

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

JUNE 30, 2012

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Knoxville Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2011 Election)

Jeff Wallace	President	2011
Stephanie Vickroy	Vice President	2013
Leslie Miller	Board Member	2011
Tim McDonald	Board Member	2011
Mark Mahoney	Board Member	2013

(After September 2011 Election)

Tim McDonald	President	2015
Stephanie Vickroy	Vice President	2013
Leslie Miller	Board Member	2015
Mike Helle	Board Member	2015
Mark Mahoney	Board Member	2013

School Officials

Dr. Randy Flack	Superintendent	2012
Craig Mobley	Business Manager, District Secretary/Treasurer	2012
Drew Bracken	Attorney	2012

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
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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, 2012, 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, 2012, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 11, 2013 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.

Members American Institute & Iowa Society of Certified Public Accountants

U.S generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 46 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 13, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

February 11, 2013

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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$17,793,837 in fiscal 2011 to \$18,029,975 in fiscal 2012, while General Fund expenditures decreased from \$16,955,198 in fiscal 2011 to \$16,822,041 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$505,996 in fiscal 2011 to a balance of \$1,713,930 in fiscal 2012, a 238.72% increase from the prior year.
- The increase in General Fund revenues was primarily attributable to increases in local and state sources in fiscal 2012. The decrease in expenditures was due primarily to a decrease in expenses in the support service functions.
- The District's solvency ratio increased as compared to fiscal 2011. At June 30, 2012 the District's solvency ratio was 7.16% as compared to 0.97% at June 30, 2011.

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.

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.

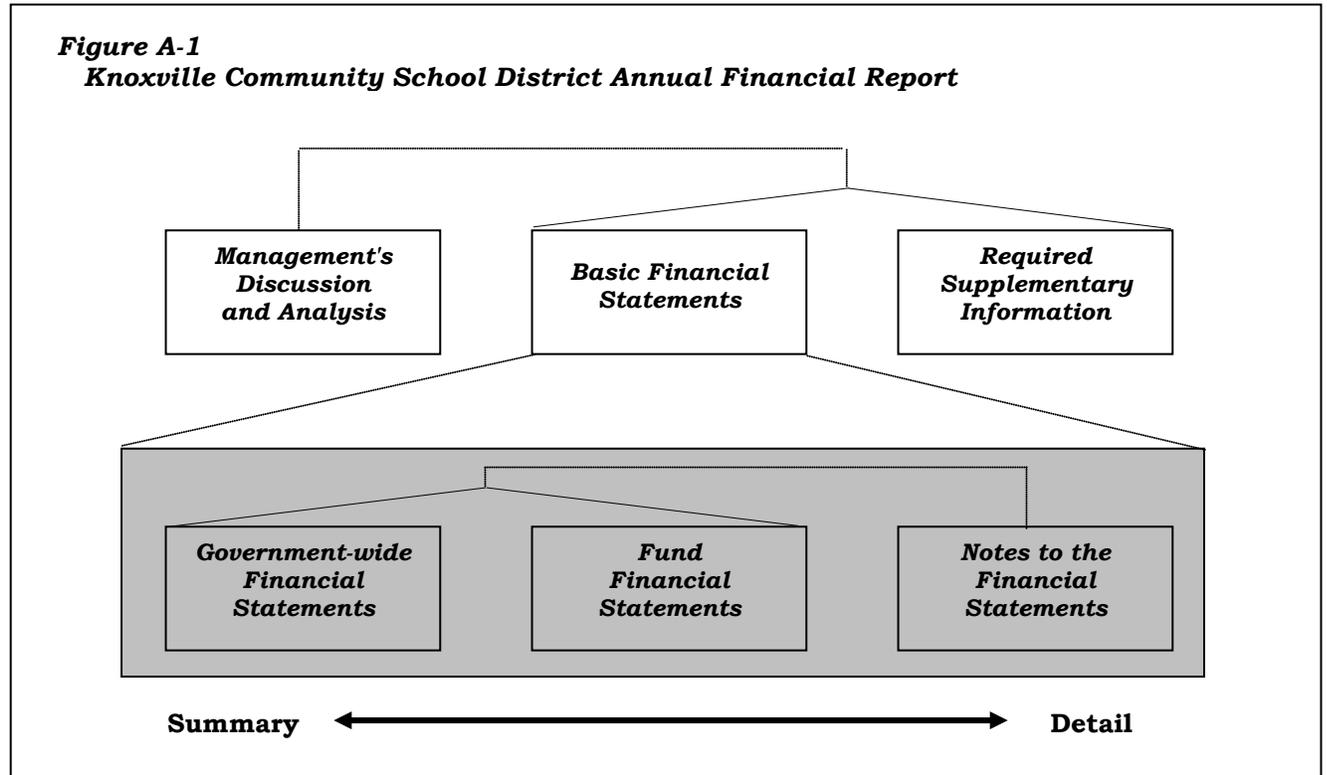


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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 net assets • Statement of revenues, expenses and changes in fund 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: Health Insurance and Self-funded Dental Insurance.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in fund 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, 2012 compared to June 30, 2011.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 15,759,249	14,620,819	566,679	435,512	16,325,928	15,056,331	8.43%
Capital assets	16,342,350	15,357,464	168,715	195,552	16,511,065	15,553,016	6.16%
Total assets	32,101,599	29,978,283	735,394	631,064	32,836,993	30,609,347	7.28%
Long-term obligations	12,900,866	9,650,824	15,530	11,850	12,916,396	9,662,674	33.67%
Other liabilities	5,344,178	8,638,548	72,587	33,560	5,416,765	8,672,108	-37.54%
Total liabilities	18,245,044	18,289,372	88,117	45,410	18,333,161	18,334,782	-0.01%
Net assets:							
Invested in capital assets, net of related debt	11,683,832	8,657,427	168,715	195,552	11,852,547	8,852,979	33.88%
Restricted	2,892,880	4,226,726	0	0	2,892,880	4,226,726	-31.56%
Unrestricted	(720,157)	(1,195,242)	478,562	390,102	(241,595)	(805,140)	69.99%
Total net assets	\$ 13,856,555	11,688,911	647,277	585,654	14,503,832	12,274,565	18.16%

The District's combined net assets increased by 18.16%, or \$2,229,267, 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 \$1,333,846, or 31.56%, over the prior year. This decrease in restricted net assets was a result of the District's refunding \$2,050,000 of bonds dated October 1, 2005.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$563,545, or 69.99%. This increase in unrestricted net assets was a result an increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4
Changes in Net Assets

	Governmental		Business type		Total		Total Change
	Activities		Activities		School District		
	2012	2011	2012	2011	2012	2011	
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 1,060,954	1,024,385	323,190	334,675	1,384,144	1,359,060	1.85%
Operating grants and contributions and restricted interest	1,492,707	1,871,634	488,345	453,083	1,981,052	2,324,717	-14.78%
Capital grants and contributions and restricted interest	149,930	134,077	0	0	149,930	134,077	11.82%
General revenues:							
Property tax	6,230,942	5,672,841	0	0	6,230,942	5,672,841	9.84%
Income surtax	465,335	444,248	0	0	465,335	444,248	4.75%
Statewide sales, services and use tax	1,309,803	1,298,603	0	0	1,309,803	1,298,603	0.86%
Unrestricted state grants	10,492,963	10,118,767	0	0	10,492,963	10,118,767	3.70%
Nonspecific program federal grants	336,953	257,892	0	0	336,953	257,892	30.66%
Other	192,340	342,756	13,309	16,413	205,649	359,169	-42.74%
Transfers	0	(5,420)	0	0	0	(5,420)	-100.00%
Total revenues and transfers	21,731,927	21,159,783	824,844	804,171	22,556,771	21,963,954	2.70%
Program expenses:							
Governmental activities:							
Instructional	12,898,638	11,898,752	0	1,625	12,898,638	11,900,377	8.39%
Support services	5,245,659	6,799,814	10,451	1,048	5,256,110	6,800,862	-22.71%
Non-instructional programs	0	0	752,770	745,160	752,770	745,160	1.02%
Other expenses	1,419,986	1,335,657	0	0	1,419,986	1,335,657	6.31%
Total expenses	19,564,283	20,034,223	763,221	747,833	20,327,504	20,782,056	-2.19%
Changes in net assets	2,167,644	1,125,560	61,623	56,338	2,229,267	1,181,898	88.62%
Net assets beginning of year	11,688,911	10,563,351	585,654	529,316	12,274,565	11,092,667	10.65%
Net assets end of year	\$ 13,856,555	11,688,911	647,277	585,654	14,503,832	12,274,565	18.16%

In fiscal 2012, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 85.12% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 98.39% of the revenue from business type activities.

