

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

JUNE 30, 2014

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		4-5
Management's Discussion and Analysis (MD&A)		7-16
<i>Basic Financial Statements:</i>	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Position	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Position	G	24
Statement of Revenues, Expenses and Changes in Fund Net Position	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Position	J	27
Statement of Changes in Fiduciary Net Position	K	28
Notes to Financial Statements		29-40
<i>Required Supplementary Information:</i>		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		42
Notes to Required Supplementary Information - Budgetary Reporting		43
Schedule of Funding Progress for the Retiree Health Plan		44
<i>Supplementary Information:</i>	<u>Schedule</u>	
Capital Project Accounts:		
Combining Balance Sheet	1	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	47
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	48-50
Fiduciary Fund - Private Purpose Trust Funds:		
Combining Balance Sheet	4	51
Combining Statement of Changes in Fiduciary Net Position	5	52
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	6	53
Internal Service Funds:		
Combining Statement of Net Position	7	54
Combining Statement of Revenues, Expenditures and Changes in Fund Net Position	8	55
Combining Statement of Cash Flows	9	56
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	10	57
Schedule of Expenditures of Federal Awards	11	58
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 <u>Government Auditing Standards</u>		59-60
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133		61-62
Schedule of Findings and Questioned Costs		63-69

Knoxville Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
-------------	--------------	---------------------

Board of Education

(Before September 2013 Election)

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

(After September 2013 Election)

Leslie Miller	President	2015
Mike Helle	Vice President	2015
Tim McDonald	Board Member	2015
Michael Moats	Board Member	2017
Andrew Schmidt	Board Member	2017

School Officials

Dr. Randy Flack	Superintendent	2014
Craig Mobley	Business Manager, District Secretary/Treasurer	2014
Drew Bracken	Attorney	2014

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, Knoxville, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 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 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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 third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 11, including the 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 27, 2015 on our consideration of Knoxville Community School District's internal control over financial reporting and on 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 in considering Knoxville Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2015
Newton, Iowa

KNOXVILLE COMMUNITY SCHOOL DISTRICT

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, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$17,528,102 in fiscal 2013 to \$18,098,452 in fiscal 2014, while General Fund expenditures increased from \$17,152,145 in fiscal 2013 to \$18,254,010 in fiscal 2014. This resulted in a decrease in the District's General Fund balance from \$2,089,887 in fiscal 2013 to a balance of \$1,934,329 in fiscal 2014, a 7.44% decrease from the prior year.
- The increase in General Fund revenues was primarily attributable to increases in local and state sources in fiscal 2014. The increase in expenditures was due primarily to an increase in expenses in the instruction and support service functions.
- The District's solvency ratio decreased as compared to fiscal 2013. At June 30, 2014 the District's solvency ratio was 6.72% as compared to 8.58% at June 30, 2013.

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 Position 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.

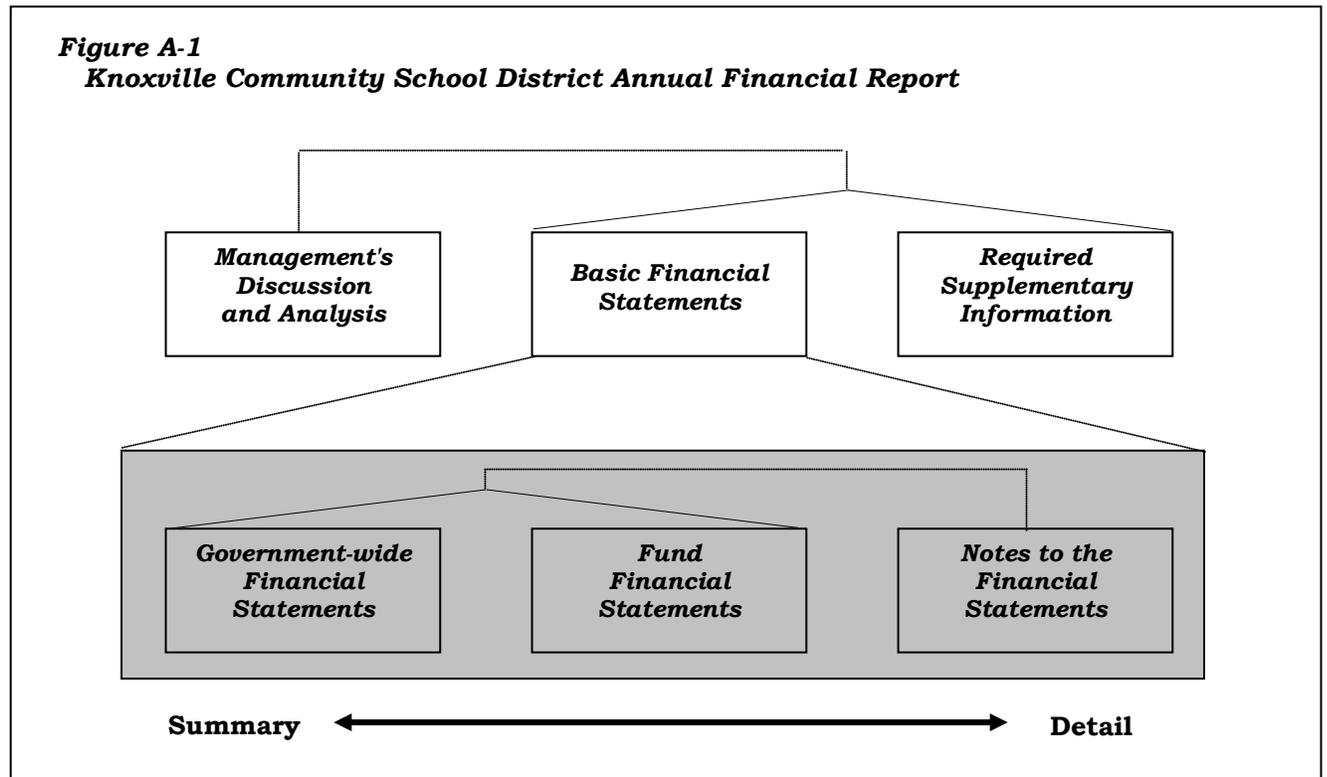


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • 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 position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
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 Position includes all of the District’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 position and how they have changed. Net position is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is 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 Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position 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 Position and a Statement of Changes in Fiduciary Net Position.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2014 compared to June 30, 2013.

Figure A-3
Condensed Statement of Net Position

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 12,887,585	14,689,451	495,455	520,237	13,383,040	15,209,688	-12.01%
Capital assets	22,739,094	21,875,076	202,764	177,365	22,941,858	22,052,441	4.03%
Total assets	35,626,679	36,564,527	698,219	697,602	36,324,898	37,262,129	-2.52%
Long-term obligations	12,142,561	11,522,818	21,904	19,342	12,164,465	11,542,160	5.39%
Other liabilities	2,099,439	3,046,770	69,661	63,696	2,169,100	3,110,466	-30.26%
Total liabilities	14,242,000	14,569,588	91,565	83,038	14,333,565	14,652,626	-2.18%
Deferred inflows of resources	5,700,169	5,680,858	-	-	5,700,169	5,680,858	0.34%
Net position:							
Net investment in capital assets	13,474,094	12,270,076	202,764	177,365	13,676,858	12,447,441	9.88%
Restricted	3,578,561	3,961,717	-	-	3,578,561	3,961,717	-9.67%
Unrestricted	(1,368,145)	82,288	403,890	437,199	(964,255)	519,487	-285.62%
Total net position	\$ 15,684,510	16,314,081	606,654	614,564	16,291,164	16,928,645	-3.77%

The District's combined net position decreased by 3.77%, or \$637,481, over the prior year. The largest portion of the District's net position 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 position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased \$383,156, or 9.67%, over the prior year. This decrease was primarily due to a decrease in the Capital Projects: Statewide Sales, Services and Use Tax.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$1,483,742, or 285.62%. This decrease in unrestricted net position was a result of a decrease in the General Fund balance, as well as due to the increase in termination benefits payable recorded during fiscal year 2014.

