

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

JUNE 30, 2016

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Knoxville Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education  
(Before September 2015 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

**(After September 2015 Election)**

Leslie Miller	President	2019
Mike Helle	Vice President	2019
Larissa Van Donselaar	Board Member	2019
Michael Moats	Board Member	2017
Andrew Schmidt	Board Member	2017

**School Officials**

Cassi Pearson	Superintendent	2016
Craig Mobley	Business Manager, District Secretary/Treasurer	2016
Drew Bracken	Attorney	2016

**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  
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, 2016, and the related Notes to 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, 2016, 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.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 46 through 51 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, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 13, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information, including the Schedule of Expenditures of Federal Awards, 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, including the Schedule of Expenditures of Federal Awards, 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 January 13, 2017 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.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

January 13, 2017  
Newton, Iowa

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

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Knoxville Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2016 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$17,822,316 in fiscal year 2015 to \$18,646,657 in fiscal year 2016, while General Fund expenditures decreased from \$18,262,456 in fiscal year 2015 to \$18,212,336 in fiscal year 2016. This resulted in an increase in the District's General Fund balance from \$1,494,189 at June 30, 2015 to \$1,928,510 at June 30, 2016, a 29.07% increase from the prior year.
- The increase in General Fund revenues was primarily attributable to increases in local and state sources in fiscal year 2016. The decrease in expenditures was due primarily to a decrease in expenses in the support services function.

### **USING THIS ANNUAL REPORT**

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

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

The Government-wide Financial Statements consist of a Statement of Net 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 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, the District's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various federal programs benefiting the District.

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

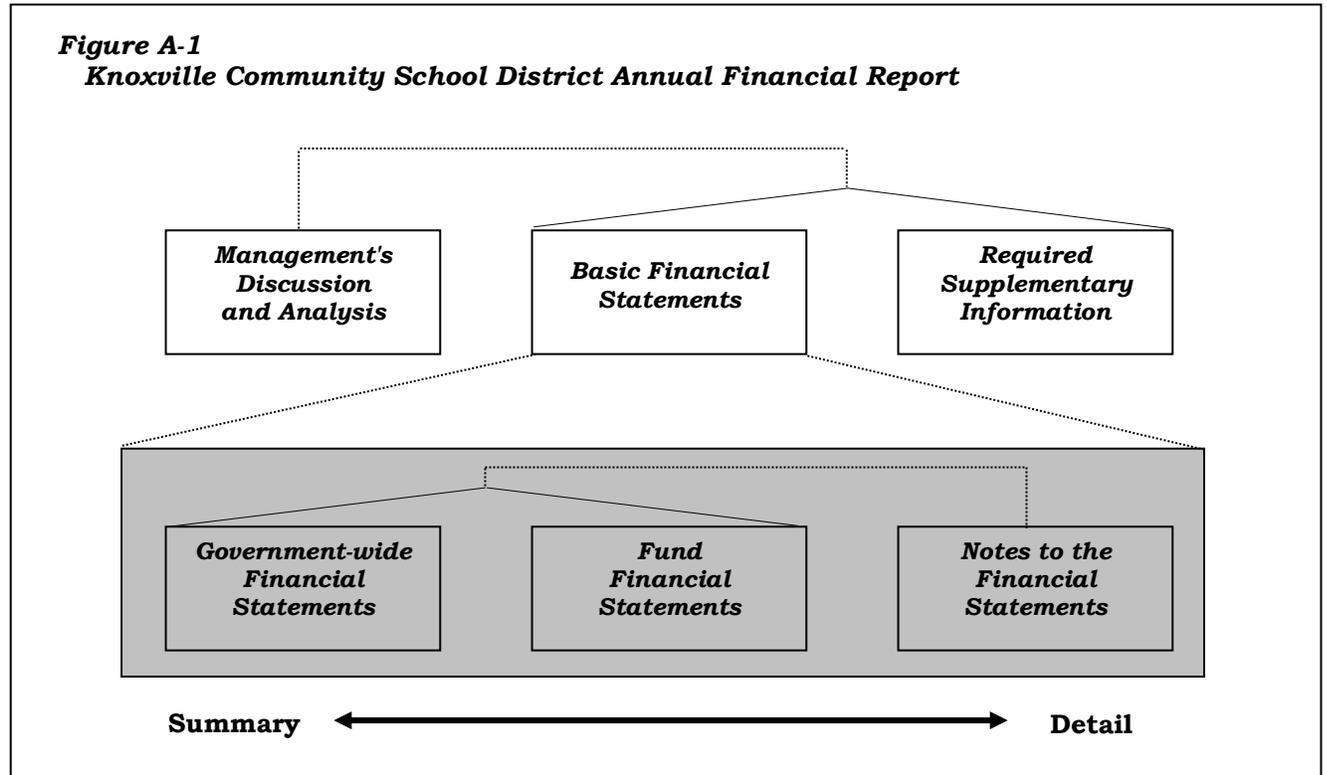


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	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	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"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of deferred outflow/inflow information	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/acquisition of net position that is applicable to a future reporting period
Type of inflow/outflow information	All revenues and expenses during the 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.

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The two government-wide financial statements report the District's net position and how it has 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 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, 2016 compared to June 30, 2015.

Figure A-3  
Condensed Statement of Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2016	2015	2016	2015	2016	2015	2015-16
Current and other assets	\$ 19,082,249	13,374,725	384,662	481,218	19,466,911	13,855,943	40.50%
Capital assets	25,972,374	22,591,379	147,543	177,051	26,119,917	22,768,430	14.72%
Total assets	45,054,623	35,966,104	532,205	658,269	45,586,828	36,624,373	24.47%
Deferred outflows of resources	1,396,965	1,473,587	41,263	42,340	1,438,228	1,515,927	-5.13%
Long-term liabilities	25,512,738	18,018,873	241,448	209,631	25,754,186	18,228,504	41.29%
Other liabilities	3,412,161	2,331,267	76,080	72,777	3,488,241	2,404,044	45.10%
Total liabilities	28,924,899	20,350,140	317,528	282,408	29,242,427	20,632,548	41.73%
Deferred inflows of resources	7,320,832	8,447,396	30,625	71,517	7,351,457	8,518,913	-13.70%
Net position:							
Net investment in capital assets	10,372,374	13,816,379	147,543	177,051	10,519,917	13,993,430	-24.82%
Restricted	6,936,370	3,171,553	-	-	6,936,370	3,171,553	118.71%
Unrestricted	(7,102,887)	(8,345,777)	77,772	169,633	(7,025,115)	(8,176,144)	14.08%
Total net position	\$ 10,205,857	8,642,155	225,315	346,684	10,431,172	8,988,839	16.05%

The District's combined net position increased by 16.05%, or \$1,442,333, 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 \$26,414, or 0.83%, over the prior year. This decrease was primarily due to a decrease in the amount restricted for school infrastructure due to unspent revenue bond proceeds from the bond issued in fiscal year 2016.