The District's total revenues were approximately \$22.56 million of which approximately \$21.73 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 2.70% increase in revenues and a 2.19% decrease in expenses. Revenues increased as a result of additional funding from state sources. Expenses were decreased due to decrease costs in salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$21,731,927 and expenses were \$19,564,283.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 12,898,638	11,898,752	8.40%	11,069,919	9,785,600	13.12%
Support services	5,245,659	6,799,814	-22.86%	5,058,169	6,643,530	-23.86%
Other expenses	1,419,986	1,335,657	6.31%	732,604	574,997	27.41%
Totals	\$ 19,564,283	20,034,223	-2.35%	16,860,692	17,004,127	-0.84%

- The cost financed by users of the District's programs was \$1,060,954.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,642,637.
- The net cost of governmental activities was financed with \$6,230,942 in property tax, \$465,335 in income surtax, \$1,309,803 in statewide sales, services and use tax, \$10,492,963 in unrestricted state grants, \$336,953 in nonspecific program federal grants, \$15,672 in interest income and \$176,668 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$824,844 and expenses were \$763,221. 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 \$9,594,663, significantly above last year's ending fund balance of \$5,167,712. The primary reason for the increase in combined fund balance in fiscal 2012 is due to the District issuing \$6,550,000 in revenue bonds that will be used to finance a new auditorium at the high school.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Revenues increased due to additional taxes levied and an increase in state source revenues. The decrease in expenses was due to decreasing salary and benefit costs.
- The Capital Projects Fund balance increased from a balance of \$1,166,116 at the beginning of the fiscal year 2012 to \$6,611,804. The increase was the result of the issuance of \$6,550,000 in revenue bonds during the year. The proceeds from the bond issuance will be used for a new auditorium at the high school.
- The Debt Service Fund balance decreased from \$3,109,706 in fiscal 2011 to \$937,830 in fiscal 2012. This was the result of the District paying off the revenue bonds dated October 1, 2005.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$585,654 at June 30, 2011 to \$647,277 at June 30, 2012, representing an increase of 10.52%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$187,980 less than budgeted revenues, a variance of 0.83%. The most significant positive variance resulted from the District receiving more in federal sources than originally anticipated. The most significant negative variance resulted from the District receiving less in state sources than originally anticipated.

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

Over the course of the year, Knoxville Community School District amended its annual budget one time to reflect additional expenditures in the other expenditures functional area.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$16,511,065, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 6.16% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$687,745.

The original cost of the District's capital assets was \$26,781,507. Governmental funds account for \$26,136,307 with the remainder of \$645,200 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 \$1,035,021 at June 30, 2012, compared to \$707,609 reported at June 30, 2011. This increase resulted from work beginning on the bus barn roof, high school track and a new auditorium at the High School.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total Change
	Activities		Activities		School District		
	June 30,		June 30,		June 30,		
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 63,966	63,966	0	0	63,966	63,966	0.00%
Construction in progress	1,035,021	707,609	0	0	1,035,021	707,609	46.27%
Buildings	14,584,900	14,047,917	0	0	14,584,900	14,047,917	3.82%
Machinery and equipment	658,463	537,972	168,715	195,552	827,178	733,524	12.77%
Total	\$ 16,342,350	15,357,464	168,715	195,552	16,511,065	15,553,016	6.16%

Long-Term Debt

At June 30, 2012, the District had \$12,916,396 in general obligation and other long-term debt outstanding. This represents an increase of 33.67% 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 \$780,000 at June 30, 2012.

The District had outstanding revenue bonds of \$9,605,000 at June 30, 2012 payable from the Capital Projects: Statewide Sales, Services and use Tax Fund.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$961,034 at June 30, 2012.

The District has a Net OPEB liability of \$618,709 as of June 30, 2012.

The District had outstanding computer lease of \$951,653 at June 30, 2012 payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

Figure A-7
Outstanding Long-Term Obligations

	Governmental		Business type		Total		Total Change
	Activities		Activities		School District		
	June 30,		June 30,		June 30,		
	2012	2011	2012	2011	2012	2011	2011-12
General obligation bonds	\$ 780,000	1,550,000	0	0	780,000	1,550,000	-49.68%
Revenue bonds	9,605,000	5,740,000	0	0	9,605,000	5,740,000	67.33%
Early retirement	961,034	586,494	0	0	961,034	586,494	63.86%
Net OPEB obligation	603,179	460,675	15,530	11,850	618,709	472,525	30.94%
Computer lease	951,653	1,313,655	0	0	951,653	1,313,655	-27.56%
Total	\$ 12,900,866	9,650,824	15,530	11,850	12,916,396	9,662,674	33.67%

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.

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, 2012

	Governmental Activities	Business type Activities	Total
ASSETS			
Cash and pooled investments	\$ 11,762,153	514,365	12,276,518
Receivables:			
Property tax:			
Delinquent	90,268	0	90,268
Succeeding year	2,974,052	0	2,974,052
Income surtax	466,363	0	466,363
Accounts	4,933	20,902	25,835
Due from other governments	461,480	0	461,480
Inventories	0	31,412	31,412
Capital assets, net of accumulated depreciation	16,342,350	168,715	16,511,065
TOTAL ASSETS	32,101,599	735,394	32,836,993
LIABILITIES			
Accounts payable	661,767	6,958	668,725
Salaries and benefits payable	1,637,010	52,037	1,689,047
Interest payable	71,349	0	71,349
Deferred revenue:			
Succeeding year property tax	2,974,052	0	2,974,052
Other	0	3,000	3,000
Unearned revenue	0	10,592	10,592
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	780,000	0	780,000
Computer lease	371,930	0	371,930
Early retirement payable	324,957	0	324,957
Portion due after one year:			
Revenue bonds payable	9,605,000	0	9,605,000
Computer lease	579,723	0	579,723
Early retirement payable	636,077	0	636,077
Net OPEB liability	603,179	15,530	618,709
TOTAL LIABILITIES	18,245,044	88,117	18,333,161
NET ASSETS			
Invested in capital assets, net of related debt	11,683,832	168,715	11,852,547
Restricted for:			
Categorical funding	472,744	0	472,744
School infrastructure	408,438	0	408,438
Physical plant and equipment levy	476,884	0	476,884
Debt service	937,830	0	937,830
Student activities	596,984	0	596,984
Unrestricted	(720,157)	478,562	(241,595)
TOTAL NET ASSETS	\$ 13,856,555	647,277	14,503,832