Figure A-4 shows the changes in net position for the year ended June 30, 2014 compared to the year ended June 30, 2013.

Figure A-4
Changes in Net Position

	Governmental Activities		Business type Activities		Total School District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 1,093,115	1,142,866	368,205	308,315	1,461,320	1,451,181	0.70%
Operating grants and contributions and restricted interest	1,674,528	1,540,142	497,999	495,574	2,172,527	2,035,716	6.72%
Capital grants and contributions and restricted interest	24,960	330,206	-	-	24,960	330,206	-92.44%
General revenues:							
Property tax	5,495,091	6,062,462	-	-	5,495,091	6,062,462	-9.36%
Income surtax	528,376	470,466	-	-	528,376	470,466	12.31%
Statewide sales, services and use tax	1,592,103	1,303,507	-	-	1,592,103	1,303,507	22.14%
Unrestricted state grants	10,675,692	10,536,954	-	-	10,675,692	10,536,954	1.32%
Unrestricted investment earnings	1,554	6,662	8	9	1,562	6,671	-76.59%
Other	207,214	177,693	9,798	20,009	217,012	197,702	9.77%
Total revenues and transfers	21,292,633	21,570,958	876,010	823,907	22,168,643	22,394,865	-1.01%
Program expenses:							
Governmental activities:							
Instructional	13,996,237	12,529,059	-	-	13,996,237	12,529,059	11.71%
Support services	6,294,647	5,056,042	4,409	12,425	6,299,056	5,068,467	24.28%
Non-instructional programs	-	-	879,511	844,195	879,511	844,195	4.18%
Other expenses	1,631,320	1,528,331	-	-	1,631,320	1,528,331	6.74%
Total expenses	21,922,204	19,113,432	883,920	856,620	22,806,124	19,970,052	14.20%
Changes in net position	(629,571)	2,457,526	(7,910)	(32,713)	(637,481)	2,424,813	-126.29%
Net position beginning of year	16,314,081	13,856,555	614,564	647,277	16,928,645	14,503,832	16.72%
Net position end of year	\$ 15,684,510	16,314,081	606,654	614,564	16,291,164	16,928,645	-3.77%

In fiscal 2014, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 85.90% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 98.88% of the revenue from business type activities.

The District's total revenues were approximately \$22.17 million of which approximately \$21.29 million was for governmental activities and approximately \$0.88 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.01% decrease in revenues and a 14.20% increase in expenses. Revenues decreased as a result of a decrease in funding from local sources. Expenses were increased due to an increase in the instruction and support services functional areas in the major governmental funds.

Governmental Activities

Revenues for governmental activities were \$21,292,633 and expenses were \$21,922,204.

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, 2014 compared to the year ended June 30, 2013.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 13,996,237	12,529,059	11.71%	11,938,307	10,579,203	12.85%
Support services	6,294,647	5,056,042	24.50%	6,264,788	4,679,280	33.88%
Other expenses	1,631,320	1,528,331	6.74%	926,506	841,735	10.07%
Totals	<u>\$ 21,922,204</u>	<u>19,113,432</u>	<u>14.70%</u>	<u>19,129,601</u>	<u>16,100,218</u>	<u>18.82%</u>

- The cost financed by users of the District's programs was \$1,093,115.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,699,488.
- The net cost of governmental activities was financed with \$5,495,091 in property tax, \$528,376 in income surtax, \$1,592,103 in statewide sales, services and use tax, \$10,675,692 in unrestricted state grants, \$1,554 in interest income and \$207,214 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$876,010 and expenses were \$883,920. 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 \$4,613,314, significantly below last year's ending fund balance of \$5,214,732. The primary reason for the decrease in combined fund balance in fiscal 2014 is due to the construction costs for the 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 an increase in local tax and state source revenues. The increase in expenses was due to an increase in instruction and support services functional expenses.
- The Management Fund balance increased from a balance of \$106,619 in fiscal year 2013 to \$188,028 in fiscal year 2014. Revenues from local sources increased during fiscal year 2014, while expenses decreased during fiscal year 2014.
- The Capital Projects Fund balance decreased from a balance of \$1,490,002 at the beginning of the fiscal year 2014 to \$907,183. The decrease was due to the expenses relating to the construction of the new auditorium.
- The Debt Service Fund balance increased from a balance of \$1,342,452 at June 30, 2013 to \$1,364,667 at June 30, 2014.

Proprietary Fund Highlights

The Proprietary Fund net position decreased from \$614,564 at June 30, 2013 to \$606,654 at June 30, 2014, representing a decrease of 1.29%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$425,370 more than budgeted revenues, a variance of 1.96%. The most significant positive variance resulted from the District receiving more 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction, support services, and other expenditures functional areas and in total.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested \$22,941,858, 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 4.03% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$867,768.

The original cost of the District's capital assets was \$34,619,570. Governmental funds account for \$33,878,947 with the remainder of \$740,623 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 \$11,606 at June 30, 2014, compared to \$6,384,564 reported at June 30, 2013. This decrease resulted from work being completed on the middle school 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
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 63,966	63,966	-	-	63,966	63,966	0.00%
Construction in progress	11,606	6,384,564	-	-	11,606	6,384,564	-99.82%
Buildings	21,774,208	14,688,178	-	-	21,774,208	14,688,178	48.24%
Machinery and equipment	889,314	738,368	202,764	177,365	1,092,078	915,733	19.26%
Total	\$ 22,739,094	21,875,076	202,764	177,365	22,941,858	22,052,441	4.03%

Long-Term Debt

At June 30, 2014, the District had \$12,164,465 in general obligation and other long-term debt outstanding. This represents an increase of 5.39% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding revenue bonds of \$9,265,000 at June 30, 2014 payable from the Capital Projects: Statewide Sales, Services and use Tax Fund.

The District had outstanding computer lease of \$197,592 at June 30, 2014 payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

The District had total outstanding termination benefits payable from the Special Revenue, Management Fund of \$1,902,460 at June 30, 2014.

The District has a Net OPEB liability of \$799,413 as of June 30, 2014.

