>					
West Activity Tickets	0	825	0	(825)	0
West Book Fair	5,092	7,925	6,792	0	6,225
West Resale	2,230	200	140	0	2,290
West Student Teacher	1,374	0	372	0	1,002
West Student Council	9,588	4,870	8,833	(200)	5,425
	<u>18,284</u>	<u>13,820</u>	<u>16,137</u>	<u>(1,025)</u>	<u>14,942</u>
Total	\$ 149,163	564,068	517,640	0	195,591

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST
 JUNE 30, 2010

	Private Purpose Trust - Scholarship Fund				
	Locke Memorial	Tunnie Memorial	Cox Scholarship	Norton Scholarship	Total
ASSETS:					
Cash and pooled investments	\$ 108	583	2,257	75	3,023
LIABILITIES					
	0	0	0	0	0
NET ASSETS:					
Reserved for scholarships	\$ 108	583	2,257	75	3,023

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, 2010

	Private Purpose Trust - Scholarship Fund				
	Locke Memorial	Tunnie Memorial	Cox Scholarship	Norton Scholarship	Total
ADDITIONS:					
Local sources:					
Gifts and contributions	\$ 0	0	300	0	300
Interest income	0	0	251	0	251
TOTAL ADDITIONS	0	0	551	0	551
DEDUCTIONS:					
Instruction:					
Regular:					
Scholarships awarded	33	0	300	20	353
Change in net assets	(33)	0	251	(20)	198
NET ASSETS BEGINNING OF YEAR	141	583	2,006	95	2,825
NET ASSETS END OF YEAR	\$ 108	583	2,257	75	3,023

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2010

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<u>MARION COUNTY EMPOWERMENT</u>				
ASSETS				
Cash and pooled investments	\$ 106,830	339,126	373,929	72,027
LIABILITIES				
Accounts payable	\$ 0	41,029	0	41,029
Due to other groups	106,830	298,097	373,929	30,998
	<u>\$ 106,830</u>	<u>339,126</u>	<u>373,929</u>	<u>72,027</u>
<u>KCSD EMPLOYEE FLEX SPENDING</u>				
Cash and pooled investments	\$ 3,558	61,587	60,433	4,712
LIABILITIES				
Due to other groups	\$ 3,558	61,587	60,433	4,712
<u>TOTALS - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and pooled investments	\$ 110,388	400,713	434,362	76,739
LIABILITIES				
Accounts payable	\$ 0	41,029	0	41,029
Due to other groups	110,388	359,684	434,362	35,710
	<u>\$ 110,388</u>	<u>400,713</u>	<u>434,362</u>	<u>76,739</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Health Insurance	Self-funded Dental Insurance	Total
ASSETS:			
Cash and pooled investments	\$ 141,898	109,395	251,293
TOTAL ASSETS	141,898	109,395	251,293
LIABILITIES:			
Accounts payable	730	0	730
TOTAL LIABILITIES	730	0	730
NET ASSETS	\$ 141,168	109,395	250,563