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Contributions	Capital Grants,	Govern- mental Activities	Business Type Activities	Total
		for Services	and Restricted Interest	Contributions and Restricted Interest			
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 7,910,534	442,946	84,316	0	(7,383,272)	0	(7,383,272)
Special	2,352,335	49,960	98,969	0	(2,203,406)	0	(2,203,406)
Other	2,635,769	566,011	586,517	0	(1,483,241)	0	(1,483,241)
	<u>12,898,638</u>	<u>1,058,917</u>	<u>769,802</u>	<u>0</u>	<u>(11,069,919)</u>	<u>0</u>	<u>(11,069,919)</u>
Support services:							
Student	299,487	0	15,912	0	(283,575)	0	(283,575)
Instructional staff	330,269	0	11,980	0	(318,289)	0	(318,289)
Administration	2,049,743	0	0	0	(2,049,743)	0	(2,049,743)
Operation and maintenance of plant	1,879,181	0	0	149,930	(1,729,251)	0	(1,729,251)
Transportation	686,979	2,037	7,631	0	(677,311)	0	(677,311)
	<u>5,245,659</u>	<u>2,037</u>	<u>35,523</u>	<u>149,930</u>	<u>(5,058,169)</u>	<u>0</u>	<u>(5,058,169)</u>
Long-term debt interest	220,323	0	0	0	(220,323)	0	(220,323)
Other expenses:							
AEA flowthrough	687,382	0	687,382	0	0	0	0
Depreciation (unallocated)*	512,281	0	0	0	(512,281)	0	(512,281)
	<u>1,199,663</u>	<u>0</u>	<u>687,382</u>	<u>0</u>	<u>(512,281)</u>	<u>0</u>	<u>(512,281)</u>
Total governmental activities	<u>19,564,283</u>	<u>1,060,954</u>	<u>1,492,707</u>	<u>149,930</u>	<u>(16,860,692)</u>	<u>0</u>	<u>(16,860,692)</u>
Business Type activities:							
Support services:							
Administration	746	0	0	0	0	(746)	(746)
Operation and maintenance of plant	9,705	0	0	0	0	(9,705)	(9,705)
Non-instructional programs:							
Nutrition services	752,770	323,190	488,345	0	0	58,765	58,765
Total business type activities	<u>763,221</u>	<u>323,190</u>	<u>488,345</u>	<u>0</u>	<u>0</u>	<u>48,314</u>	<u>48,314</u>
Total	<u>\$ 20,327,504</u>	<u>1,384,144</u>	<u>1,981,052</u>	<u>149,930</u>	<u>(16,860,692)</u>	<u>48,314</u>	<u>(16,812,378)</u>
General Revenues:							
Property tax for:							
General purposes				\$ 5,082,708	0	5,082,708	
Debt service				791,604	0	791,604	
Capital outlay				356,630	0	356,630	
Income surtax				465,335	0	465,335	
Statewide sales, services and use tax				1,309,803	0	1,309,803	
Unrestricted state grants				10,492,963	0	10,492,963	
Nonspecific program federal grants				336,953	0	336,953	
Unrestricted investment earnings				15,672	28	15,700	
Other general revenues				176,668	13,281	189,949	
Total general revenues and transfers				<u>19,028,336</u>	<u>13,309</u>	<u>19,041,645</u>	
Changes in net assets				2,167,644	61,623	2,229,267	
Net assets beginning of year				11,688,911	585,654	12,274,565	
Net assets end of year				<u>\$ 13,856,555</u>	<u>647,277</u>	<u>14,503,832</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, 2012

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 3,515,449	6,549,131	926,572	344,305	11,335,457
Receivables:					
Property tax:					
Delinquent	67,351	5,072	11,258	6,587	90,268
Succeeding year	4,294,407	364,395	790,250	525,000	5,974,052
Income surtax	466,363	0	0	0	466,363
Accounts	3,359	0	0	1,574	4,933
Due from other governments	136,395	325,085	0	0	461,480
TOTAL ASSETS	\$ 8,483,324	7,243,683	1,728,080	877,466	18,332,553
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 371,614	267,484	0	21,367	660,465
Salaries and benefits payable	1,637,010	0	0	0	1,637,010
Deferred revenue:					
Succeeding year property tax	4,294,407	364,395	790,250	525,000	5,974,052
Income surtax	466,363	0	0	0	466,363
Total liabilities	6,769,394	631,879	790,250	546,367	8,737,890
Fund balances:					
Restricted for:					
Categorical funding	472,744	0	0	0	472,744
Construction	0	5,726,482	0	0	5,726,482
School infrastructure	0	408,438	0	0	408,438
Physical plant and equipment	0	476,884	0	0	476,884
Debt service	0	0	937,830	0	937,830
Management levy purposes	0	0	0	124,908	124,908
Student activities	0	0	0	596,984	596,984
Unassigned:					
General	1,241,186	0	0	0	1,241,186
Student activities	0	0	0	(390,793)	(390,793)
Total fund balances	1,713,930	6,611,804	937,830	331,099	9,594,663
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,483,324	7,243,683	1,728,080	877,466	18,332,553

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

Total fund balances of governmental funds (page 20)	\$	9,594,663
 Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		16,342,350
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		425,394
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		466,363
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.		(71,349)
Long-term liabilities, including bonds payable, early retirement payable, computer lease 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>(12,900,866)</u>
Net assets of governmental activities (page 18)	\$	<u><u>13,856,555</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 5,094,240	1,666,433	791,604	451,370	8,003,647
Tuition	425,964	0	0	0	425,964
Other	194,888	22,681	11,487	609,664	838,720
State sources	11,464,236	131,280	0	0	11,595,516
Federal sources	850,647	15,000	0	0	865,647
Total revenues	<u>18,029,975</u>	<u>1,835,394</u>	<u>803,091</u>	<u>1,061,034</u>	<u>21,729,494</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	7,227,526	0	0	341,633	7,569,159
Special	2,331,981	0	0	0	2,331,981
Other	2,016,624	0	0	606,025	2,622,649
	<u>11,576,131</u>	<u>0</u>	<u>0</u>	<u>947,658</u>	<u>12,523,789</u>
Support services:					
Student	323,044	0	0	0	323,044
Instructional staff	327,500	0	0	0	327,500
Administration	1,835,819	38,852	0	11,652	1,886,323
Operation and maintenance of plant	1,489,931	0	0	145,762	1,635,693
Transportation	582,234	164,556	0	10,757	757,547
	<u>4,558,528</u>	<u>203,408</u>	<u>0</u>	<u>168,171</u>	<u>4,930,107</u>
Capital outlay	<u>0</u>	<u>1,668,885</u>	<u>0</u>	<u>0</u>	<u>1,668,885</u>
Long-term debt:					
Principal	0	0	3,817,002	0	3,817,002
Interest and fiscal charges	0	0	169,736	0	169,736
	<u>0</u>	<u>0</u>	<u>3,986,738</u>	<u>0</u>	<u>3,986,738</u>
Other expenditures:					
AEA flowthrough	687,382	0	0	0	687,382
	<u>687,382</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>687,382</u>
Total expenditures	<u>16,822,041</u>	<u>1,872,293</u>	<u>3,986,738</u>	<u>1,115,829</u>	<u>23,796,901</u>
Excess(Deficiency) of revenues over over(under) expenditures	1,207,934	(36,899)	(3,183,647)	(54,795)	(2,067,407)
Other financing sources(uses):					
Transfer in	0	0	1,011,771	0	1,011,771
Transfer out	0	(1,011,771)	0	0	(1,011,771)
Insurance proceeds	0	18,750	0	0	18,750
Revenue bond issuance	0	6,550,000	0	0	6,550,000
Premium on issuance of bonds	0	(80,498)	0	0	(80,498)
Discount on issuance of bonds	0	6,106	0	0	6,106
Total other financing sources(uses)	<u>0</u>	<u>5,482,587</u>	<u>1,011,771</u>	<u>0</u>	<u>6,494,358</u>
Net change in fund balances	1,207,934	5,445,688	(2,171,876)	(54,795)	4,426,951
Fund balance beginning of year	505,996	1,166,116	3,109,706	385,894	5,167,712
Fund balance end of year	<u>\$ 1,713,930</u>	<u>6,611,804</u>	<u>937,830</u>	<u>331,099</u>	<u>9,594,663</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds (page 22) \$ 4,426,951