Figure A-7
Outstanding Long-Term Obligations

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Revenue bonds	\$ 9,265,000	9,605,000	-	-	9,265,000	9,605,000	-3.54%
Computer lease	197,592	579,723	-	-	197,592	579,723	-65.92%
Termination benefits	1,902,460	651,538	-	-	1,902,460	651,538	192.00%
Net OPEB obligation	777,509	686,557	21,904	19,342	799,413	705,899	13.25%
Total	\$ 12,142,561	11,522,818	21,904	19,342	12,164,465	11,542,160	5.39%

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 to have stable enrollment 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 through 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 POSITION
JUNE 30, 2014

	Governmental Activities	Business type Activities	Total
ASSETS			
Cash and pooled investments	\$ 5,980,687	441,643	6,422,330
Receivables:			
Property tax:			
Delinquent	68,565	-	68,565
Succeeding year	5,700,169	-	5,700,169
Income surtax	473,928	-	473,928
Accounts	14,823	27,713	42,536
Due from other governments	649,413	-	649,413
Inventories	-	26,099	26,099
Capital assets, net of accumulated depreciation	22,739,094	202,764	22,941,858
TOTAL ASSETS	35,626,679	698,219	36,324,898
LIABILITIES			
Accounts payable	320,714	151	320,865
Salaries and benefits payable	1,653,454	56,261	1,709,715
Interest payable	125,271	-	125,271
Unearned revenue	-	13,249	13,249
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	490,000	-	490,000
Computer lease payable	197,592	-	197,592
Termination benefit payable	642,107	-	642,107
Portion due after one year:			
Revenue bonds payable	8,775,000	-	8,775,000
Termination benefit payable	1,260,353	-	1,260,353
Net OPEB liability	777,509	21,904	799,413
TOTAL LIABILITIES	14,242,000	91,565	14,333,565
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	5,700,169	-	5,700,169
NET POSITION			
Net investment in capital assets	13,474,094	202,764	13,676,858
Restricted for:			
Categorical funding	766,079	-	766,079
Debt service	1,239,396	-	1,239,396
School infrastructure	415,016	-	415,016
Physical plant and equipment levy	492,167	-	492,167
Student activities	665,903	-	665,903
Unrestricted	(1,368,145)	403,890	(964,255)
TOTAL NET POSITION	\$ 15,684,510	606,654	16,291,164

SEE NOTES TO FINANCIAL STATEMENTS.

**KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities		Business Type Activities
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 8,596,879	427,359	162,517	-	(8,007,003)	-	(8,007,003)
Special	2,721,282	101,503	161,455	-	(2,458,324)	-	(2,458,324)
Other	2,678,076	559,354	645,742	-	(1,472,980)	-	(1,472,980)
	13,996,237	1,088,216	969,714	-	(11,938,307)	-	(11,938,307)
Support services:							
Student	528,635	-	-	-	(528,635)	-	(528,635)
Instructional staff	356,296	-	-	-	(356,296)	-	(356,296)
Administration	2,492,507	-	-	-	(2,492,507)	-	(2,492,507)
Operation and maintenance of plant	2,206,334	-	-	24,960	(2,181,374)	-	(2,181,374)
Transportation	710,875	4,899	-	-	(705,976)	-	(705,976)
	6,294,647	4,899	-	24,960	(6,264,788)	-	(6,264,788)
Long-term debt interest	264,521	-	-	-	(264,521)	-	(264,521)
Other expenses:							
AEA flowthrough	704,814	-	704,814	-	-	-	-
Depreciation(unallocated)*	661,985	-	-	-	(661,985)	-	(661,985)
	1,366,799	-	704,814	-	(661,985)	-	(661,985)
Total governmental activities	21,922,204	1,093,115	1,674,528	24,960	(19,129,601)	-	(19,129,601)
Business type activities:							
Support services:							
Administration	1,082	-	-	-	-	(1,082)	(1,082)
Operation and maintenance of plant	3,327	-	-	-	-	(3,327)	(3,327)
Non-instructional programs:							
Nutrition services	879,511	368,205	497,999	-	-	(13,307)	(13,307)
Total business type activities	883,920	368,205	497,999	-	-	(17,716)	(17,716)
Total	\$ 22,806,124	1,461,320	2,172,527	24,960	(19,129,601)	(17,716)	(19,147,317)
General Revenues:							
Property tax for:							
General purposes					\$ 5,117,745	-	5,117,745
Capital outlay					377,346	-	377,346
Income surtax					528,376	-	528,376
Statewide sales, services and use tax					1,592,103	-	1,592,103
Unrestricted state grants					10,675,692	-	10,675,692
Unrestricted investment earnings					1,554	8	1,562
Other general revenues					207,214	9,798	217,012
Total general revenues and transfers					18,500,030	9,806	18,509,836
Changes in net position					(629,571)	(7,910)	(637,481)
Net position beginning of year					16,314,081	614,564	16,928,645
Net position end of year	\$				15,684,510	606,654	16,291,164

* 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, 2014

	General	Management	Capital Projects	Debt Service	Nonmajor: Student Activity	Total
ASSETS						
Cash and pooled investments	\$ 3,654,565	179,648	429,974	1,364,667	221,832	5,850,686
Receivables:						
Property tax:						
Delinquent	57,710	6,268	4,587	-	-	68,565
Succeeding year	4,458,871	849,998	391,300	-	-	5,700,169
Income surtax	473,928	-	-	-	-	473,928
Accounts	8,363	2,112	-	-	4,348	14,823
Due from other governments	176,791	-	472,622	-	-	649,413
Due from other funds	-	-	200,000	-	-	200,000
TOTAL ASSETS	\$ 8,830,228	1,038,026	1,498,483	1,364,667	226,180	12,957,584
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 310,313	-	-	-	6,406	316,719
Salaries and benefits payable	1,652,787	-	-	-	667	1,653,454
Due to other funds	-	-	200,000	-	-	200,000
Total liabilities	1,963,100	-	200,000	-	7,073	2,170,173
Deferred inflows of resources:						
Unavailable revenues:						
Succeeding year property tax	4,458,871	849,998	391,300	-	-	5,700,169
Income surtax	473,928	-	-	-	-	473,928
Total deferred inflows of resources	4,932,799	849,998	391,300	-	-	6,174,097
Fund balances:						
Restricted for:						
Categorical funding	766,079	-	-	-	-	766,079
Debt service	-	-	-	1,364,667	-	1,364,667
School infrastructure	-	-	415,016	-	-	415,016
Physical plant and equipment	-	-	492,167	-	-	492,167
Management levy purposes	-	188,028	-	-	-	188,028
Student activities	-	-	-	-	665,903	665,903
Unassigned:						
General	1,168,250	-	-	-	-	1,168,250
Student activities	-	-	-	-	(446,796)	(446,796)
Total fund balances	1,934,329	188,028	907,183	1,364,667	219,107	4,613,314
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 8,830,228	1,038,026	1,498,483	1,364,667	226,180	12,957,584

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2014

Total fund balances of governmental funds(page 20)	\$	4,613,314
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		22,739,094
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		126,006
Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.		473,928
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.		(125,271)
Long-term liabilities, including bonds payable, termination benefit 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>(12,142,561)</u>
Net position of governmental activities(page 18)	\$	<u><u>15,684,510</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, 2014

	General	Management	Capital Projects	Debt Service	Nonmajor: Student Activity	Total
REVENUES:						
Local sources:						
Local tax	\$ 5,133,809	501,301	377,346	-	-	6,012,456
Tuition	463,945	-	-	-	-	463,945
Other	216,345	86,882	66,058	126	559,354	928,765
State sources	11,728,743	-	1,592,103	-	-	13,320,846
Federal sources	555,610	-	-	-	-	555,610
Total revenues	18,098,452	588,183	2,035,507	126	559,354	21,281,622
EXPENDITURES:						
Current:						
Instruction:						
Regular	7,609,011	404,531	-	-	-	8,013,542
Special	2,630,761	-	-	-	-	2,630,761
Other	2,126,027	-	-	-	523,896	2,649,923
	12,365,799	404,531	-	-	523,896	13,294,226
Support services:						
Student	421,716	-	-	-	-	421,716
Instructional staff	345,592	-	-	-	-	345,592
Administration	2,027,938	-	5,539	-	2,123	2,035,600
Operation and maintenance of plant	1,788,231	88,160	-	-	-	1,876,391
Transportation	599,920	14,083	175,191	-	-	789,194
	5,183,397	102,243	180,730	-	2,123	5,468,493
Capital outlay	-	-	1,424,851	-	-	1,424,851
Long-term debt:						
Principal	-	-	-	722,131	-	722,131
Interest and fiscal charges	-	-	-	268,525	-	268,525
	-	-	-	990,656	-	990,656
Other expenditures:						
AEA flowthrough	704,814	-	-	-	-	704,814
	704,814	-	-	-	-	704,814
Total expenditures	18,254,010	506,774	1,605,581	990,656	526,019	21,883,040
Excess(Deficiency) of revenues over over(under) expenditures	(155,558)	81,409	429,926	(990,530)	33,335	(601,418)
Other financing sources(uses):						
Transfer in	-	-	125,511	1,138,256	-	1,263,767
Transfer out	-	-	(1,138,256)	(125,511)	-	(1,263,767)
Total other financing sources(uses)	-	-	(1,012,745)	1,012,745	-	-
Change in fund balances	(155,558)	81,409	(582,819)	22,215	33,335	(601,418)
Fund balance beginning of year	2,089,887	106,619	1,490,002	1,342,452	185,772	5,214,732
Fund balance end of year	\$ 1,934,329	188,028	907,183	1,364,667	219,107	4,613,314