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 – increased \$1,151,029, or 14.08%. This increase in unrestricted net position was primarily a result of the District's net pension liability net pension expense recorded and related deferred inflow and outflow adjustments required by GASB statement No. 68 during the year.

Figure A-4 shows the changes in net position for the year ended June 30, 2016 compared to the year ended June 30, 2015.

Figure A-4  
Changes in Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	2016	2015	2016	2015	2016	2015	2015-16
Revenues:							
Program revenues:							
Charges for service	\$ 1,096,866	1,104,191	302,943	361,398	1,399,809	1,465,589	-4.49%
Operating grants and contributions and restricted interest	1,663,155	1,538,021	448,070	458,066	2,111,225	1,996,087	5.77%
Capital grants and contributions and restricted interest	18,215	15,005	-	-	18,215	15,005	21.39%
General revenues:							
Property tax	6,099,781	5,723,274	-	-	6,099,781	5,723,274	6.58%
Income surtax	525,937	467,570	-	-	525,937	467,570	12.48%
Statewide sales, services and use tax	1,724,920	1,706,395	-	-	1,724,920	1,706,395	1.09%
Unrestricted state grants	11,093,365	10,740,317	-	-	11,093,365	10,740,317	3.29%
Unrestricted investment earnings	4,516	217	84	9	4,600	226	1935.40%
Other	333,193	152,475	3,022	7,249	336,215	159,724	110.50%
Total revenues	22,559,948	21,447,465	754,119	826,722	23,314,067	22,274,187	4.67%
Program expenses:							
Instruction	13,080,520	13,557,296	468	-	13,080,988	13,557,296	-3.51%
Support services	6,046,747	5,642,004	4,578	9,962	6,051,325	5,651,966	7.07%
Non-instructional programs	-	-	870,442	850,213	870,442	850,213	2.38%
Other expenses	1,868,979	1,732,975	-	-	1,868,979	1,732,975	7.85%
Total expenses	20,996,246	20,932,275	875,488	860,175	21,871,734	21,792,450	0.36%
Change in net position	1,563,702	515,190	(121,369)	(33,453)	1,442,333	481,737	199.40%
Net position beginning of year	8,642,155	8,126,965	346,684	380,137	8,988,839	8,507,102	5.66%
Net position end of year	\$ 10,205,857	8,642,155	225,315	346,684	10,431,172	8,988,839	16.05%

In fiscal year 2016, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 86.19% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.59% of the revenue from business type activities.

The District's total revenues were approximately \$23.31 million of which approximately \$22.56 million was for governmental activities and approximately \$0.75 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.67% increase in revenues and a 0.36% increase in expenses. Revenues increased as a result of increases in funding from unrestricted state grants and property taxes. Expenses increased due to an increase in support services and other expenses incurred as compared to the prior year.

**Governmental Activities**

Revenues for governmental activities were \$22,559,948 and expenses were \$20,996,246.

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, 2016 compared to the year ended June 30, 2015.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2016	2015	2015-16	2016	2015	2015-16
Instruction	\$ 13,080,520	13,557,296	-3.52%	11,066,338	11,675,349	-5.22%
Support services	6,046,747	5,642,004	7.17%	6,010,560	5,578,614	7.74%
Other expenses	1,868,979	1,732,975	7.85%	1,141,112	1,021,095	11.75%
Totals	\$ 20,996,246	20,932,275	0.31%	18,218,010	18,275,058	-0.31%

For the year ended June 30, 2016:

- The cost financed by users of the District’s programs was \$1,096,866.
- Federal, state governments and other donors subsidized certain programs with grants and contributions totaling \$1,681,370.
- The net cost of governmental activities was financed with \$6,099,781 in property tax, \$525,937 in income surtax, \$1,724,920 in statewide sales, services and use tax, \$11,093,365 in unrestricted state grants, \$4,516 in interest income and \$333,193 in other general revenues.

**Business type Activities**

Revenues of the District’s business type activities were \$754,119 and expenses were \$875,488 for the year ended June 30, 2016. 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, investment income and other revenues.

**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 \$8,726,513, above last year’s ending fund balance of \$4,424,953. The primary reason for the increase in combined fund balance in fiscal year 2016 is due to unused proceeds from revenue bond issuances during the year.

**Governmental Fund Highlights**

- The District’s General Fund financial position is the product of many factors. Revenues increased due to an increase in local and state source revenues and the decrease in expenses was due to a decrease in support services functional expenses incurred as compared to the prior year.

- 
- The Capital Projects Fund balance increased from a balance of \$1,177,372 at June 30, 2015 to \$4,854,381 at June 30, 2016. The increase was due to the issuance of a revenue bond during the year and the corresponding proceeds which have not been spent as of June 30, 2016. These unspent proceeds will be spent in succeeding fiscal years as work on outstanding projects progresses.
  - The Debt Service Fund balance increased from a balance of \$1,371,259 at June 30, 2015 to \$1,521,967 at June 30, 2016.

### **Proprietary Fund Highlights**

The Proprietary Fund net position decreased from \$346,684 at June 30, 2015 to \$225,315 at June 30, 2016, representing a decrease of 35.01%. This decrease in net position is due to a decrease in operating revenues and federal revenues received and an increase in expenses as compared to the prior year.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the District amended its budget one time to reflect additional expenditures for a building addition and renovation as well as the purchase of three school buses.

The District's revenues were \$16,508 less than budgeted revenues, a variance of 0.07%. The most significant negative variance resulted from the District receiving less in state sources than originally anticipated.

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

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

#### **Capital Assets**

At June 30, 2016, the District had invested \$26,119,917, 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 14.72% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$1,048,180.