**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 not reported in the Statement of Activities 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	\$ 1,636,679	
Depreciation expense	<u>(651,793)</u>	984,886

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 54,003

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	(6,550,000)	
Repaid	<u>3,817,002</u>	(2,732,998)

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. (50,587)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 2,433

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	(374,540)	
Other postemployment benefits	<u>(142,504)</u>	<u>(517,044)</u>

Changes in net assets of governmental activities (page 19) \$ 2,167,644

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business Type	
	Enterprise: Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
ASSETS		
Cash and pooled investments	\$ 514,365	426,696
Accounts receivable	20,902	0
Inventories	31,412	0
Capital assets, net of accumulated depreciation	168,715	0
TOTAL ASSETS	<u>735,394</u>	<u>426,696</u>
LIABILITIES		
Accounts payable	6,958	1,302
Salaries and benefits payable	52,037	0
Unearned revenue	10,592	0
Net OPEB liability	15,530	0
Deferred revenue:		
Other	3,000	0
TOTAL LIABILITIES	<u>88,117</u>	<u>1,302</u>
NET ASSETS		
Invested in capital assets	168,715	0
Unrestricted	478,562	425,394
TOTAL NET ASSETS	<u>\$ 647,277</u>	<u>425,394</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 323,190	0
Miscellaneous	13,281	2,193,327
TOTAL OPERATING REVENUES	<u>336,471</u>	<u>2,193,327</u>
OPERATING EXPENSES:		
Support services:		
Administration:		
Benefits	0	2,139,324
Services	746	0
Operation and maintenance of plant:		
Services	9,705	0
	<u>10,451</u>	<u>2,139,324</u>
Non-instructional programs:		
Food service operations:		
Salaries	257,812	0
Benefits	91,337	0
Services	1,030	0
Supplies	366,639	0
Depreciation	35,952	0
	<u>752,770</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>763,221</u>	<u>2,139,324</u>
OPERATING INCOME (LOSS)	<u>(426,750)</u>	<u>54,003</u>
NON-OPERATING REVENUES:		
State sources	8,014	0
Federal sources	480,331	0
Interest on investments	28	0
TOTAL NON-OPERATING REVENUES	<u>488,373</u>	<u>0</u>
Change in net assets	61,623	54,003
Net assets beginning of year	<u>585,654</u>	<u>371,391</u>
Net assets end of year	<u>\$ 647,277</u>	<u>425,394</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 315,340	0
Cash received from miscellaneous	13,281	2,193,327
Cash payments to employees for services	(314,322)	0
Cash payments to suppliers for goods or services	(308,592)	(2,138,022)
Net cash provided by (used in) operating activities	<u>(294,293)</u>	<u>55,305</u>
Cash flows from non-capital financing activities:		
State grants received	8,014	0
Federal grants received	421,039	0
Net cash provided by non-capital financing activities	<u>429,053</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(9,115)	0
Cash flows from investing activities:		
Interest on investments	28	0
Net increase in cash and cash equivalents	125,673	55,305
Cash and cash equivalents at beginning of year	388,692	371,391
Cash and cash equivalents at end of year	<u>\$ 514,365</u>	<u>426,696</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (426,750)	54,003
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Commodities consumed	62,292	0
Depreciation	35,952	0
Decrease in inventories	836	0
Increase in accounts receivable	(6,330)	0
Increase in accounts payable	6,400	1,302
Increase in salaries and benefits payable	31,147	0
Decrease in unearned revenue	(1,520)	0
Increase in other postemployment benefits	3,680	0
Net cash used in operating activities	<u>\$ (294,293)</u>	<u>55,305</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at \$62,292.

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2012

	Private Purpose Trust Scholarship Fund	Agency Fund
ASSETS		
Cash and pooled investments	\$ 9,079	59,951
LIABILITIES		
Due to other groups	0	59,951
NET ASSETS		
Restricted for scholarships	\$ 9,079	0

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2012

	Private Purpose Trust
	Scholarship Fund
Additions:	
Local sources:	
Gifts and contributions	\$ 750
Interest income	2
Total additions	752
Deductions:	0
Change in net assets	752
Net assets beginning of year	8,327
Net assets end of year	\$ 9,079

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

(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 pre-kindergarten through twelve. 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. Combining schedules are also included for the Capital Project Fund accounts.

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. Combining schedules are also included for the Capital Project Fund accounts.

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

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

The District reports the following nonmajor proprietary funds:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as

expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - restricted and then unassigned fund balances.

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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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, fund balances are classified as follows:

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

Unassigned - All amounts not included in other spendable classifications.

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.

The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012 expenditures in the other expenditures function exceeded the budgeted amount.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2012 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, 2012 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$7,892,656 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

(3) Transfers

The detail of transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>\$ 1,011,751</u>

The Capital Projects: Statewide Sales, Services and Use Tax 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 2011-12A warrants are variable rates, calculated daily, based on one-month LIBOR rate plus 100 basis points. During the year ended June 30, 2012 the District had no borrowing or repayments.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 63,966	0	0	63,966
Construction in progress	707,609	613,855	286,443	1,035,021
Total capital assets not being depreciated	<u>771,575</u>	<u>613,855</u>	<u>286,443</u>	<u>1,098,987</u>
Capital assets being depreciated:				
Buildings	20,957,612	1,049,264	0	22,006,876
Machinery and equipment	3,012,044	260,003	241,603	3,030,444
Total capital assets being depreciated	<u>23,969,656</u>	<u>1,309,267</u>	<u>241,603</u>	<u>25,037,320</u>
Less accumulated depreciation for:				
Buildings	6,909,695	512,281	0	7,421,976
Machinery and equipment	2,474,072	139,512	241,603	2,371,981
Total accumulated depreciation	<u>9,383,767</u>	<u>651,793</u>	<u>241,603</u>	<u>9,793,957</u>
Total capital assets being depreciated, net	<u>14,585,889</u>	<u>657,474</u>	<u>0</u>	<u>15,243,363</u>
Governmental activities capital assets, net	<u>\$ 15,357,464</u>	<u>1,271,329</u>	<u>286,443</u>	<u>16,342,350</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 639,585	9,115	3,500	645,200
Less accumulated depreciation	444,033	35,952	3,500	476,485
Business type activities capital assets, net	<u>\$ 195,552</u>	<u>(26,837)</u>	<u>0</u>	<u>168,715</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 33,348
Support services:		
Administration		581
Operation and maintenance of plant		12,925
Transportation		92,658
		139,512
Unallocated depreciation		512,281
		\$ 651,793
Business type activities:		
Food services		\$ 35,952

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 1,550,000	0	770,000	780,000	780,000
Revenue bonds	5,740,000	6,550,000	2,685,000	9,605,000	0
Early retirement	586,494	687,377	312,837	961,034	324,957
Computer Lease	1,313,655	0	362,002	951,653	371,930
Net OPEB liability	460,675	142,504	0	603,179	0
Total	\$ 9,650,824	7,379,881	4,129,839	12,900,866	1,476,887
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business Type Activities:					
Net OPEB liability	\$ 11,850	3,680	0	15,530	0

General Obligation Bonds Payable

Details of the District's June 30, 2012 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond Issue of April 12, 2010		
		Principal	Interest	Total
2013	1.25 %	\$ 780,000	9,750	789,750