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, 2014

Net change in fund balances - total governmental funds(page 22) \$ (601,418)

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	\$ 1,558,164	
Depreciation expense	(694,146)	864,018

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (287,443)

Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.
 Current year repayments are as follows: 722,131

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. 4,004

Income surtax account receivable is not available to finance expenditures of the current year period and is recognized as deferred inflows of resources in the governmental funds. 11,011

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.

Termination benefits	(1,250,922)	
Other postemployment benefits	(90,952)	(1,341,874)

Changes in net position of governmental activities(page 19) \$ (629,571)

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business Type	
	Activities Enterprise: Fund	Governmental Activities: Internal Service Fund
	School Nutrition	
ASSETS		
Cash and pooled investments	\$ 441,643	130,001
Accounts receivable	27,713	-
Inventories	26,099	-
Capital assets, net of accumulated depreciation	202,764	-
TOTAL ASSETS	698,219	130,001
LIABILITIES		
Accounts payable	151	3,995
Salaries and benefits payable	56,261	-
Unearned revenue	13,249	-
Net OPEB liability	21,904	-
TOTAL LIABILITIES	91,565	3,995
NET POSITION		
Invested in capital assets	202,764	-
Unrestricted	403,890	126,006
TOTAL NET POSITION	\$ 606,654	126,006

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business Type	
	Activites:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 368,205	-
Miscellaneous	9,798	2,295,127
TOTAL OPERATING REVENUES	378,003	2,295,127
OPERATING EXPENSES:		
Support services:		
Administration:		
Benefits	-	2,582,570
Services	1,082	-
Operation and maintenance of plant:		
Services	3,327	-
	4,409	2,582,570
Non-instructional programs:		
Food service operations:		
Salaries	306,937	-
Benefits	114,690	-
Services	887	-
Supplies	410,206	-
Depreciation	46,791	-
	879,511	-
TOTAL OPERATING EXPENSES	883,920	2,582,570
OPERATING LOSS	(505,917)	(287,443)
NON-OPERATING REVENUES:		
State sources	7,301	-
Federal sources	490,698	-
Interest on investments	8	-
TOTAL NON-OPERATING REVENUES	498,007	-
Change in net position	(7,910)	(287,443)
Net position beginning of year	614,564	413,449
Net position end of year	\$ 606,654	126,006

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business Type	
	Enterprise	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 367,431	-
Cash received from miscellaneous	9,798	2,475,464
Cash payments to employees for services	(414,727)	-
Cash payments to suppliers for goods or services	(354,785)	(2,578,575)
Net cash used in operating activities	(392,283)	(103,111)
Cash flows from non-capital financing activities:		
State grants received	7,301	-
Federal grants received	433,450	-
Net cash provided by non-capital financing activities	440,751	-
Cash flows from capital and related financing activities:		
Purchase of capital assets	(72,190)	-
Cash flows from investing activities:		
Interest on investments	8	-
Net decrease in cash and cash equivalents	(23,714)	(103,111)
Cash and cash equivalents at beginning of year	465,357	233,112
Cash and cash equivalents at end of year	\$ 441,643	130,001
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (505,917)	(287,443)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	57,248	-
Depreciation	46,791	-
Decrease in inventories	3,942	-
Decrease (Increase) in accounts receivable	(2,874)	180,337
(Decrease) Increase in accounts payable	(473)	3,995
Increase in salaries and benefits payable	4,338	-
Increase in unearned revenue	2,100	-
Increase in other postemployment benefits	2,562	-
Net cash used in operating activities	\$ (392,283)	(103,111)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2014, the District received Federal commodities valued at \$57,248.

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2014

	<u>Private Purpose Trust Scholarship Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and pooled investments	<u>\$ 10,180</u>	<u>4,113</u>
LIABILITIES		
Due to other groups	<u>-</u>	<u>4,113</u>
NET POSITION		
Restricted for scholarships	<u>\$ 10,180</u>	<u>-</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2014

	<u>Private Purpose Trust</u>	<u>Scholarship Fund</u>
Additions:		
Local sources:		
Gifts and contributions	\$	500
Deductions:		
Instruction:		
Regular:		
Scholarships awarded		-
Change in net position		500
Net position beginning of year		9,680
Net position end of year	\$	10,180

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 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 Position 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 Position presents the District's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets 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 position result when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has 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.

The Management Levy Fund is utilized for the payment of insurance, unemployment and termination benefits.

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 to be used for the payment of principal and interest on the District's general 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 Position and the Statement of Activities.

The District also reports fiduciary funds which focus on net position and changes in net position. 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 position 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.

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, Deferred Inflows of Resources 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, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2013.

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 Position. 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 Inflows of Resources - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources 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 inflows of resources consist of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position 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 Position 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 Position.

Fund Balances - 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.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, expenditures exceeded the amounts budgeted in the instructional, support services and other expenditures functional area and in total.

Note 2. Cash and Pooled Investments

The District's deposits at June 30, 2014 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, 2014 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$2,030,005 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.

Note 3. Transfers

The detail of transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 1,138,256
Capital Projects: Physical Plant and Equipment Levy	Debt Service	125,511
Total		<u>\$ 1,263,767</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax to the Debt Service Fund was needed for principal and interest payments on the District's revenue bond indebtedness.

The transfer from the Debt Service Fund to the Capital Projects: Physical Plant and Equipment Levy Fund was to transfer the remaining General Obligation Bond money.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 63,966	-	-	63,966
Construction in progress	6,384,564	1,375,058	7,748,016	11,606
Total capital assets not being depreciated	<u>6,448,530</u>	<u>1,375,058</u>	<u>7,748,016</u>	<u>75,572</u>
Capital assets being depreciated:				
Buildings	22,662,458	7,748,015	-	30,410,473
Machinery and equipment	3,209,795	309,938	126,831	3,392,902
Total capital assets being depreciated	<u>25,872,253</u>	<u>8,057,953</u>	<u>126,831</u>	<u>33,803,375</u>
Less accumulated depreciation for:				
Buildings	7,974,280	661,985	-	8,636,265
Machinery and equipment	2,471,427	158,992	126,831	2,503,588
Total accumulated depreciation	<u>10,445,707</u>	<u>820,977</u>	<u>126,831</u>	<u>11,139,853</u>
Total capital assets being depreciated, net	<u>15,426,546</u>	<u>7,236,976</u>	<u>-</u>	<u>22,663,522</u>
Governmental activities capital assets, net	<u>\$ 21,875,076</u>	<u>8,612,034</u>	<u>7,748,016</u>	<u>22,739,094</u>
Business type activities:				
Machinery and equipment	\$ 669,202	72,190	769	740,623
Less accumulated depreciation	491,837	46,791	769	537,859
Business type activities capital assets, net	<u>\$ 177,365</u>	<u>25,399</u>	<u>-</u>	<u>202,764</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 42,154
Support services:		
Student		292
Administration		436
Operation and maintenance of plant		15,419
Transportation		100,691
		<u>158,992</u>
Unallocated depreciation		<u>661,985</u>
		<u>\$ 820,977</u>
Business type activities:		
Food services		<u>\$ 46,791</u>