The original cost of the District's capital assets was \$39,583,655. Governmental activities account for \$38,828,638 with the remainder of \$755,017 accounted for 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 \$3,821,583 at June 30, 2016, compared to \$76,758 at June 30, 2015. This increase is the result of costs incurred during the construction of a new addition and renovation project at the West Elementary Building.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2016	2015	2016	2015	2016	2015	2015-16
Land	\$ 63,966	63,966	-	-	63,966	63,966	0.00%
Construction in progress	3,821,583	76,758	-	-	3,821,583	76,758	4878.74%
Buildings	20,968,913	21,490,379	-	-	20,968,913	21,490,379	-2.43%
Machinery and equipment	1,117,912	960,276	147,543	177,051	1,265,455	1,137,327	11.27%
Total	\$ 25,972,374	22,591,379	147,543	177,051	26,119,917	22,768,430	14.72%

### Long-Term Debt

At June 30, 2016, the District had \$25,754,186 in general obligation and other long-term debt outstanding. This represents an increase of 41.29% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding revenue bonds of \$15,600,000 at June 30, 2016 payable from the Capital Projects: Statewide Sales, Services and use Tax Fund.

The District had outstanding computer lease of \$600,782 at June 30, 2016 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 \$1,136,469 at June 30, 2016.

The District had a net pension liability of \$7,540,141 at of June 30, 2016. Of this \$7,322,805 was attributable to the governmental activities of the District with the remaining \$217,336 attributable to the business type activities of the District.

The District had a Net OPEB liability of \$876,794 as of June 30, 2016. Of this \$852,682 was attributable to the governmental activities of the District with the remaining \$24,112 attributable to the business type activities of the District.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2016	2015	2016	2015	2016	2015	2015-16
Revenue bonds	\$ 15,600,000	8,775,000	-	-	15,600,000	8,775,000	77.78%
Computer lease	600,782	910,010	-	-	600,782	910,010	-33.98%
Termination benefits	1,136,469	1,295,518	-	-	1,136,469	1,295,518	-12.28%
Net pension liability	7,322,805	6,256,677	217,336	187,527	7,540,141	6,444,204	17.01%
Net OPEB liability	852,682	781,668	24,112	22,104	876,794	803,772	9.08%
Total	\$ 25,512,738	18,018,873	241,448	209,631	25,754,186	18,228,504	41.29%

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## **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:

- The Iowa school funding formula is highly dependent upon student enrollment. Current and projected declines in enrollment will continue to negatively impact the District's revenues while costs are expected to increase.
- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the district. Also continued budget concerns at state level will affect future projections. The district will continue to be forced to shift funding to property taxes.
- The State of Iowa has not set the supplemental state aid for fiscal year 2017 and beyond. The District's inability to predict future revenues will continue to have a significant impact on future budget decisions.

## **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, 2016

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 11,389,207	323,473	11,712,680
Receivables:			
Property tax:			
Delinquent	73,366	-	73,366
Succeeding year	6,397,197	-	6,397,197
Income surtax	510,848	-	510,848
Accounts	12,482	41,550	54,032
Due from other governments	512,971	-	512,971
Inventories	-	19,639	19,639
Prepaid expenses	186,178	-	186,178
Capital assets, net of accumulated depreciation	25,972,374	147,543	26,119,917
<b>TOTAL ASSETS</b>	<b>45,054,623</b>	<b>532,205</b>	<b>45,586,828</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related deferred outflows	1,396,965	41,263	1,438,228
<b>LIABILITIES</b>			
Accounts payable	1,405,489	4,275	1,409,764
Salaries and benefits payable	1,831,372	57,370	1,888,742
Accrued interest payable	175,300	-	175,300
Unearned revenue	-	14,435	14,435
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	870,000	-	870,000
Computer lease payable	297,123	-	297,123
Termination benefit payable	656,520	-	656,520
Portion due after one year:			
Revenue bonds payable	14,730,000	-	14,730,000
Computer lease payable	303,659	-	303,659
Termination benefit payable	479,949	-	479,949
Net pension liability	7,322,805	217,336	7,540,141
Net OPEB liability	852,682	24,112	876,794
<b>TOTAL LIABILITIES</b>	<b>28,924,899</b>	<b>317,528</b>	<b>29,242,427</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable property tax revenue	6,397,197	-	6,397,197
Pension related deferred inflows	923,635	30,625	954,260
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>7,320,832</b>	<b>30,625</b>	<b>7,351,457</b>
<b>NET POSITION</b>			
Net investment in capital assets	14,163,605	147,543	14,311,148
Restricted for:			
Categorical funding	523,002	-	523,002
Debt service	1,346,667	-	1,346,667
School infrastructure	897,098	-	897,098
Physical plant and equipment levy	166,052	-	166,052
Student activities	212,320	-	212,320
Unrestricted	(7,102,887)	77,772	(7,025,115)
<b>TOTAL NET POSITION</b>	<b>\$ 10,205,857</b>	<b>225,315</b>	<b>10,431,172</b>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 7,803,854	412,123	128,861	-	(7,262,870)	-	(7,262,870)
Special	2,464,451	100,106	147,984	-	(2,216,361)	-	(2,216,361)
Other	2,812,215	581,633	643,475	-	(1,587,107)	-	(1,587,107)
	<u>13,080,520</u>	<u>1,093,862</u>	<u>920,320</u>	<u>-</u>	<u>(11,066,338)</u>	<u>-</u>	<u>(11,066,338)</u>
Support services:							
Student	285,986	-	-	-	(285,986)	-	(285,986)
Instructional staff	336,729	-	6,912	-	(329,817)	-	(329,817)
Administration	3,100,677	-	-	-	(3,100,677)	-	(3,100,677)
Operation and maintenance of plant	1,688,753	-	-	18,215	(1,670,538)	-	(1,670,538)
Transportation	634,602	3,004	8,056	-	(623,542)	-	(623,542)
	<u>6,046,747</u>	<u>3,004</u>	<u>14,968</u>	<u>18,215</u>	<u>(6,010,560)</u>	<u>-</u>	<u>(6,010,560)</u>
Long-term debt interest	338,460	-	-	-	(338,460)	-	(338,460)
Other expenses:							
AEA flowthrough	727,867	-	727,867	-	-	-	-
Depreciation(unallocated)*	802,652	-	-	-	(802,652)	-	(802,652)
	<u>1,530,519</u>	<u>-</u>	<u>727,867</u>	<u>-</u>	<u>(802,652)</u>	<u>-</u>	<u>(802,652)</u>
Total governmental activities	<u>20,996,246</u>	<u>1,096,866</u>	<u>1,663,155</u>	<u>18,215</u>	<u>(18,218,010)</u>	<u>-</u>	<u>(18,218,010)</u>
Business type activities:							
Instruction:							
Regular	468	-	-	-	-	(468)	(468)
Support services:							
Administration	394	-	-	-	-	(394)	(394)
Operation and maintenance of plant	4,184	-	-	-	-	(4,184)	(4,184)
Non-instructional programs:							
Food service operations	870,442	302,943	448,070	-	-	(119,429)	(119,429)
Total business type activities	<u>875,488</u>	<u>302,943</u>	<u>448,070</u>	<u>-</u>	<u>-</u>	<u>(124,475)</u>	<u>(124,475)</u>
Total	<u>\$ 21,871,734</u>	<u>1,399,809</u>	<u>2,111,225</u>	<u>18,215</u>	<u>(18,218,010)</u>	<u>(124,475)</u>	<u>(18,342,485)</u>
General Revenues:							
Property tax levied for:							
General purposes				\$ 5,707,644	-		5,707,644
Capital outlay				392,137	-		392,137
Income surtax				525,937	-		525,937
Statewide sales, services and use tax				1,724,920	-		1,724,920
Unrestricted state grants				11,093,365	-		11,093,365
Unrestricted investment earnings				4,516	84		4,600
Other general revenues				333,193	3,022		336,215
Total general revenues				<u>19,781,712</u>	<u>3,106</u>		<u>19,784,818</u>
Change in net position				1,563,702	(121,369)		1,442,333
Net position beginning of year				8,642,155	346,684		8,988,839
Net position end of year				<u>\$ 10,205,857</u>	<u>225,315</u>		<u>10,431,172</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	General	Capital Projects	Debt Service	Nonmajor	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 3,799,084	5,500,003	1,521,967	429,947	11,251,001
Receivables:					
Property tax:					
Delinquent	58,487	4,564	-	10,315	73,366
Succeeding year	5,185,955	411,243	-	799,999	6,397,197
Income surtax	510,848	-	-	-	510,848
Accounts	2,442	-	-	9,336	11,778
Due from other governments	229,724	283,247	-	-	512,971
Due from other funds	114,258	-	-	-	114,258
<b>TOTAL ASSETS</b>	<b>\$ 9,900,798</b>	<b>6,199,057</b>	<b>1,521,967</b>	<b>1,249,597</b>	<b>18,871,419</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 446,460	933,433	-	25,596	1,405,489
Salaries and benefits payable	1,829,025	-	-	2,347	1,831,372
Total liabilities	2,275,485	933,433	-	27,943	3,236,861
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	5,185,955	411,243	-	799,999	6,397,197
Income surtax	510,848	-	-	-	510,848
Total deferred inflows of resources	5,696,803	411,243	-	799,999	6,908,045
Fund balances:					
Restricted for:					
Categorical funding	523,002	-	-	-	523,002
Debt service	-	-	1,521,967	-	1,521,967
School infrastructure	-	4,688,329	-	-	4,688,329
Physical plant and equipment	-	166,052	-	-	166,052
Management levy purposes	-	-	-	209,335	209,335
Student activities	-	-	-	212,320	212,320
Unassigned	1,405,508	-	-	-	1,405,508
Total fund balances	1,928,510	4,854,381	1,521,967	421,655	8,726,513
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 9,900,798</b>	<b>6,199,057</b>	<b>1,521,967</b>	<b>1,249,597</b>	<b>18,871,419</b>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2016