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, 2010

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Health Insurance	Self-funded Dental Insurance	Total
OPERATING REVENUES:			
Local sources:			
Charges for services	\$ 2,184,131	167,740	2,351,871
TOTAL OPERATING REVENUE	<u>2,184,131</u>	<u>167,740</u>	<u>2,351,871</u>
OPERATING EXPENSES:			
Support services:			
Administration services:			
Benefits	2,060,493	160,329	2,220,822
TOTAL OPERATING EXPENSES	<u>2,060,493</u>	<u>160,329</u>	<u>2,220,822</u>
CHANGE IN NET ASSETS	123,638	7,411	131,049
NET ASSETS BEGINNING OF YEAR	<u>17,530</u>	<u>101,984</u>	<u>119,514</u>
NET ASSETS END OF YEAR	<u>\$ 141,168</u>	<u>109,395</u>	<u>250,563</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUND
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Health Insurance	Self-funded Dental Insurance	Total
Cash flows from operating activities:			
Cash received from miscellaneous	\$ 2,201,795	167,740	2,369,535
Cash payments to suppliers for goods or services	(2,061,922)	(160,329)	(2,222,251)
Net cash provided by(used in) operating activities	<u>139,873</u>	<u>7,411</u>	<u>147,284</u>
Net increase in cash and cash equivalents	139,873	7,411	147,284
Cash and cash equivalents at beginning of year	<u>2,025</u>	<u>101,984</u>	<u>104,009</u>
Cash and cash equivalents at end of year	<u>\$ 141,898</u>	<u>109,395</u>	<u>251,293</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income	\$ 123,638	7,411	131,049
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Decrease in accounts receivable	17,664	0	17,664
Decrease in accounts payable	(1,429)	0	(1,429)
Net cash provided by(used in) operating activities	<u>\$ 139,873</u>	<u>7,411</u>	<u>147,284</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenues:										
Local sources:										
Local tax	\$ 6,974,671	7,070,071	6,370,480	6,373,520	6,436,297	6,271,019	5,406,638	4,913,053	4,835,920	4,772,508
Tuition	412,384	411,511	352,774	444,933	435,713	412,584	384,825	381,387	361,980	329,652
Other	817,801	1,105,747	817,629	951,118	900,892	755,925	684,887	699,016	721,930	801,575
Intermediate sources	0	0	22,141	0	0	0	300	1,000	0	0
State sources	9,422,841	10,973,173	10,996,970	10,383,090	9,666,649	9,266,712	8,566,918	8,786,235	8,453,282	8,368,970
Federal sources	1,563,222	700,204	499,102	483,871	515,121	526,675	525,896	435,357	339,941	423,092
Total	\$ 19,190,919	20,260,706	19,059,096	18,636,532	17,954,672	17,232,915	15,569,464	15,216,048	14,713,053	14,695,797
Expenditures:										
Instruction:										
Regular	\$ 7,723,702	7,783,173	7,274,840	6,805,524	6,232,711	5,859,910	5,618,174	5,589,416	5,192,544	5,324,125
Special	2,163,846	2,303,370	2,282,564	2,192,323	2,059,686	2,310,021	2,000,372	1,901,912	1,853,914	1,518,227
Other	2,416,091	2,331,557	2,280,782	2,223,187	2,192,156	1,314,612	1,201,591	1,226,426	1,308,972	1,152,825
Support services:										
Student	358,266	434,005	433,321	429,610	429,577	688,674	679,614	699,172	730,852	683,615
Instructional staff	319,171	394,561	415,359	396,764	389,630	821,959	673,089	632,391	674,561	531,408
Administration	1,934,984	2,050,703	2,130,779	1,928,616	1,859,177	1,683,840	1,529,732	1,539,928	1,428,344	1,434,740
Operation and maintenance of plant	1,655,546	1,738,269	1,581,508	1,551,750	1,514,703	1,375,891	1,395,117	1,369,916	1,338,341	1,297,707
Transportation	609,703	676,125	644,203	612,541	537,821	541,570	427,597	452,659	547,922	488,721
Other support	0	0	0	0	0	1,750	73,529	93,511	100,378	165,474
Non-instructional programs	0	0	0	0	100	9,976	7,384	6,080	8,139	12,154
Other expenditures:										
Facilities acquisitions	548,370	617,586	764,091	2,086,702	3,903,561	844,960	496,057	187,865	143,766	215,113
Long-term debt:										
Principal	1,295,000	1,250,000	1,200,000	625,000	600,000	565,000	540,000	505,000	475,000	460,000
Interest	246,516	305,731	351,292	429,800	270,500	261,765	291,003	325,532	350,943	378,613
AEA flow-through	734,903	686,326	663,042	632,385	588,615	566,235	546,076	585,932	580,772	588,579
Total	\$ 20,006,098	20,571,406	20,021,791	19,914,202	20,578,237	16,846,163	15,479,335	15,115,740	14,734,448	14,251,301

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	\$ 69,562
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	386,095 *
			<u>455,657</u>
TEAM NUTRITION GRANT	10.574	FY 10	<u>9,000</u>
SCHOOL LUNCH EQUIPMENT GRANTS STABILIZATION	10.579	FY 10	<u>2,400</u>
U.S. DEPARTMENT OF LABOR:			
IOWA DEPARTMENT OF LABOR:			
EMPLOYEE BENEFITS SECURITY ADMINISTRATION (COBRA PREMIUM ASSISTANCE), RECOVERY ACT			
	17.151	FY 10	<u>3,062</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I, PART A CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 10	256,077
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 09	28,301
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	35,678
			<u>320,056</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 10	<u>5,415</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 10	<u>77,282</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 10	<u>12,493</u>
ARRA - STATE FISCAL STABILIZATION FUND(SFSF) EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	<u>866,188</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 10	103,012
ARRA - SPECIAL EDUCATION GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 10	115,638
			<u>218,650</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 10	<u>18,997</u>
TOTAL			<u>\$ 1,989,200</u>

* - Includes \$67,784 of non-cash awards

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.

KNOXVILLE COMMUNITY SCHOOL DISTRICT

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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 15, 2011. 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 an opinion on the financial statements, but not for the purpose of expressing an 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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.