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
Revenue bonds	\$ 9,605,000	-	340,000	9,265,000	490,000
Computer Lease	579,723	-	382,131	197,592	197,592
Termination benefits	651,538	1,513,173	262,251	1,902,460	642,107
Net OPEB liability	686,557	90,952	-	777,509	-
Total	<u>\$ 11,522,818</u>	<u>1,604,125</u>	<u>984,382</u>	<u>12,142,561</u>	<u>1,329,699</u>
Business Type Activities:					
Net OPEB liability	\$ 19,342	2,562	-	21,904	-

Revenue Bonds Payable

Details of the District's June 30, 2014 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
2015	2.50 %	\$ 140,000	106,788	1.00 %	\$ 350,000	139,937	\$ 490,000	246,725	736,725
2016	2.50	145,000	103,225	1.00	355,000	136,413	500,000	239,638	739,638
2017	2.50	150,000	99,537	1.00	355,000	132,862	505,000	232,399	737,399
2018	2.75	150,000	95,600	1.20	360,000	128,928	510,000	224,528	734,528
2019	3.00	155,000	91,212	1.45	365,000	124,121	520,000	215,333	735,333
2020-2024	3.25-4.00	865,000	370,407	1.75-2.50	1,920,000	512,839	2,785,000	883,246	3,668,246
2025-2029	4.10-4.50	1,065,000	176,107	2.70-3.20	2,170,000	248,139	3,235,000	424,246	3,659,246
2030	4.50	245,000	5,513	3.25	475,000	7,719	720,000	13,232	733,232
Total		<u>\$ 2,915,000</u>	<u>1,048,389</u>		<u>\$ 6,350,000</u>	<u>1,430,958</u>	<u>\$ 9,265,000</u>	<u>2,479,347</u>	<u>11,744,347</u>

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 37% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$11,744,347. For the current year, principal and interest paid on the bonds was \$592,625 and statewide sales, services and use tax revenue were \$1,592,103.

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
2015	2.74 %	\$ 197,592	1,424	199,016

Termination Benefits

The District offered 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.

In previous years, the District offered 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.

For fiscal year 2014 retirees, the District offered two 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 five years of the retiree’s health insurance.

At June 30, 2014, the District has obligations to 45 participants with a total liability of \$1,902,460. Early retirement benefits paid during the year ended June 30, 2014, totaled \$262,251. A liability has been recorded in the government-wide financial statements representing the District’s commitment to fund non-current early retirement.

Note 6. 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 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$949,496, \$862,876 and \$806,609 respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 204 active and 11 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, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	214,195
Interest on net OPEB obligation		17,647
Adjustment to annual required contribution		(71,998)
Annual OPEB cost (expense)		<u>159,844</u>
Contributions made		(66,330)
Increase in net OPEB obligation		<u>93,514</u>
Net OPEB obligation - beginning of year		<u>705,899</u>
Net OPEB obligation - end of year	\$	<u><u>799,413</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. 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, 2014.

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, 2014 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 154,047	5.1 %	\$ 618,709
2013	161,054	45.9	705,899
2014	159,844	41.5	799,413

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$1.222 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.222 million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.456 million, and the ratio of the UAAL to the covered payroll was 12.9%. As of June 30, 2014, 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, 2012 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 \$661 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.

Note 8. Deficit Fund Balance

The Student Activity Fund had a deficit unassigned fund balance of \$446,796.

Note 9. Budget Overexpenditure

During the year ended June 30, 2014, the District exceeded its budget in the instructional, support services, and other expenditures functional area and in total.

Note 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 \$99,678 at June 30, 2014.

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.

Note 11. 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 \$704,814 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2014 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Talented and gifted	\$ 168,761
Teacher salary supplement	86,273
Statewide voluntary preschool	473,807
Core curriculum	25,249
Successful progression for early readers	241
Teacher leadership grants	11,748
Total	<u>\$ 766,079</u>

Note 13. Construction Commitment

The District has entered into various contracts totaling \$59,563. Projects included in the construction in progress are carpet and tile projects at the Middle School, Northstar and West. As of June 30, 2014, costs of \$11,606 had been incurred against the contracts. The balance of \$47,957 remaining at June 30, 2014 will be paid as work on the project progresses.

Note 14. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

Note 15. Detailed Reconciliation of Governmental Fund Balances to Net Position

The following is the detailed reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position:

	Invested in Capital Assets	Management Levy Purposes	Debt Service	Unassigned/ Restricted Balances
Fund Balance (Exhibit C)	\$ -	188,028	1,364,667	1,168,250
Capital assets	22,739,094	-	-	-
Revenue bond proceeds expended for capital assets	(9,265,000)	-	-	-
Computer lease	-	-	-	(197,592)
Income surtax	-	-	-	473,928
Accrued interest payable	-	-	(125,271)	-
Termination benefits payable	-	(188,028)	-	(1,714,432)
Internal service	-	-	-	126,006
Unassigned student activity fund balance	-	-	-	(446,796)
Net OPEB liability	-	-	-	(777,509)
Net position (Exhibit A)	<u>\$ 13,474,094</u>	<u>-</u>	<u>1,239,396</u>	<u>(1,368,145)</u>

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, 2014

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 7,405,166	378,011	7,783,177	8,926,375	8,926,375	(1,143,198)
State sources	13,320,846	7,301	13,328,147	11,785,887	11,785,887	1,542,260
Federal sources	555,610	490,698	1,046,308	1,020,000	1,020,000	26,308
Total revenues	21,281,622	876,010	22,157,632	21,732,262	21,732,262	425,370
Expenditures/Expenses:						
Instruction	13,294,226	-	13,294,226	13,210,000	13,210,000	(84,226)
Support services	5,468,493	4,409	5,472,902	5,203,500	5,203,500	(269,402)
Non-instructional programs	-	879,511	879,511	1,100,000	1,100,000	220,489
Other expenditures	3,120,321	-	3,120,321	3,101,896	3,101,896	(18,425)
Total expenditures/expenses	21,883,040	883,920	22,766,960	22,615,396	22,615,396	(151,564)
Excess(Deficiency) of revenues over(under) expenditures/expenses	(601,418)	(7,910)	(609,328)	(883,134)	(883,134)	273,806
Balance beginning of year	5,214,732	614,564	5,829,296	3,949,967	3,949,967	1,879,329
Balance end of year	\$ 4,613,314	606,654	5,219,968	3,066,833	3,066,833	2,153,135

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014

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 ended June 30, 2014, expenditures in the instruction, support services, and other expenditures functional areas and in total exceeded the amounts 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 ((b-a)/c)	
			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	
2013	July 1, 2012	-	1,316	1,316	0.0	14,066	9.4	
2014	July 1, 2012	-	1,222	1,222	0.0	9,456	12.9	

See Note 7 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
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2014