<b>Total fund balances of governmental funds(page 20)</b>		\$ 8,726,513
<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.		25,972,374
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		210,830
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.		510,848
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.		(175,300)
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	\$ 1,396,965	
Deferred inflows of resources	<u>(923,635)</u>	473,330
Long-term liabilities, including bonds payable, termination benefits payable, net pension liability, 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>(25,512,738)</u>
<b>Net position of governmental activities(page 18)</b>		<u><u>\$ 10,205,857</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, 2016

	General	Capital Projects	Debt Service	Nonmajor	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 5,298,325	392,137	-	855,685	6,546,147
Tuition	398,876	-	-	-	398,876
Other	279,208	151,890	704	680,168	1,111,970
State sources	12,126,324	1,734,639	-	19,997	13,880,960
Federal sources	542,424	-	-	-	542,424
Total revenues	<u>18,645,157</u>	<u>2,278,666</u>	<u>704</u>	<u>1,555,850</u>	<u>22,480,377</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	7,586,607	19,769	-	665,185	8,271,561
Special	2,601,995	-	-	-	2,601,995
Other	2,255,543	-	-	578,972	2,834,515
	<u>12,444,145</u>	<u>19,769</u>	<u>-</u>	<u>1,244,157</u>	<u>13,708,071</u>
Support services:					
Student	376,523	-	-	-	376,523
Instructional staff	400,907	-	-	-	400,907
Administration	2,189,529	116,348	-	801	2,306,678
Operation and maintenance of plant	1,505,190	-	-	252,815	1,758,005
Transportation	568,175	243,852	-	17,055	829,082
	<u>5,040,324</u>	<u>360,200</u>	<u>-</u>	<u>270,671</u>	<u>5,671,195</u>
Capital outlay	-	4,121,762	-	-	4,121,762
Long-term debt:					
Principal	-	-	809,228	-	809,228
Interest and fiscal charges	-	-	285,577	-	285,577
	<u>-</u>	<u>-</u>	<u>1,094,805</u>	<u>-</u>	<u>1,094,805</u>
Other expenditures:					
AEA flowthrough	727,867	-	-	-	727,867
Total expenditures	<u>18,212,336</u>	<u>4,501,731</u>	<u>1,094,805</u>	<u>1,514,828</u>	<u>25,323,700</u>
Excess(Deficiency) of revenues over over(under) expenditures	432,821	(2,223,065)	(1,094,101)	41,022	(2,843,323)
Other financing sources(uses):					
Transfer in	1,500	-	1,653,871	-	1,655,371
Transfer out	-	(1,653,871)	-	(1,500)	(1,655,371)
Insurance proceeds	-	23,945	-	-	23,945
Revenue bond issuance	-	7,530,000	-	-	7,530,000
Refunding revenue bond issuance	-	-	2,425,000	-	2,425,000
Payment to refunded bond escrow account	-	-	(2,834,062)	-	(2,834,062)
Total other financing sources(uses)	<u>1,500</u>	<u>5,900,074</u>	<u>1,244,809</u>	<u>(1,500)</u>	<u>7,144,883</u>
Change in fund balances	434,321	3,677,009	150,708	39,522	4,301,560
Fund balances beginning of year	<u>1,494,189</u>	<u>1,177,372</u>	<u>1,371,259</u>	<u>382,133</u>	<u>4,424,953</u>
Fund balances end of year	<u>\$ 1,928,510</u>	<u>4,854,381</u>	<u>1,521,967</u>	<u>421,655</u>	<u>8,726,513</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2016