Revenue Bonds Payable

Details of the District's June 30, 2012 statewide sales, services and use tax revenue bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of June 1, 2011			Bond Issue of June 1, 2012			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2013	2.00	% \$ 0	111,338	2.00	% \$ 0	83,818	\$ 0	195,156	195,156
2014	2.00	140,000	109,937	2.00	200,000	142,688	340,000	252,625	592,625
2015	2.00	140,000	106,788	2.00	350,000	139,937	490,000	246,725	736,725
2016	2.50	145,000	103,225	2.50	355,000	136,413	500,000	239,638	739,638
2017	2.50	150,000	99,537	2.50	355,000	132,862	505,000	232,399	737,399
2018-2022	2.50-3.50	805,000	428,574	2.50-3.50	1,855,000	585,898	2,660,000	1,014,472	3,674,472
2023-2027	3.70-4.20	980,000	262,227	3.70-4.20	2,055,000	368,277	3,035,000	630,504	3,665,504
2028-2030	4.25-4.50	695,000	48,038	4.25-4.50	1,380,000	67,571	2,075,000	115,609	2,190,609
Total		\$ 3,055,000	1,269,664		\$ 6,550,000	1,657,464	\$ 9,605,000	2,927,128	12,532,128

The District has pledged future statewide sales, services and use tax revenue to repay the \$3,055,000 and \$6,550,000 bonds issued in June 1, 2011 and June 1, 2012 respectively. 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 2030. 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 15% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$12,532,128. For the current year, interest paid on the bonds was \$64,947 and statewide sales, services and use tax revenue were \$1,309,803.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$749,213 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.

Computer Lease Payable

On April 21, 2011, the District entered into a lease agreement with Apple for computers for the District's one on one initiative. The lease is scheduled to be repaid as follows from the Capital Projects: Statewide Sales, Services and Use Tax Fund:

Year Ending June 30,	Lease of April 21, 2011				
	Interest Rates		Principal	Interest	Total
2013	2.74	% \$	371,930	26,100	398,030
2014	2.74		382,131	15,899	398,030
2015	2.74		197,592	1,424	199,016
Total			\$ 951,653	43,423	995,076

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 District offers three different early retirement incentives. The first pays the employee 100% of their contracted annual salary (exclusive of supplemental pay or extended contract pay) over the three years following retirement to a tax-sheltered annuity. The second pays for four years of the retiree's health insurance and pays the employee 50% of their contracted annual salary (exclusive of supplemental pay or extended contract pay) over the three years following retirement to a tax-sheltered annuity. The third pays for seven years of the retiree's health insurance. Early retirement benefits paid during the year ended June 30, 2012, totaled \$312,837. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

(7) Bond Defeasement

On June 1, 2011, the District issued \$3,055,000 in revenue bonds, of which \$1,249,975 was used to finance the District's energy improvement projects and \$256,025 was used to create a reserve for the bonds dated June 1, 2011. The remaining \$1,549,000 of the bond issuance along with the \$501,000 bond reserve from the bonds dated October 1, 2005 were placed in the District's debt sinking account with the intention to call \$2,050,000 of outstanding bonds dated October 1, 2005. The proceeds in the sinking account are to be sufficient to pay all principal and interest on the \$2,050,000 of the bonds dated October 1, 2005 when they become callable on July 1, 2011.

At June 30, 2012, \$0 of the bonds dated October 1, 2005 is outstanding and defeasement of principal for these bonds is \$2,050,000.

(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 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$806,609, \$718,984 and \$706,011 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 218 active and 8 retired members in the plan. Retirees are able to remain on the District's plan until they reach the age of 65.

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, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 143,327
Interest on net OPEB obligation	22,819
Adjustment to annual required contribution	(12,099)
Annual OPEB cost (expense)	<u>154,047</u>
Contributions made	(7,863)
Increase in net OPEB obligation	<u>146,184</u>
Net OPEB obligation - beginning of year	<u>472,525</u>
Net OPEB obligation - end of year	<u>\$ 618,709</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. 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, 2012.

For fiscal year 2012, the District contributed \$7,863 to the medical plan. Plan members receiving benefits contributed \$0, or 0% 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, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 186,824	28.7 %	\$ 270,281
2011	215,205	6.0	472,525
2012	154,047	5.1	618,709

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$1.180 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.180 million. The covered payroll (annual payroll of active employees covered by the plan) was \$8.762 million, and the ratio of the UAAL to the covered payroll was 13.5%. As of June 30, 2012, 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, 2010 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 94 Group Annuity Mortality Table, Projected to 2000 applied on a gender-specific basis. Annual retirement and termination probabilities were based upon the 2006 Society of Actuaries Study. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Projected claim costs of the medical plan are \$680 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 \$108,616 at June 30, 2012.

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/Fund Balance

The District had a deficit unrestricted net assets balance in the governmental activities of \$720,157. The Student Activity Fund had a deficit unassigned fund balance of \$390,793.

(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 \$687,382 for the year ended June 30, 2012 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 restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Talented and gifted	\$ 167,703
Teacher salary supplement	79,412
Statewide voluntary preschool	225,629
Total	<u>\$ 472,744</u>

(14) Construction Commitment

The District has entered into various contracts totaling \$7,168,780. Projects included in the construction in progress are a bus barn roof and gutter replacement, a High School track replacement, various lighting upgrades and a new auditorium at the High School. As of June 30, 2012, costs of \$1,035,021 had been incurred against the contracts. The balance of \$6,133,759 remaining at June 30, 2012 will be paid as work on the project progresses.

(15) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2012, expenditures in the other expenditures function exceeded the amount budgeted.

KNOXVILLE COMMUNITY SCHOOL DISTRICT

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, 2012

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 9,268,331	336,499	9,604,830	9,813,815	9,813,815	(208,985)
State sources	11,595,516	8,014	11,603,530	11,768,503	11,768,503	(164,973)
Federal sources	865,647	480,331	1,345,978	1,160,000	1,160,000	185,978
Total revenues	<u>21,729,494</u>	<u>824,844</u>	<u>22,554,338</u>	<u>22,742,318</u>	<u>22,742,318</u>	<u>(187,980)</u>
Expenditures/Expenses:						
Instruction	12,523,789	0	12,523,789	13,296,662	13,296,662	772,873
Support services	4,930,107	10,451	4,940,558	6,327,600	6,327,600	1,387,042
Non-instructional programs	0	752,770	752,770	909,198	909,198	156,428
Other expenditures	6,343,005	0	6,343,005	3,109,815	6,300,000	(43,005)
Total expenditures/expenses	<u>23,796,901</u>	<u>763,221</u>	<u>24,560,122</u>	<u>23,643,275</u>	<u>26,833,460</u>	<u>2,273,338</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	(2,067,407)	61,623	(2,005,784)	(900,957)	(4,091,142)	2,085,358
Other financing sources, net	<u>6,494,358</u>	<u>0</u>	<u>6,494,358</u>	<u>0</u>	<u>0</u>	<u>(6,494,358)</u>
Excess(Deficiency) of revenues over(under) expenditures and other financing sources	4,426,951	61,623	4,488,574	(900,957)	(4,091,142)	(8,579,716)
Balance beginning of year	<u>5,167,712</u>	<u>585,654</u>	<u>5,753,366</u>	<u>536,592</u>	<u>536,592</u>	<u>5,216,774</u>
Balance end of year	<u>\$ 9,594,663</u>	<u>647,277</u>	<u>10,241,940</u>	<u>(364,365)</u>	<u>(3,554,550)</u>	<u>13,796,490</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012

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 one budget amendment, increasing budget expenditures by \$3,190,185.

During the year ended June 30, 2012, the expenditures in the other expenditures function exceeded the amount budgeted.