	Capital Projects		
	Statewide Sales, Services & Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 142,394	287,580	429,974
Receivables:			
Delinquent	-	4,587	4,587
Succeeding year	-	391,300	391,300
Due from other governments	472,622	-	472,622
Due from other funds	-	200,000	200,000
TOTAL ASSETS	\$ 615,016	883,467	1,498,483
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Due to other funds	\$ 200,000	-	200,000
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	391,300	391,300
Fund balances:			
Restricted for:			
School infrastructure	415,016	-	415,016
Physical plant and equipment	-	492,167	492,167
Total fund balances	415,016	492,167	907,183
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 615,016	883,467	1,498,483

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, 2014

	Capital Projects		
	Statewide Sales, Services & Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ -	377,346	377,346
Other	25,752	40,306	66,058
State sources	1,592,103	-	1,592,103
Total revenues	<u>1,617,855</u>	<u>417,652</u>	<u>2,035,507</u>
EXPENDITURES:			
Current:			
Support services:			
Administration	5,052	487	5,539
Transportation	-	175,191	175,191
Capital outlay	1,211,580	213,271	1,424,851
Total expenditures	<u>1,216,632</u>	<u>388,949</u>	<u>1,605,581</u>
Excess of revenues over expenditures	401,223	28,703	429,926
Other financing sources(uses):			
Transfers in	-	125,511	125,511
Transfer out	(1,138,256)	-	(1,138,256)
Total other financing sources(uses)	<u>(1,138,256)</u>	<u>125,511</u>	<u>(1,012,745)</u>
Change in fund balances	(737,033)	154,214	(582,819)
Fund balances beginning of year	<u>1,152,049</u>	<u>337,953</u>	<u>1,490,002</u>
Fund balances end of year	<u>\$ 415,016</u>	<u>492,167</u>	<u>907,183</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, 2014

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Academic Clubs:</u>				
HS Band	\$ (259)	2,809	2,932	(382)
HS Camera Club	9,415	5,422	4,591	10,246
HS Drama Club	1,682	12,094	13,080	696
HS Speech Club	-	-	120	(120)
HS Science Club	2,460	9,570	9,502	2,528
HS Vocal	6,070	7,862	4,943	8,989
MS Band	351	779	665	465
Knoxville Art Club	1,633	208	286	1,555
Middle Student Advisory	15,818	2,947	6,820	11,945
	<u>37,170</u>	<u>41,691</u>	<u>42,939</u>	<u>35,922</u>
<u>Athletic Support:</u>				
Baseball Club	10,796	35,174	29,468	16,502
Drill Team	2,718	14,122	11,654	5,186
Girls Softball Club	16,741	23,953	15,157	25,537
MS Cheerleaders	(500)	-	-	(500)
HS Cheerleaders	234	10,758	10,054	938
MS Baseball Club	(42)	-	-	(42)
Panther Basketball	8,829	8,865	12,241	5,453
Panther Club	(1,735)	-	-	(1,735)
Panther Football Club	2,716	26,448	18,057	11,107
Panther Soccer	3,821	1,801	2,903	2,719
Pantherette Girls	12,138	76,112	81,351	6,899
Panther Girls Track Club	88	2,134	2,036	186
Pantherette Soccer	994	721	744	971
Pepsi Pop Fund	3,281	4,976	4,784	3,473
MS Softball Club	1,462	-	494	968
Wrestling Club	514	5,727	5,091	1,150
Volleyball Club	10,324	8,288	6,165	12,447
Bowling Club	7,723	496	1,951	6,268
Girls Golf Club	137	3,509	2,813	833
Boys Track Club	58	-	-	58
Tennis Club	584	706	803	487
Girls Cross Country	3,885	4,340	2,306	5,919
7th Grade Girls Basketball Club	167	-	-	167
	<u>84,933</u>	<u>228,130</u>	<u>208,072</u>	<u>104,991</u>
<u>Boys Athletics:</u>				
Baseball	(72,019)	3,739	7,797	(76,077)
Boys Basketball	56,608	8,107	6,295	58,420
Boys Cross Country	(19,995)	900	766	(19,861)
Boys Golf	(15,576)	360	633	(15,849)
Boys Soccer	2,149	3,628	2,552	3,225
Boys Tennis	(9,756)	180	50	(9,626)
Boys Track	(26,361)	1,728	2,549	(27,182)
Football	105,643	25,146	20,386	110,403
Wrestling	(16,155)	3,442	3,560	(16,273)
	<u>4,538</u>	<u>47,230</u>	<u>44,588</u>	<u>7,180</u>
<u>Classes:</u>				
Junior Class	4,400	11,387	12,088	3,699
Senior Class	990	3,660	1,772	2,878
	<u>5,390</u>	<u>15,047</u>	<u>13,860</u>	<u>6,577</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>General Athletics:</u>				
Cheerleading	(6,670)	-	-	(6,670)
Drill Team	(9,870)	-	-	(9,870)
HS General Athletics	(52,517)	19,125	18,230	(51,622)
State Tournament	(1,236)	-	-	(1,236)
	<u>(70,293)</u>	<u>19,125</u>	<u>18,230</u>	<u>(69,398)</u>
<u>Girls Athletics:</u>				
Girls Basketball	38,489	7,822	4,310	42,001
Girls Cross Country	(11,447)	-	671	(12,118)
Girls Golf	(12,092)	170	456	(12,378)
Girls Soccer	(9,693)	2,648	3,671	(10,716)
Girls Tennis	(5,789)	100	70	(5,759)
Girls Track	(27,074)	375	1,893	(28,592)
Softball	(41,168)	4,771	4,341	(40,738)
Volleyball	(11,756)	3,161	4,842	(13,437)
Bowling	2,860	2,570	70	5,360
	<u>(77,670)</u>	<u>21,617</u>	<u>20,324</u>	<u>(76,377)</u>
<u>Middle School Boys Athletics:</u>				
MS Baseball	(22,152)	-	1,409	(23,561)
MS Boys Basketball	8,151	1,483	1,371	8,263
MS Boys Track	(6,128)	439	1,990	(7,679)
MS Cross Country	(20)	-	50	(70)
MS Football	(27,478)	1,402	4,769	(30,845)
MS Wrestling	(3,276)	176	195	(3,295)
	<u>(50,903)</u>	<u>3,500</u>	<u>9,784</u>	<u>(57,187)</u>
<u>Middle School General Athletics:</u>				
MS General Athletics	10,419	2,960	118	13,261
<u>Middle School Girls Athletics:</u>				
MS Girls Basketball	980	1,235	2,825	(610)
MS Girls Track	(412)	736	2,392	(2,068)
MS Softball	(16,336)	-	980	(17,316)
MS Volleyball	5,550	1,860	1,535	5,875
	<u>(10,218)</u>	<u>3,831</u>	<u>7,732</u>	<u>(14,119)</u>
<u>Northstar Elementary Activities:</u>				
Northstar Activity Tickets	-	830	830	-
Northstar Book Fair	6,283	10,203	11,336	5,150
Northstar Resale	17,851	5,811	8,833	14,829
Northstar Student Council	2,055	1,633	1,066	2,622
Northstar Student Teachers	(72)	-	-	(72)
	<u>26,117</u>	<u>18,477</u>	<u>22,065</u>	<u>22,529</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2014