<b>Change in fund balances - total governmental funds(page 22)</b>		\$ 4,301,560
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay and depreciation expense for the year are as follows:		
Capital outlay	\$ 4,384,324	
Depreciation expense	<u>(1,003,329)</u>	3,380,995
Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.		(37,536)
Proceeds from issuing long-term liabilities provide current financial resources to government funds, but issuing debt increases long-term liabilities in the Statement of Net Position. 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 and issuances are as follows:		
Issued	(9,955,000)	
Repaid	<u>3,439,228</u>	(6,515,772)
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.		(52,883)
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.		79,571
The current year District IPERS contributions are reported as expenditures in the governmental funds, but are reported as deferred outflows of resources in the Statement of Net Position.		915,477
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	159,049	
Pension expense	(595,745)	
Other postemployment benefits	<u>(71,014)</u>	<u>(507,710)</u>
<b>Changes in net position of governmental activities(page 19)</b>		<u>\$ 1,563,702</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016

	Business Type	
	Activities	
	Enterprise:	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service Fund
<b>ASSETS</b>		
Cash and pooled investments	\$ 323,473	138,206
Accounts receivable	41,550	704
Inventories	19,639	-
Prepaid expenses	-	186,178
Capital assets, net of accumulated depreciation	147,543	-
<b>TOTAL ASSETS</b>	<b>532,205</b>	<b>325,088</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	41,263	-
<b>LIABILITIES</b>		
Due to other funds	-	114,258
Accounts payable	4,275	-
Salaries and benefits payable	57,370	-
Unearned revenue	14,435	-
Net pension liability	217,336	-
Net OPEB liability	24,112	-
<b>TOTAL LIABILITIES</b>	<b>317,528</b>	<b>114,258</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related deferred inflows	30,625	-
<b>NET POSITION</b>		
Invested in capital assets	147,543	-
Unrestricted	77,772	210,830
<b>TOTAL NET POSITION</b>	<b>\$ 225,315</b>	<b>210,830</b>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016

	Business Type	
	Activites:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
<b>OPERATING REVENUE:</b>		
Local sources:		
Charges for service	\$ 302,943	-
Miscellaneous	3,022	2,583,989
<b>TOTAL OPERATING REVENUES</b>	<b>305,965</b>	<b>2,583,989</b>
<b>OPERATING EXPENSES:</b>		
Instruction:		
Regular:		
Services	468	-
Support services:		
Administration:		
Benefits	-	2,621,525
Services	394	-
Operation and maintenance of plant:		
Services	4,184	-
	<b>4,578</b>	<b>2,621,525</b>
Non-instructional programs:		
Food service operations:		
Salaries	305,182	-
Benefits	122,773	-
Supplies	397,636	-
Depreciation	44,851	-
	<b>870,442</b>	<b>-</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>875,488</b>	<b>2,621,525</b>
<b>OPERATING LOSS</b>	<b>(569,523)</b>	<b>(37,536)</b>
<b>NON-OPERATING REVENUES:</b>		
State sources	6,093	-
Federal sources	441,977	-
Interest on investments	84	-
<b>TOTAL NON-OPERATING REVENUES</b>	<b>448,154</b>	<b>-</b>
Change in net position	(121,369)	(37,536)
Net position beginning of year	346,684	248,366
Net position end of year	<b>\$ 225,315</b>	<b>210,830</b>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016

	Business Type	
	Enterprise Fund	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 308,380	-
Cash received from miscellaneous	3,022	2,583,285
Cash payments to employees for services	(438,407)	-
Cash payments to suppliers for goods or services	(324,939)	(2,611,674)
Net cash used in operating activities	<u>(451,944)</u>	<u>(28,389)</u>
Cash flows from non-capital financing activities:		
Interfund loan borrowings	-	61,162
State grants received	6,093	-
Federal grants received	379,137	-
Net cash provided by non-capital financing activities	<u>385,230</u>	<u>61,162</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(15,343)</u>	-
Cash flows from investing activities:		
Interest on investments	<u>84</u>	-
Net increase(decrease) in cash and pooled investments	(81,973)	32,773
Cash and pooled investments beginning of year	<u>405,446</u>	<u>105,433</u>
Cash and pooled investments end of year	<u>\$ 323,473</u>	<u>138,206</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (569,523)	(37,536)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	62,840	-
Depreciation	44,851	-
Decrease in inventories	10,628	-
Decrease(Increase) in accounts receivable	3,955	(704)
Decrease in prepaid expenses	-	9,851
Increase in accounts payable	4,275	-
Decrease in salaries and benefits payable	(2,454)	-
Increase in net pension liability	29,809	-
Decrease in deferred outflows of resources	1,077	-
Decrease in deferred inflows of resources	(40,892)	-
Increase in unearned revenue	1,482	-
Increase in other postemployment benefits	2,008	-
Net cash used in operating activities	<u>\$ (451,944)</u>	<u>(28,389)</u>

NON-CASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:

During the year ended June 30, 2016, the District received Federal commodities valued at \$62,840.

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016

	<u>Private Purpose Trust Scholarship Fund</u>	<u>Agency Fund</u>
<b>ASSETS</b>		
Cash and pooled investments	<u>\$ 9,680</u>	<u>1,402</u>
<b>LIABILITIES</b>		
Due to other groups	<u>-</u>	<u>1,402</u>
<b>NET POSITION</b>		
Held in trust for scholarships	<u>\$ 9,680</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, 2016

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

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**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 service.

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 Capital Projects Fund is used to account for all resources used in the acquisition and construction 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 and dental plans 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 funds 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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity**

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, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2015.

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.

Prepaid Expenses - Prepaid expenses represents amounts paid for insurance premiums attributable to a future period.

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
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more years
Machinery and equipment	5-15 years

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period

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.

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.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid primarily by the General Fund.

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. 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 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 and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

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

Unassigned - All amounts not included in preceding classifications.

#### **E. Budgets and Budgetary Accounting**

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

**Note 2. Cash and Pooled Investments**

The District’s deposits at June 30, 2016 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, 2016, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$6,999,549 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor’s Financial Services.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

**Note 3. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 1,653,871
General	Management Levy	<u>1,500</u>
Total		<u><u>\$ 1,655,371</u></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 and computer lease indebtedness.

The transfer from the Management Levy Fund to the General Fund was to correct expenses paid in a prior year.