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)	UAAL as a Percentage of Covered Payroll	
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)				
2010	July 1, 2008	-	1,385	1,385	0.0 %	9,854	14.1	%
2011	July 1, 2010	-	1,180	1,180	0.0	9,397	12.6	
2012	July 1, 2010	-	1,180	1,180	0.0	8,762	13.5	

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.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	\$ 118,214	226,091	344,305
Receivables:			
Property tax:			
Delinquent	6,587	0	6,587
Succeeding year	525,000	0	525,000
Accounts	107	1,467	1,574
TOTAL ASSETS	\$ 649,908	227,558	877,466
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 0	21,367	21,367
Deferred revenue:			
Succeeding year property tax	525,000	0	525,000
Other	0	0	0
Total liabilities	525,000	21,367	546,367
Fund balances:			
Restricted for:			
Management levy purposes	124,908	0	124,908
Student activities	0	596,984	596,984
Unassigned	0	(390,793)	(390,793)
Total fund balances	124,908	206,191	331,099
TOTAL LIABILITIES AND FUND BALANCES	\$ 649,908	227,558	877,466

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, 2012

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 451,370	0	451,370
Other	43,050	566,614	609,664
Total revenues	494,420	566,614	1,061,034
EXPENDITURES:			
Current:			
Instruction:			
Regular	341,633	0	341,633
Other	0	606,025	606,025
Support services:			
Administration	10,690	962	11,652
Operation and maintenance of plant	145,762	0	145,762
Transportation	10,757	0	10,757
Total expenditures	508,842	606,987	1,115,829
Net change in fund balances	(14,422)	(40,373)	(54,795)
Fund balance beginning of year	139,330	246,564	385,894
Fund balance end of year	\$ 124,908	206,191	331,099

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services & Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 6,077,319	471,812	6,549,131
Receivables:			
Delinquent	0	5,072	5,072
Succeeding year	0	364,395	364,395
Due from other governments	325,085	0	325,085
Total assets	\$ 6,402,404	841,279	7,243,683
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 267,484	0	267,484
Deferred revenue			
Succeeding year property tax	0	364,395	364,395
Total liabilities	267,484	364,395	631,879
Fund balances:			
Restricted for:			
Construction	5,726,482	0	5,726,482
School infrastructure	408,438	0	408,438
Physical plant and equipment	0	476,884	476,884
Total fund balances	6,134,920	476,884	6,611,804
Total liabilities and fund balances	\$ 6,402,404	841,279	7,243,683

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services & Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,309,803	356,630	1,666,433
Other	3,374	19,307	22,681
State sources	131,280	0	131,280
Federal sources	0	15,000	15,000
Total revenues	<u>1,444,457</u>	<u>390,937</u>	<u>1,835,394</u>
EXPENDITURES:			
Current:			
Support services:			
Adminstration	38,852	0	38,852
Transportation	164,556	0	164,556
Capital outlay	1,579,995	88,890	1,668,885
Total expenditures	<u>1,783,403</u>	<u>88,890</u>	<u>1,872,293</u>
Excess (Deficiency) of revenues over (under) expenditures	(338,946)	302,047	(36,899)
Other financing sources (uses):			
Revenue bond issuance	6,550,000	0	6,550,000
Premium on bond issuance	6,106	0	6,106
Insurance proceeds	0	18,750	18,750
Transfer out	(1,011,771)	0	(1,011,771)
Discount on bond issuance	(80,498)	0	(80,498)
Total other financing sources (uses)	<u>5,463,837</u>	<u>18,750</u>	<u>5,482,587</u>
Net change in fund balances	5,124,891	320,797	5,445,688
Fund balances beginning of year	<u>1,010,029</u>	<u>156,087</u>	<u>1,166,116</u>
Fund balances end of year	<u>\$ 6,134,920</u>	<u>476,884</u>	<u>6,611,804</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Academic Clubs:</u>				
HS Band	\$ 46	2	0	48
HS Camera Club	8,231	6,310	6,232	8,309
HS Drama Club	1,065	6,945	4,856	3,154
HS Science Club	4,809	0	84	4,725
HS Vocal	12,831	50,337	56,600	6,568
MS Band	335	207	189	353
Knoxville Art Club	1,654	0	250	1,404
Middle Student Advisory	7,728	23,934	16,690	14,972
	<u>36,699</u>	<u>87,735</u>	<u>84,901</u>	<u>39,533</u>
<u>Athletic Support:</u>				
Baseball Club	25,136	20,494	31,389	14,241
Drill Team	5,202	10,090	10,731	4,561
Girls Softball Club	2,890	7,469	7,988	2,371
MS Cheerleaders	(500)	0	0	(500)
HS Cheerleaders	3,612	18,304	21,232	684
MS Baseball Club	(42)	0	0	(42)
Panther Basketball	8,083	8,896	7,378	9,601
Panther Club	1,617	0	0	1,617
Panther Football Club	10,501	18,100	26,646	1,955
Panther Soccer	4,432	2,091	3,092	3,431
Pantherette Girls	10,342	54,407	53,528	11,221
Panther Girls Track Club	179	199	70	308
Pantherette Soccer	740	1,613	1,503	850
Pepsi Pop Fund	2,811	5,710	5,395	3,126
MS Softball Club	1,466	839	770	1,535
Wrestling Club	818	9,652	9,941	529
Volleyball Club	3,326	11,263	8,068	6,521
Bowling Club	9,228	2,332	3,644	7,916
Girls Golf Club	189	696	765	120
Boys Track Club	0	695	637	58
Girls Cross Country	1,451	3,223	2,824	1,850
7th Grade Girls Basketball Club	167	0	0	167
	<u>91,648</u>	<u>176,073</u>	<u>195,601</u>	<u>72,120</u>
<u>Boys Athletics:</u>				
Baseball	(63,940)	6,604	12,486	(69,822)
Boys Basketball	51,475	7,839	4,503	54,811
Boys Cross Country	(18,464)	588	1,918	(19,794)
Boys Golf	(13,056)	295	783	(13,544)
Boys Soccer	1,739	3,695	4,383	1,051
Boys Tennis	(8,729)	210	948	(9,467)
Boys Track	(19,920)	75	2,250	(22,095)
Football	95,670	23,192	20,208	98,654
Wrestling	(14,261)	3,461	2,759	(13,559)
	<u>10,514</u>	<u>45,959</u>	<u>50,238</u>	<u>6,235</u>
<u>Classes:</u>				
Junior Class	4,416	12,807	14,970	2,253
Senior Class	918	3,748	1,958	2,708
	<u>5,334</u>	<u>16,555</u>	<u>16,928</u>	<u>4,961</u>