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Other Activities:</u>				
6th Grade Resale	62	-	-	62
7th Grade Resale	8,378	1,937	1,551	8,764
8th Grade Resale	1,842	-	-	1,842
Activity Interest	6,371	78	2,124	4,325
Collins Fund	83,366	-	964	82,402
Goal Activity	11,546	1,538	651	12,433
HS Activity Tickets	-	6,690	6,690	-
HS Book Fair	422	27	-	449
HS Resale	613	456	827	242
HS Student Teacher	778	459	516	721
HS Athletic Savings	-	7,164	6,073	1,091
HS Pepsi Pop Fund	13,426	40,311	34,269	19,468
International Club	1,040	-	-	1,040
ISJIT	2,207	-	-	2,207
K-Fund Yearbook	10,953	8,626	6,862	12,717
Middle Activity Tickets	-	4,060	4,060	-
Middle Annual/Yearbook	(485)	5,925	5,937	(497)
Middle Resale	1,323	1,299	41	2,581
Middle Book Fair	2,098	1,988	1,771	2,315
National Honor Society	1,082	-	-	1,082
Panther Club Scholarship	12,241	18	-	12,259
Student Senate	3,742	14,930	11,181	7,491
Student Senate Scholarship	1,930	3	-	1,933
Team Nutrition Club	6,402	205	2,031	4,576
	169,337	95,714	85,548	179,503
<u>Vocational Clubs:</u>				
Construction Trades	37,539	2,775	2,775	37,539
FCCLA Account	969	3,350	2,900	1,419
FFA Account	8,675	43,401	32,994	19,082
Industrial Arts	698	-	-	698
	47,881	49,526	38,669	58,738
<u>West Elementary Activities:</u>				
West Activity Tickets	-	260	260	-
West Book Fair	1,520	6,188	6,897	811
West Resale	2,820	-	-	2,820
West Student Teacher	79	-	-	79
West Student Council	4,652	6,058	6,933	3,777
	9,071	12,506	14,090	7,487
Total	\$ 185,772	559,354	526,019	219,107

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST
 JUNE 30, 2014

	Private Purpose Trust - Scholarship Fund				
	Tunnie Memorial	Cox Scholarship	Norton Scholarship	Auditorium Project	Total
ASSETS:					
Cash and pooled investments	\$ 584	4,108	65	5,423	10,180
LIABILITIES	-	-	-	-	-
NET POSITION:					
Restricted for scholarships	\$ 584	4,108	65	5,423	10,180

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN NET POSITION
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS
 YEAR ENDED JUNE 30, 2014

	Private Purpose Trust - Scholarship Fund				Total
	Tunnie Memorial	Cox Scholarship	Norton Scholarship	Auditorium Project	
ADDITIONS:					
Local sources:					
Gifts and contributions	\$ -	500	-	-	500
DEDUCTIONS:					
Instruction:					
Regular:					
Scholarships awarded	-	-	-	-	-
Change in net position	-	500	-	-	500
Fund balances beginning of year	584	3,608	65	5,423	9,680
Fund balances end of year	\$ 584	4,108	65	5,423	10,180

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2014

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<u>MARION COUNTY EMPOWERMENT</u>				
ASSETS				
Cash and pooled investments	\$ 80,027	-	80,027	-
LIABILITIES				
Due to other groups	\$ 80,027	-	80,027	-
<u>KCSD EMPLOYEE FLEX SPENDING</u>				
ASSETS				
Cash and pooled investments	\$ 3,759	39,089	38,735	4,113
LIABILITIES				
Due to other groups	\$ 3,759	39,089	38,735	4,113
<u>TOTALS - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and pooled investments	\$ 83,786	39,089	118,762	4,113
LIABILITIES				
Due to other groups	\$ 83,786	39,089	118,762	4,113

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities: Internal Service Funds		
	Health Insurance	Self-funded Dental Insurance	Total
ASSETS:			
Cash and pooled investments	\$ 30,323	99,678	130,001
LIABILITIES:			
Accounts payable	3,995	-	3,995
NET POSITION	\$ 26,328	99,678	126,006

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, 2014

	Governmental Activities: Internal Service Funds		
	Self-funded		Total
	Health Insurance	Dental Insurance	
OPERATING REVENUES:			
Local sources:			
Miscellaneous	\$ 2,126,409	168,718	2,295,127
TOTAL OPERATING REVENUE	<u>2,126,409</u>	<u>168,718</u>	<u>2,295,127</u>
OPERATING EXPENSES:			
Support services:			
Administration:			
Benefits	2,422,472	160,098	2,582,570
TOTAL OPERATING EXPENSES	<u>2,422,472</u>	<u>160,098</u>	<u>2,582,570</u>
Change in net position	(296,063)	8,620	(287,443)
Fund balances beginning of year	<u>322,391</u>	<u>91,058</u>	<u>413,449</u>
Fund balances end of year	<u>\$ 26,328</u>	<u>99,678</u>	<u>126,006</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUND
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

	Governmental Activities: Internal Service Funds		
	Self-funded		
	Health Insurance	Dental Insurance	Total
Cash flows from operating activities:			
Cash received from miscellaneous	\$ 2,294,092	181,372	2,475,464
Cash payments to suppliers for goods or services	(2,418,477)	(160,098)	(2,578,575)
Net cash provided by(used in) operating activities	(124,385)	21,274	(103,111)
Net increase(decrease) in cash and cash equivalents	(124,385)	21,274	(103,111)
Cash and cash equivalents at beginning of year	154,708	78,404	233,112
Cash and cash equivalents at end of year	\$ 30,323	99,678	130,001
Reconciliation of operating loss to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ (296,063)	8,620	(287,443)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Decrease in accounts receivable	167,683	12,654	180,337
Increase in accounts payable	3,995	-	3,995
Net cash provided by(used in) operating activities	\$ (124,385)	21,274	(103,111)

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,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 6,012,456	7,839,881	8,003,647	7,437,632	6,974,671	7,070,071	6,370,480	6,373,520	6,436,297	6,271,019
Tuition	463,945	471,837	425,964	401,044	412,384	411,511	352,774	444,933	435,713	412,584
Other	928,765	917,502	838,720	1,127,701	817,801	1,105,747	817,629	951,118	900,892	755,925
Intermediate sources	-	-	-	-	-	-	22,141	-	-	-
State sources	13,320,846	11,805,939	11,595,516	11,277,768	9,422,841	10,973,173	10,996,970	10,383,090	9,666,649	9,266,712
Federal sources	555,610	539,245	865,647	942,998	1,563,222	700,204	499,102	483,871	515,121	526,675
Total	\$ 21,281,622	21,574,404	21,729,494	21,187,143	19,190,919	20,260,706	19,059,096	18,636,532	17,954,672	17,232,915
Expenditures:										
Instruction:										
Regular	\$ 8,013,542	7,625,345	7,569,159	7,570,307	7,723,702	7,783,173	7,274,840	6,805,524	6,232,711	5,859,910
Special	2,630,761	2,534,657	2,331,981	2,160,310	2,163,846	2,303,370	2,282,564	2,192,323	2,059,686	2,310,021
Other	2,649,923	2,572,059	2,622,649	2,473,256	2,416,091	2,331,557	2,280,792	2,223,187	2,192,156	1,314,612
Support services:										
Student	421,716	316,029	323,044	316,474	358,266	434,005	433,321	429,610	429,577	688,674
Instructional staff	345,592	357,123	327,500	1,647,901	319,171	394,561	415,359	396,764	389,630	821,959
Administration	2,035,600	1,928,285	1,886,323	2,256,071	1,934,984	2,050,703	2,130,779	1,928,616	1,859,177	1,683,840
Operation and maintenance of plant	1,876,391	1,748,813	1,635,693	1,610,774	1,655,546	1,738,269	1,581,508	1,551,750	1,514,703	1,375,891
Transportation	789,194	748,179	757,547	581,519	609,703	676,125	644,203	612,541	537,821	541,570
Other support	-	-	-	-	-	-	-	-	-	1,750
Non-instructional programs	-	-	-	-	-	-	-	-	100	9,976
Capital outlay	1,424,851	6,053,814	1,668,885	1,075,786	548,370	617,586	764,091	2,086,702	3,903,561	844,960
Long-term debt:										
Principal	722,131	1,151,930	3,817,002	1,365,000	1,295,000	1,250,000	1,200,000	625,000	600,000	565,000
Interest and fiscal charges	268,525	231,505	169,736	138,822	246,516	305,731	351,292	429,800	270,500	261,765
Other expenditures:										
AEA flow-through	704,814	686,596	687,382	760,660	734,903	686,326	663,042	632,385	588,615	566,235
Total	\$ 21,883,040	25,954,335	23,796,901	21,956,880	20,006,098	20,571,406	20,021,791	19,914,202	20,578,237	16,846,163