**Note 4. Due From and Due To Other Funds**

The detail of interfund payables and receivables for the year ended June 30, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Internal Service Fund: Health Insurance	<u><u>\$ 114,258</u></u>

The Internal Service Fund: Health Insurance is repaying the General Fund for expenses unreimbursed by year end.

**Note 5. Capital Assets**

Capital assets activity for the year ended June 30, 2016 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 63,966	-	-	63,966
Construction in progress	76,758	3,784,225	39,400	3,821,583
Total capital assets not being depreciated	<u>140,724</u>	<u>3,784,225</u>	<u>39,400</u>	<u>3,885,549</u>
Capital assets being depreciated:				
Buildings	30,902,445	281,186	-	31,183,631
Machinery and equipment	3,576,577	358,313	175,432	3,759,458
Total capital assets being depreciated	<u>34,479,022</u>	<u>639,499</u>	<u>175,432</u>	<u>34,943,089</u>
Less accumulated depreciation for:				
Buildings	9,412,066	802,652	-	10,214,718
Machinery and equipment	2,616,301	200,677	175,432	2,641,546
Total accumulated depreciation	<u>12,028,367</u>	<u>1,003,329</u>	<u>175,432</u>	<u>12,856,264</u>
Total capital assets being depreciated, net	<u>22,450,655</u>	<u>(363,830)</u>	<u>-</u>	<u>22,086,825</u>
Governmental activities capital assets, net	<u>\$ 22,591,379</u>	<u>3,420,395</u>	<u>39,400</u>	<u>25,972,374</u>
<b>Business type activities:</b>				
Machinery and equipment	\$ 742,006	15,343	2,332	755,017
Less accumulated depreciation	564,955	44,851	2,332	607,474
Business type activities capital assets, net	<u>\$ 177,051</u>	<u>(29,508)</u>	<u>-</u>	<u>147,543</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 61,203
Support services:	
Administration	1,165
Operation and maintenance of plant	35,109
Transportation	<u>103,200</u>
	200,677
Unallocated depreciation	<u>802,652</u>
Total governmental activities depreciation expense	<u>\$ 1,003,329</u>
Business type activities:	
Food service operations	<u>\$ 44,851</u>

**Note 6. Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<b>Governmental Activities:</b>					
Revenue bonds	\$ 8,775,000	9,955,000	3,130,000	15,600,000	870,000
Computer lease	910,010	-	309,228	600,782	297,123
Termination benefits	1,295,518	440,304	599,353	1,136,469	656,520
Net pension liability	6,256,677	1,066,128	-	7,322,805	-
Net OPEB liability	781,668	71,014	-	852,682	-
<b>Total</b>	<b>\$ 18,018,873</b>	<b>11,532,446</b>	<b>4,038,581</b>	<b>25,512,738</b>	<b>1,823,643</b>
<b>Business Type Activities:</b>					
Net pension liability	\$ 187,527	29,809	-	217,336	-
Net OPEB liability	22,104	2,008	-	24,112	-
<b>Total</b>	<b>\$ 209,631</b>	<b>31,817</b>	<b>-</b>	<b>241,448</b>	<b>-</b>

**Revenue Bonds Payable**

Details of the District's June 30, 2016 statewide sales, services and use tax revenue bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of June 1, 2012			Bond Issue of January 26, 2016		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2017	1.00 %	\$ 355,000	132,862	2.68 %	\$ 515,000	180,889
2018	1.20	360,000	128,928	2.68	415,000	182,441
2019	1.45	365,000	124,121	2.68	425,000	171,185
2020	1.75	370,000	118,238	2.68	440,000	159,594
2021	2.00	375,000	111,250	2.68	450,000	147,668
2022-2026	2.15-2.90	2,005,000	421,161	2.68	2,420,000	549,802
2027-2030	3.00-3.25	1,815,000	118,048	2.68	2,865,000	192,625
<b>Total</b>		<b>\$ 5,645,000</b>	<b>1,154,608</b>		<b>\$ 7,530,000</b>	<b>1,584,204</b>
Year Ending June 30,	Refunding Bond issue of May 18, 2016			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
2017	2.48 %	\$ -	37,253	870,000	351,004	1,221,004
2018	2.48	155,000	58,218	930,000	369,587	1,299,587
2019	2.48	165,000	54,250	955,000	349,556	1,304,556
2020	2.48	165,000	50,158	975,000	327,990	1,302,990
2021	2.48	170,000	46,004	995,000	304,922	1,299,922
2022-2026	2.48	930,000	162,812	5,355,000	1,133,775	6,488,775
2027-2030	2.48	840,000	42,160	5,520,000	352,833	5,872,833
<b>Total</b>		<b>\$ 2,425,000</b>	<b>450,855</b>	<b>15,600,000</b>	<b>3,189,667</b>	<b>18,789,667</b>

The District has pledged future statewide sales, services and use tax revenue to repay the \$6,550,000, \$7,530,000 and \$2,425,000 bonds issued in and June 1, 2012, January 26, 2016 and May 18, 2016 respectively. The bonds were issued for the purpose of defraying a portion of the cost of school infrastructure and refunding outstanding bonds issues for said purpose. 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 71% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$18,789,667. For the current year, principal and interest paid on the bonds was \$739,638 and statewide sales, services and use tax revenue were \$1,724,920.

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

- a) \$493,188 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 June 15, 2015, 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 June 15, 2015			
	Interest Rates	Principal	Interest	Total
2017	2.20 %	\$ 297,123	13,217	310,340
2018	2.20	303,659	6,681	310,340
Total		\$ 600,782	19,898	620,680

**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.

The District offered eligible employees the first plan during the year ended June 30, 2016.

At June 30, 2016, the District has outstanding obligations to 43 participants under the offerings listed above with a total liability of \$1,136,469. Early retirement benefits paid during the year ended June 30, 2016, totaled \$599,353. A liability has been recorded in the government-wide financial statements representing the District’s commitment to fund non-current early retirement.

## **Note 7. Bond Defeasement**

On May 18, 2016, the District issued \$2,425,000 in revenue bonds with interest rates of 2.48 percent, released \$256,025 of the Series 2011 revenue bond reserve and \$201,456 from the 2011 Sinking Fund to advance refund \$2,630,000 of outstanding Series 2011 revenue bonds with interest rates from 2.50 to 4.50 percent.

The proceeds of the refunding issuance along with the released debt reserve and sinking fund monies have been placed in an irrevocable escrow account and have been invested in U.S. Government obligations which have been certified to be sufficient to pay all interest and principal of the June 2, 2011 Series revenue bonds from July 1, 2016 through July 1, 2018 when the bonds become callable.