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>General Athletics:</u>				
Cheerleading	(6,464)	0	84	(6,548)
Drill Team	(9,870)	0	0	(9,870)
HS General Athletics	(52,068)	28,566	30,161	(53,663)
	<u>(68,402)</u>	<u>28,566</u>	<u>30,245</u>	<u>(70,081)</u>
<u>Girls Athletics:</u>				
Girls Basketball	31,927	7,408	3,365	35,970
Girls Cross Country	(11,306)	499	535	(11,342)
Girls Golf	(9,605)	0	580	(10,185)
Girls Soccer	(9,417)	2,702	2,475	(9,190)
Girls Tennis	(5,425)	220	115	(5,320)
Girls Track	(24,393)	0	1,031	(25,424)
Softball	(34,588)	5,040	7,280	(36,828)
Volleyball	(8,462)	4,031	2,969	(7,400)
Bowling	1,544	726	225	2,045
	<u>(69,725)</u>	<u>20,626</u>	<u>18,575</u>	<u>(67,674)</u>
<u>Middle School Boys Athletics:</u>				
MS Baseball	(19,323)	0	845	(20,168)
MS Boys Basketball	8,815	1,767	1,860	8,722
MS Boys Track	(5,732)	150	157	(5,739)
MS Cross Country	(20)	0	0	(20)
MS Football	(20,614)	2,123	4,181	(22,672)
MS Wrestling	(2,243)	287	195	(2,151)
	<u>(39,117)</u>	<u>4,327</u>	<u>7,238</u>	<u>(42,028)</u>
<u>Middle School General Athletics:</u>				
MS General Athletics	7,034	3,443	1,748	8,729
<u>Middle School Girls Athletics:</u>				
MS Girls Basketball	896	1,423	1,430	889
MS Girls Track	(577)	1,353	1,004	(228)
MS Softball	(14,241)	492	1,401	(15,150)
MS Volleyball	4,543	1,807	1,222	5,128
	<u>(9,379)</u>	<u>5,075</u>	<u>5,057</u>	<u>(9,361)</u>
<u>Northstar Elementary Activities:</u>				
Northstar Book Fair	3,905	11,646	10,679	4,872
Northstar Resale	26,902	11,341	13,589	24,654
Northstar Student Council	908	1,588	862	1,634
Northstar Student Teachers	(72)	0	0	(72)
	<u>31,643</u>	<u>24,575</u>	<u>25,130</u>	<u>31,088</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Other Activities:</u>				
6th Grade Resale	62	0	0	62
7th Grade Resale	7,177	2,908	2,180	7,905
8th Grade Resale	1,775	0	0	1,775
Activity Interest	6,479	602	962	6,119
Student Council CD	2,500	0	0	2,500
Collins Fund	85,064	0	1,246	83,818
FCCLA CD	1,482	7	0	1,489
Goal Activity	9,196	1,947	725	10,418
HS Activity Tickets	630	0	630	0
HS Book Fair	349	448	434	363
HS Resale	579	220	487	312
HS Student Teacher	1,587	374	357	1,604
HS Athletic Savings	6,534	6,259	3,859	8,934
HS Pepsi Pop Fund	14,418	34,553	33,437	15,534
International Club	1,040	0	0	1,040
ISJIT	2,206	0	0	2,206
K-Fund Yearbook	9,658	5,942	6,721	8,879
Middle Activity Tickets	200	0	200	0
Middle Annual/Yearbook	244	5,845	5,937	152
Middle Resale	20,041	4,666	22,686	2,021
Middle Book Fair	1,256	2,619	2,232	1,643
National Honor Society	504	331	132	703
Panther Club Scholarship	12,180	43	0	12,223
Student Senate	1,864	12,149	11,784	2,229
Student Senate Scholarship	1,920	7	0	1,927
Team Nutrition Club	1,397	3,836	725	4,508
	<u>190,342</u>	<u>82,756</u>	<u>94,734</u>	<u>178,364</u>
<u>Vocational Clubs:</u>				
Construction Trades	37,545	0	0	37,545
FCCLA Account	4,229	2,568	3,703	3,094
FFA Account	3,818	52,413	51,941	4,290
Industrial Arts	698	0	0	698
	<u>46,290</u>	<u>54,981</u>	<u>55,644</u>	<u>45,627</u>
<u>West Elementary Activities:</u>				
West Book Fair	2,832	8,018	8,057	2,793
West Resale	2,820	0	0	2,820
West Student Teacher	2,919	0	0	2,919
West Student Council	5,112	7,925	12,891	146
	<u>13,683</u>	<u>15,943</u>	<u>20,948</u>	<u>8,678</u>
 Total	 <u>\$ 246,564</u>	 <u>566,614</u>	 <u>606,987</u>	 <u>206,191</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST
 JUNE 30, 2012

	Private Purpose Trust - Scholarship Fund				
	Tunnie Memorial	Cox Scholarship	Norton Scholarship	Auditorium Project	Total
ASSETS:					
Cash and pooled investments	\$ 584	3,008	65	5,422	9,079
LIABILITIES					
	0	0	0	0	0
NET ASSETS:					
Restricted for scholarships	\$ 584	3,008	65	5,422	9,079

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, 2012

	Private Purpose Trust - Scholarship Fund				
	Tunnie Memorial	Cox Scholarship	Norton Scholarship	Auditorium Project	Total
ADDITIONS:					
Local sources:					
Gifts and contributions	\$ 0	750	0	0	750
Interest income	0	0	0	2	2
TOTAL ADDITIONS	0	750	0	2	752
DEDUCTIONS:	0	0	0	0	0
Change in net assets	0	750	0	2	752
Fund balances beginning of year	584	2,258	65	5,420	8,327
Fund balances end of year	\$ 584	3,008	65	5,422	9,079

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2012

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<u>MARION COUNTY EMPOWERMENT</u>				
ASSETS				
Cash and pooled investments	\$ 70,544	274,821	290,068	55,297
LIABILITIES				
Accounts payable	\$ 1,852	0	1,852	0
Due to other groups	68,692	274,821	288,216	55,297
	<u>\$ 70,544</u>	<u>274,821</u>	<u>290,068</u>	<u>55,297</u>
<u>KCSD EMPLOYEE FLEX SPENDING</u>				
Cash and pooled investments	\$ 1,531	44,127	41,004	4,654
LIABILITIES				
Due to other groups	\$ 1,531	44,127	41,004	4,654
<u>TOTALS - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and pooled investments	\$ 72,075	318,948	331,072	59,951
LIABILITIES				
Accounts payable	\$ 1,852	0	1,852	0
Due to other groups	70,223	318,948	329,220	59,951
	<u>\$ 72,075</u>	<u>318,948</u>	<u>331,072</u>	<u>59,951</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities:</u>		
	<u>Internal Service Funds</u>		
	<u>Self-funded</u>	<u>Self-funded</u>	
	<u>Health</u>	<u>Dental</u>	
	<u>Insurance</u>	<u>Insurance</u>	<u>Total</u>
ASSETS:			
Cash and pooled investments	\$ 333,639	93,057	426,696
LIABILITIES:			
Accounts payable	1,302	0	1,302
NET ASSETS	<u>\$ 332,337</u>	<u>93,057</u>	<u>425,394</u>