March 15, 2011

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

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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, 2010. 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, 2010.

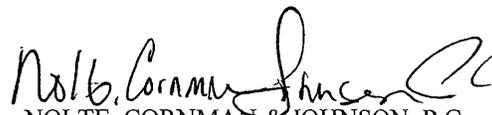
Internal Control Over Compliance

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 in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be 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 passthrough 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.

March 15, 2011

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part I: Summary of the Independent Auditor's Report

- (a) Unqualified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (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 84.010 - Title I Grant to Local Educational Agencies
 - CFDA Number 84.389 - ARRA - Title I Grant to Local Educational Agencies, Recovery Act

 - CFDA Number 84.027 - Special Education - Grants to States
 - CFDA Number 84.391 - Special Education - Grants to States, Recovery Act
 - Individual:
 - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Knoxville Community School District did qualify as a low-risk auditee.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over financial reporting were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major programs were noted.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - District disbursements for the year ended June 30, 2010, did not exceed the amount budgeted.

IV-B-10 Questionable Disbursements - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - The District will monitor the purchasing process closer going forward to ensure purchases which do not meet public purpose are not made with public funds.

Conclusion - Response accepted.

IV-C-10 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-10 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kyle Kincaid, Teacher	Floor repairs	\$4,350

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the District's teacher does not appear to represent a conflict of interest.

IV-E-10 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-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-10 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were reported on Line 1 as resident students was overstated by 2.0 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The District's auditor will contact the Iowa Department of Education and Department of Management to resolve this matter. The District has corrected its aid and levy to show the adjustment.

Conclusion - Response accepted.

IV-H-10 Supplementary Weighting – No variances in basic enrollment data certified to the Iowa Department of Education were noted

IV-I-10 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-J-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-10 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance		\$	0
Statewide sales, services and use tax revenue			1,046,777
Expenditures/Transfers out:			
School infrastructure:			
Buildings	\$	98,430	
Equipment		74,947	
Other Improvements		141,252	
Debt service for school infrastructure:			
Revenue debt		732,148	1,046,777
		<u>732,148</u>	<u>1,046,777</u>
Ending balance		\$	<u>0</u>

As a result of the statewide sales, service and use tax revenue received during the year ended June 30, 2010 the District reduced the following levy:

	<u>Per \$1,000</u>	<u>Property</u>
	<u>of Taxable</u>	<u>Tax</u>
	<u>Valuation</u>	<u>Dollars</u>
Physical plant and equipment levy	<u>\$ 1.54187</u>	<u>\$ 534,182</u>

IV-M-10 Financial Condition - The District had several accounts in the Special Revenue, Student Activity Fund that had deficit balances at the end of the year totaling \$375,290. The General Fund had a deficit unreserved fund balance of \$590,010. The District also had deficit net assets in the governmental activities of \$991,276.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit. 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 working on a budgeting plan for the deficit accounts. As part of this effort, the District is cutting expenses and trying to increase ticket sales. The General Fund deficit was due to state budget cuts, which left the District with little time to adjust expenses.

Conclusion - Response accepted.

IV-N-10 Student Activity Fund - During our audit issues arose about the properness 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.

Administratively Maintained Accounts: We noted during our audit that the District maintains accounts that appear to be administratively maintained. These accounts do not appear to be cocurricular in nature.

Recommendation - 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, and Team Nutrition. 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.

Response - The District is constantly reviewing expenditures from the Student Activity Fund to ensure compliance with the Department of Education administrative rules and Iowa Code.

Conclusion - Response accepted.

Interest Allocation: We noted that the District received interest on Student Activity Funds, but that the interest was not allocated to the various Student Activity Fund accounts.

Recommendation - The interest earned each year should be allocated out on an annual basis to the individual accounts.

Response - The District has taken corrective action and interest will be allocated on an annual basis.

Conclusion - Response accepted.

IV-O-10 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations that have been outstanding for over a year.

Recommendation - The District needs to determine if the checks need to be voided, reissued or submitted to the State Treasurer as unclaimed property. Per Chapter 556.1(10) and 556.11 of the Code of Iowa the District is required to report unclaimed property to the State Treasurer annually before November 1st.

Response - The District submitted uncashed checks that were over three years old to the State of Iowa Treasurers Office by November 1st. We attempted to locate the owners of uncashed checks when checks are outstanding more than six months. If the owner is located we reissue the check. If the owner is not located we will report the unclaimed property to the State Treasurers annually before November 1st.

Conclusion - Response accepted.

IV-P-10 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - The District has corrected this and the Board President is now signing officiating contracts.

Conclusion - Response accepted.