The District is contingently liable in the remote possibility the escrow account is insufficient to pay the refunding bonds. After the principal and interest on all of the outstanding bonds are paid, any remaining funds in the escrow account, together with any interest thereon, will be returned to the District. The new refunding bonds have been added to the appropriate financial statements and schedules. At June 30, 2016 \$2,630,000 of such bonds is outstanding. Defeasement of principal and interest for the year was \$0 and \$0 respectively. The economic savings for the refunding was \$73,473.

## **Note 8. Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent.

The District's contributions to IPERS for the year ended June 30, 2016 were \$942,140.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the District reported a liability of \$7,540,141 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the District's collective proportion was 0.1526195 percent, which was a decrease of 0.009871 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$612,402. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 113,922	\$ -
Changes of assumptions	207,599	-
Net difference between projected and actual earnings on IPERS' investments	-	627,537
Changes in proportion and differences between District contributions and the District's proportionate share of contributions	174,567	326,723
District contributions subsequent to the measurement date	942,140	-
<b>Total</b>	<b>\$ 1,438,228</b>	<b>\$ 954,260</b>

\$942,140 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ (233,045)
2018	(233,045)
2019	(233,045)
2020	257,072
2021	(16,109)
	<u>\$ (458,172)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS's investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS's investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 13,201,430	7,540,141	2,761,607

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to IPERS - At June 30, 2016, the District reported payables IPERS of \$121,445 for legally required employer contributions and \$80,918 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**Note 9. 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 208 active and 24 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 Wellmark. 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, 2016, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 229,584
Interest on net OPEB obligation	20,094
Adjustment to annual required contribution	(92,226)
Annual OPEB cost (expense)	<u>157,452</u>
Contributions made	(84,430)
Increase in net OPEB obligation	<u>73,022</u>
Net OPEB obligation - beginning of year	<u>803,772</u>
Net OPEB obligation - end of year	<u><u>\$ 876,794</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, 2016.

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, 2016 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 159,844	41.5 %	\$ 799,413
2015	130,623	96.7	803,772
2016	157,452	53.6	876,794

Funded Status and Funding Progress – As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was approximately \$1.230 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$1.230 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$9.873 million, and the ratio of the UAAL to the covered payroll was 12.5%. As of June 30, 2016, 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 for the Retiree Health Plan presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents 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, 2014 actuarial valuation date, the frozen entry age 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.

Projected claim costs of the medical plan are \$714 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 10. Deficit Balance**

For the year ended June 30, 2016 the governmental activities had a deficit unrestricted net position of \$7,102,887. This deficit is primarily due to the GASB 68 net pension and related deferred inflows/outflow reporting requirements.

**Note 11. 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 \$138,206 at June 30, 2016.

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 12. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$727,867 for the year ended June 30, 2016 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 13. Categorical Funding**

The District’s restricted fund balance for categorical funding at June 30, 2016 is comprised of the following programs:

Program	Amount
Gifted and talented programs	\$ 123,316
Teacher salary supplement	30,809
Four-year-old preschool state aid	349,055
Successful progression for early readers	7,057
Professional development	12,765
Total	<u>\$ 523,002</u>

**Note 14. Construction Commitment**

The District has entered into various contracts totaling \$6,156,893 for an addition at the West Elementary. As of June 30, 2016, costs of \$3,821,583 had been incurred against the contracts. The balance remaining at June 30, 2016 will be paid as work on the project progresses.

**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:

	Net Investment in Capital Assets	School Infrastructure	Management Levy Purposes	Debt Service	Unassigned/ Restricted
Fund Balance (Exhibit C)	\$ -	4,688,329	209,335	1,521,967	1,405,508
Capital assets, net of accumulated depreciation	25,972,374	-	-	-	-
Revenue bond proceeds expended for capital assets	(11,808,769)	-	-	-	-
Unexpended revenue bond proceeds	-	(3,791,231)	-	-	-
Computer lease	-	-	-	-	(600,782)
Income surtax	-	-	-	-	510,848
Accrued interest payable	-	-	-	(175,300)	-
Termination benefits payable	-	-	(209,335)	-	(927,134)
Internal service	-	-	-	-	210,830
Pension related deferred outflows	-	-	-	-	1,396,965
Net pension liability	-	-	-	-	(7,322,805)
Pension related deferred inflows	-	-	-	-	(923,635)
Net OPEB liability	-	-	-	-	(852,682)
Net position (Exhibit A)	\$ 14,163,605	897,098	-	1,346,667	(7,102,887)

REQUIRED SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
<b>Revenues:</b>						
Local sources	\$ 8,056,993	306,049	8,363,042	8,204,263	8,204,263	158,779
State sources	13,880,960	6,093	13,887,053	13,991,741	13,991,741	(104,688)
Federal sources	542,424	441,977	984,401	1,055,000	1,055,000	(70,599)
Total revenues	<u>22,480,377</u>	<u>754,119</u>	<u>23,234,496</u>	<u>23,251,004</u>	<u>23,251,004</u>	<u>(16,508)</u>
<b>Expenditures/Expenses:</b>						
Instruction	13,708,071	468	13,708,539	14,435,000	14,435,000	726,461
Support services	5,671,195	4,578	5,675,773	6,862,500	7,027,500	1,351,727
Non-instructional programs	-	870,442	870,442	1,240,000	1,240,000	369,558
Other expenditures	5,944,434	-	5,944,434	4,527,483	7,527,483	1,583,049
Total expenditures/expenses	<u>25,323,700</u>	<u>875,488</u>	<u>26,199,188</u>	<u>27,064,983</u>	<u>30,229,983</u>	<u>4,030,795</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	(2,843,323)	(121,369)	(2,964,692)	(3,813,979)	(6,978,979)	4,014,287
Other financing sources, net	7,144,883	-	7,144,883	-	-	(7,144,883)
Excess(Deficiency) of revenues over(under) expenditures/expenses and other financing sources	4,301,560	(121,369)	4,180,191	(3,813,979)	(6,978,979)	(11,159,170)
Balances beginning of year	4,424,953	346,684	4,771,637	3,982,512	3,982,512	789,125
Balances end of year	<u>\$ 8,726,513</u>	<u>225,315</u>	<u>8,951,828</u>	<u>168,533</u>	<u>(2,996,467)</u>	<u>11,948,295</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2016

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$3,165,000.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
 LAST TWO YEARS\*  
 (IN THOUSANDS)  
 REQUIRED SUPPLEMENTARY INFORMATION