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

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 14	\$ 76,498
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 14	414,200 *
			<u>490,698</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 14	283,135
TITLE I - SCHOOLS IN NEED OF ASSISTANCE (SINA)	84.010	FY 14	15,304
			<u>298,439</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 14	<u>64,593</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 14	<u>9,559</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)			
	84.027	FY 14	<u>87,914</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 14	<u>21,225</u>
COOPERATIVE AGREEMENTS TO SUPPORT COMPREHENSIVE SCHOOL HEALTH PROGRAMS TO PREVENT THE SPREAD OF HIV AND OTHER IMPORTANT HEALTH PROBLEMS (AIDS EDUCATION)	93.938	FY 14	<u>339</u>
TOTAL			<u>\$ 972,767</u>

* - Includes \$57,248 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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the 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, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Knoxville Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Knoxville Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Knoxville Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control 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 and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which 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 Findings and Questioned Costs as items II-A-14 through II-C-14 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 which 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, 2014 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

Knoxville Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Knoxville Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 27, 2015
Newton, Iowa

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 for Each Major Federal Program
and on Internal Control over Compliance Required by OMB Circular A-133**

To the Board of Education of Knoxville Community School District:

Report on Compliance for Each Major Federal Program

We have audited Knoxville Community School District's compliance 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, 2014. Knoxville Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Knoxville Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Knoxville Community School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Knoxville Community School District complied, in all material respects, with the types of compliance 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, 2014.

Report on Internal Control Over Compliance

The management of Knoxville Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Knoxville Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Knoxville Community School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2015
Newton, Iowa

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

Part I: Summary of the Independent Auditor's Report

- (a) Unmodified 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 unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program were as follows:
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (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, 2014

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-14 Negative Lunch Account Balances - It was noted during the audit that the Nutrition Fund is carrying several significant negative student lunch account balances on the books.

Recommendation - The District should review their procedures and policies in regard to negative student lunch account balances. The District should try various collection techniques to collect the balances. Another option would be to give these families a free/reduced lunch application to see if they qualify.

Response - The District is working with a collection company to try and collect on these negative balances. The District submits negative account balances to the collections company about twice a year. The District will continue to work with the collections company to try to collect the negative student account balances.

Conclusion - Response accepted.

II-B-14 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchasing process, however the Student Activity Fund had instances of purchase orders that were completed after the product had been ordered.

Recommendation - The advantage of using a purchase order system is that approvals of the items being purchased are noted prior to ordering 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 is working on consolidating the accounts of the student activity fund. The District is continuing to educate staff on the importance of using the purchase order system. The District will continue to work on making sure the Student Activity Fund purchases go through the purchase ordering system and get approval prior to the purchase of goods.

Conclusion - Response accepted.

II-C-14 Board Policies - We noted during our audit some of the policies in the District's board policy book appears to have not been kept up to date. All board policies should be reviewed every five years and documented when approved and reviewed.

Recommendation - The District should review the board policy book and update all policies that have not been updated within the past five years. The District should take steps to review board policies in a more timely manner.

Response - The District is in the process of reviewing all board policies.

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-14 Certified Budget - Expenditures for the year ended June 30, 2014 exceeded the certified budget amounts in the instruction, support services and other expenditures functional areas and in total.

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 is beginning to use "Expenditures to Certified Budget Comparison" offered by the Department of Education and is utilizing that on a monthly basis. The District is also going to review their budgeting procedures and certifying maximum expenditures and utilizing the line item budget to manage the budget and amend the budget as needed.

Conclusion - Response accepted.

IV-B-14 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.

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 communicate with the Booster Club to try and have them help with the purchasing of the staff clothing.

Conclusion - Response accepted.

Gift Card Purchases: We noted a disbursement for gift cards for prizes for prom. Giving gift cards to students does 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 has educated employees that district funds cannot be used to purchase gift cards. We will continue to work with staff to ensure that only items that meet public purpose are purchased by the District.

Conclusion - Response accepted.

IV-C-14 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted; however, we noted that there were instances of reimbursements made to employees which lacked a detailed receipt. According to board policy number 803.10, a detailed receipt must be turned in for every purchase made with the District credit card.

Recommendation - The District should review procedures in place with personnel who use the District's credit card to ensure the proper detailed documentation will be available with paid credit card statements.

Response - The District will continue to work with staff to ensure that detailed receipts are turned in for every purchase on the District's credit cards. The District is also looking into changing to a p-card program, and employees will be responsible for their bill if detailed receipts are not turned into the District office.

Conclusion - Response accepted.

IV-D-14 Business Transactions - No business transactions between the District and District officials were noted.

IV-E-14 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-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-14 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by 1.0.

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

Response - The District's auditor will contact the Iowa Department of Education and Department of Management to resolve this matter.

Conclusion - Response accepted.

IV-H-14 Supplementary Weighting - We noted variances regarding the supplementary weighting data certified to the Iowa Department of Education. The number certified to the Iowa Department of Education was overstated by 0.17 for the fall of 2013.

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

Response - The District's auditor will contact the Iowa Department of Education and Department of Management to resolve this matter.

Conclusion - Response accepted.

IV-I-14 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-14 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-14 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-14 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, 2014, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 1,152,049
Revenues:		
Sales tax revenues	\$ 1,592,103	
Other local revenues	25,752	
School infrastructure supplemental amount	-	1,617,855
		<u>2,769,904</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 1,174,225	
Equipment	23,090	
Other	19,317	
Transfers to other funds:		
Debt service fund	1,138,256	2,354,888
		<u>2,354,888</u>
Ending balance		<u>\$ 415,016</u>

For the year ended June 30, 2014, 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-14 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 \$446,796.

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. The District will continue to work through the process of monitoring these accounts and working to eliminate the deficit accounts. The District is also working on consolidating some of the student activity accounts which should help with the deficit account balances.

Conclusion - Response accepted.

IV-N-14 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 working on consolidating student activity accounts. And will be reviewing all accounts. Those accounts which are considered to be administratively maintained will then be moved to 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 will allocate any interest in this account on a yearly basis.

Conclusion - Response accepted.

IV-O-14 Payroll Authorization - We noted during our audit, the District does not maintain the written authorization to mail employees' payroll checks. Chapter 91A.3 of the Code of Iowa requires that an employer have a written request from an employee before wages can be sent to an employee by mail.

Recommendation - The District should maintain written authorization from each employee who desires to receive a payroll check by mail.

Response - The District will retain the signed authorization forms to mail the employees' payroll checks.

Conclusion - Response accepted.