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, 2012

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Health Insurance	Self-funded Dental Insurance	Total
OPERATING REVENUES:			
Local sources:			
Miscellaneous	\$ 2,039,735	153,592	2,193,327
TOTAL OPERATING REVENUE	<u>2,039,735</u>	<u>153,592</u>	<u>2,193,327</u>
OPERATING EXPENSES:			
Support services:			
Administration:			
Benefits	1,970,173	169,151	2,139,324
TOTAL OPERATING EXPENSES	<u>1,970,173</u>	<u>169,151</u>	<u>2,139,324</u>
Change in net assets	69,562	(15,559)	54,003
Fund balances beginning of year	262,775	108,616	371,391
Fund balances end of year	<u>\$ 332,337</u>	<u>93,057</u>	<u>425,394</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUND
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Health Insurance	Self-funded Dental Insurance	Total
Cash flows from operating activities:			
Cash received from miscellaneous	\$ 2,039,735	153,592	2,193,327
Cash payments to suppliers for goods or services	(1,968,871)	(169,151)	(2,138,022)
Net cash provided by(used in) operating activities	<u>70,864</u>	<u>(15,559)</u>	<u>55,305</u>
Net increase(decrease) in cash and cash equivalents	70,864	(15,559)	55,305
Cash and cash equivalents at beginning of year	<u>262,775</u>	<u>108,616</u>	<u>371,391</u>
Cash and cash equivalents at end of year	<u>\$ 333,639</u>	<u>93,057</u>	<u>426,696</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ 69,562	(15,559)	54,003
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Increase in accounts payable	1,302	0	1,302
Net cash provided by(used in) operating activities	<u>\$ 70,864</u>	<u>(15,559)</u>	<u>55,305</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,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues:										
Local sources:										
Local tax	\$ 8,003,647	7,437,632	6,974,671	7,070,071	6,370,480	6,373,520	6,436,297	6,271,019	5,406,638	4,913,053
Tuition	425,964	401,044	412,384	411,511	352,774	444,933	435,713	412,584	384,825	381,387
Other	838,720	1,127,701	817,801	1,105,747	817,629	951,118	900,892	755,925	684,887	699,016
Intermediate sources	0	0	0	0	22,141	0	0	0	300	1,000
State sources	11,595,516	11,277,768	9,422,841	10,973,173	10,996,970	10,383,090	9,666,649	9,266,712	8,566,918	8,786,235
Federal sources	865,647	942,998	1,563,222	700,204	499,102	483,871	515,121	526,675	525,896	435,357
Total	\$ 21,729,494	21,187,143	19,190,919	20,260,706	19,059,096	18,636,532	17,954,672	17,232,915	15,569,464	15,216,048
Expenditures:										
Instruction:										
Regular	\$ 7,569,159	7,570,307	7,723,702	7,783,173	7,274,840	6,805,524	6,232,711	5,859,910	5,618,174	5,589,416
Special	2,331,981	2,160,310	2,163,846	2,303,370	2,282,564	2,192,323	2,059,686	2,310,021	2,000,372	1,901,912
Other	2,622,649	2,473,256	2,416,091	2,331,557	2,280,792	2,223,187	2,192,156	1,314,612	1,201,591	1,226,426
Support services:										
Student	323,044	316,474	358,266	434,005	433,321	429,610	429,577	688,674	679,614	699,172
Instructional staff	327,500	1,647,901	319,171	394,561	415,359	396,764	389,630	821,959	673,089	632,391
Administration	1,886,323	2,256,071	1,934,984	2,050,703	2,130,779	1,928,616	1,859,177	1,683,840	1,529,732	1,539,928
Operation and maintenance of plant	1,635,693	1,610,774	1,655,546	1,738,269	1,581,508	1,551,750	1,514,703	1,375,891	1,395,117	1,369,916
Transportation	757,547	581,519	609,703	676,125	644,203	612,541	537,821	541,570	427,597	452,659
Other support	0	0	0	0	0	0	0	1,750	73,529	93,511
Non-instructional programs	0	0	0	0	0	0	100	9,976	7,384	6,080
Other expenditures:										
Facilities acquisitions	1,668,885	1,075,786	548,370	617,586	764,091	2,086,702	3,903,561	844,960	496,057	187,865
Long-term debt:										
Principal	3,817,002	1,365,000	1,295,000	1,250,000	1,200,000	625,000	600,000	565,000	540,000	505,000
Interest and fiscal charges	169,736	138,822	246,516	305,731	351,292	429,800	270,500	261,765	291,003	325,532
AEA flow-through	687,382	760,660	734,903	686,326	663,042	632,385	588,615	566,235	546,076	585,932
Total	\$ 23,796,901	21,956,880	20,006,098	20,571,406	20,021,791	19,914,202	20,578,237	16,846,163	15,479,335	15,115,740

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

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 12	\$ 75,712
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 12	403,619 *
			<u>479,331</u>
TEAM NUTRITION GRANT	10.574	FY 12	<u>1,000</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 12	265,579
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	36,225
			<u>301,804</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 12	<u>334</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (FIRE SAFETY GRANT)	84.215	FY 12	<u>15,000</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 12	<u>65,842</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 12	<u>11,980</u>
EDUCATION JOBS FUNDS	84.410	FY 11	331,204
EDUCATION JOBS FUNDS	84.410	FY 12	5,749
			<u>336,953</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 12	<u>98,969</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 12	<u>18,853</u>
TOTAL			<u>\$ 1,330,066</u>

* - Includes \$62,292 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.

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, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 11, 2013. 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

The management of Knoxville Community School District is responsible for establishing and maintaining effective internal controls 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 on a timely basis. We noted no deficiencies in internal controls that we consider to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Finding and Questioned Costs as items II-A-12 and II-B-12 to be significant deficiencies.

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, 2012 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.

February 11, 2013

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

Independent Auditor's Report on Compliance with Requirements That
Could Have a Direct and Material Effect on 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 could have a direct and material effect on each of Knoxville Community School District's major federal programs for the year ended June 30, 2012. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

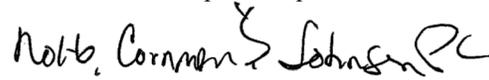
The management of Knoxville Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Knoxville Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Knoxville Community School District's internal control over compliance.

Members American Institute & Iowa Society of Certified Public Accountants

A deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that 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 pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson P.C." with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

February 11, 2013

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part I: Summary of the Independent Auditor's Report

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies 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:
 - Individual Programs:
 - CFDA Number 84.367 - Improving Teacher Quality State Grants
 - CFDA Number 84.410 - Education Jobs Fund
 - Clustered Programs:
 - 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
- (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, 2012

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Receipting Procedures - We noted that sponsors of student organizations were collecting money from individuals, fundraising events and other revenue fees. These collections are turned into the office for receipting, depositing and posting only after the event or fundraising drive is completed.

Recommendation - The District should implement procedures to ensure that all money is collected from sponsors in a timely manner.

Response - The District will communicate to sponsors that money needs to be turned in throughout the fundraiser.

Conclusion - Response accepted.

II-B-12 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchasing process, however we noted one instance out of 26 where a purchase order was completed after the product had been ordered and paid for by an employee in the Student Activity Fund. The employee was subsequently reimbursed for this purchase.

Recommendation - The advantage of using a purchase order system is that approvals of the items being purchased are noted prior to ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore allowing the person who approves purchase orders the insight to know if there is still available funding to make the purchase.

Although districts are not required to use a purchase order system, the benefits to financial management make the system desirable. The District's current purchase order system should be reviewed and necessary changes made so that all disbursements are approved by the appropriate administrator before ordering of supplies takes place.

Response - The District will review District policies and procedures with all employees to reiterate that purchase orders must to be completed prior to items being ordered.

Conclusion - Response accepted.

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.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - District expenditures for the year ended June 30, 2012 exceeded the certified amounts in the other expenditures function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The District will amend its budget in the future if necessary.

Conclusion - Response accepted.

IV-B-12 Questionable Disbursements -

Clothing Items Purchased for Staff: We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund. We also noted that the District purchased shirts for nutrition employees from the School Nutrition 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 and School Nutrition 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.

Gift Card Purchases: We noted a disbursement for gift cards to volunteers at the Elementary School. Giving gift cards to volunteers do not appear to meet public purpose as defined in the Attorney General’s opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make

necessary adjustments to comply.

Response - The District will review allowable expenditures with District employees to ensure that only items that meet public purpose requirements are purchased by the District.

Conclusion - Response accepted.

IV-C-12 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-12 Business Transactions - No business transactions between the District and District officials were noted.

IV-E-12 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-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-12 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of ELL students was overstated by 0.22.

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-12 Supplementary Weighting - No variances in basic enrollment data certified to the Iowa Department of Education were noted.

IV-I-12 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-12 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-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-12 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 revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 1,010,029
Revenues:		
Sales tax revenues	\$ 1,309,803	
Other local revenues	3,374	
School infrastructure supplemental amount	131,280	
Sale of long-term debt	6,550,000	
Other	6,106	8,000,563
		<u>9,010,592</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 1,233,841	
Equipment	164,556	
Other	465,504	
Transfers to other funds:		
Debt service fund	1,011,771	2,875,672
		<u>2,875,672</u>
Ending balance		<u>\$ 6,134,920</u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

IV-M-12 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 \$390,793. The District also had deficit net assets in the governmental activities of \$720,157.

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 deficit net assets in the governmental activities was due to an increasing OPEB liability, increasing early retirement benefits and the deficit Student Activity Fund accounts, which the District is working towards correcting.

Conclusion - Response accepted.

IV-N-12 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 Pepsi Pop Fund, Book Fair, Team Nutrition and ISJIT account. 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.

Purchases of Instructional Supplies - We noted during our audit purchases from the District's Student Activity Fund that appear to be instructional in nature.

Recommendation - These expenditures appear to be more appropriate in the General Fund.

Response - The District will review expenditures in the Student Activity Fund for those that appear more appropriate in the General Fund.

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.