	2016	2015
District's proportion of the net pension liability	0.152620%	0.162490%
District's proportionate share of the net pension liability	\$ 7,540	6,444
District's covered-employee payroll	\$ 10,456	10,627
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.64%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM  
LAST TEN FISCAL YEARS  
(IN THOUSANDS)  
REQUIRED SUPPLEMENTARY INFORMATION

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 942	934	949	863	807	719	706	683	620	550
Contributions in relation to the statutorily required contribution	\$ (942)	(934)	(949)	(863)	(807)	(719)	(706)	(683)	(620)	(550)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 10,551	10,456	10,627	9,954	10,000	10,345	10,158	10,756	10,248	9,565
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY  
YEAR ENDED JUNE 30, 2016

*Changes of benefit terms:*

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

*Changes of assumptions:*

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

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)				
2009	July 1, 2008	-	1,385	1,385	0.0	9,011	15.4	%
2010	July 1, 2008	-	1,385	1,385	0.0	9,854	14.1	
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	
2015	July 1, 2014	-	782	782	0.0	9,695	8.1	
2016	July 1, 2014	-	1,230	1,230	0.0	9,873	12.5	

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2016

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 197,296	232,651	429,947
Receivables:			
Property tax:			
Delinquent	10,315	-	10,315
Succeeding year	799,999	-	799,999
Accounts	4,522	4,814	9,336
<b>TOTAL ASSETS</b>	<b>\$ 1,012,132</b>	<b>237,465</b>	<b>1,249,597</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 2,798	22,798	25,596
Salaries and benefits payable	-	2,347	2,347
Total liabilities	2,798	25,145	27,943
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	799,999	-	799,999
Fund balances:			
Restricted for:			
Management levy purposes	209,335	-	209,335
Student activities	-	212,320	212,320
Total fund balances	209,335	212,320	421,655
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 1,012,132</b>	<b>237,465</b>	<b>1,249,597</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2016

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 855,685	-	855,685
Other	98,535	581,633	680,168
State sources	19,997	-	19,997
Total revenues	<u>974,217</u>	<u>581,633</u>	<u>1,555,850</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	665,185	-	665,185
Other	-	578,972	578,972
Support services:			
Administration	-	801	801
Operation and maintenance of plant	252,815	-	252,815
Transportation	17,055	-	17,055
Total expenditures	<u>935,055</u>	<u>579,773</u>	<u>1,514,828</u>
Excess of revenues over expenditures	39,162	1,860	41,022
Other financing uses:			
Transfer out	(1,500)	-	(1,500)
Change in fund balances	37,662	1,860	39,522
Fund balances beginning of year	<u>171,673</u>	<u>210,460</u>	<u>382,133</u>
Fund balances end of year	<u>\$ 209,335</u>	<u>212,320</u>	<u>421,655</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS FUND ACCOUNTS  
 JUNE 30, 2016

	Capital Projects		
	Statewide Sales, Services & Use Tax	Physical Plant and Equipment Levy	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 5,338,515	161,488	5,500,003
Receivables:			
Delinquent	-	4,564	4,564
Succeeding year	-	411,243	411,243
Due from other governments	283,247	-	283,247
<b>TOTAL ASSETS</b>	<b>\$ 5,621,762</b>	<b>577,295</b>	<b>6,199,057</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 933,433	-	933,433
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	411,243	411,243
Fund balances:			
Restricted for:			
School infrastructure	4,688,329	-	4,688,329
Physical plant and equipment	-	166,052	166,052
Total fund balances	4,688,329	166,052	4,854,381
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 5,621,762</b>	<b>577,295</b>	<b>6,199,057</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS FUND ACCOUNTS  
 YEAR ENDED JUNE 30, 2016

	Capital Projects		
	Statewide Sales, Services & Use Tax	Physical Plant and Equipment Levy	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ -	392,137	392,137
Other	36,014	115,876	151,890
State sources	1,724,920	9,719	1,734,639
Total revenues	<u>1,760,934</u>	<u>517,732</u>	<u>2,278,666</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	19,769	-	19,769
Support services:			
Adminstration	116,031	317	116,348
Transportation	81,330	162,522	243,852
Capital outlay	3,751,565	370,197	4,121,762
Total expenditures	<u>3,968,695</u>	<u>533,036</u>	<u>4,501,731</u>
Deficiency of revenues under expenditures	(2,207,761)	(15,304)	(2,223,065)
Other financing sources(uses):			
Revenue bond issuance	7,530,000	-	7,530,000
Insurance proceeds	-	23,945	23,945
Transfer out	(1,653,871)	-	(1,653,871)
Total other financing sources(uses)	<u>5,876,129</u>	<u>23,945</u>	<u>5,900,074</u>
Change in fund balances	3,668,368	8,641	3,677,009
Fund balances beginning of year	<u>1,019,961</u>	<u>157,411</u>	<u>1,177,372</u>
Fund balances end of year	<u>\$ 4,688,329</u>	<u>166,052</u>	<u>4,854,381</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, 2016

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
<u>Academic Clubs:</u>					
HS Band	\$ 5,137	21,386	9,181	-	17,342
HS Camera Club	8,954	3,637	4,419	-	8,172
HS Drama Club	3,471	10,402	10,203	-	3,670
HS Science Club	1,649	11,311	6,219	-	6,741
HS Vocal	3,656	739	3,831	-	564
Knoxville Art Club	76	3,928	4,004	-	-
	<u>22,943</u>	<u>51,403</u>	<u>37,857</u>	<u>-</u>	<u>36,489</u>
<u>Athletic Support:</u>					
Baseball Club	10,000	21,492	25,817	(725)	4,950
General Athletics	10,000	25,280	26,024	1,012	10,268
Drill Team	3,805	-	3,805	-	-
Girls Softball Club	10,000	8,906	20,234	4,224	2,896
Panther Basketball	8,011	16,150	15,665	-	8,496
Panther Football Club	-	23,303	12,749	-	10,554
Panther Soccer	1,255	5,851	3,970	-	3,136
Pantherette Girls	5,414	81,744	83,117	-	4,041
Panther Girls Track Club	186	3,765	2,473	-	1,478
Pantherette Soccer	450	895	988	-	357
Wrestling Club	989	-	-	-	989
Volleyball Club	10,000	6,045	5,255	-	10,790
Bowling Club	7,285	1,038	1,659	-	6,664
Girls Golf Club	297	925	1,000	-	222
Boys Golf Club	1,086	1,210	1,157	-	1,139
Boys Track Club	58	1,230	1,130	-	158
Tennis Club	367	1,319	1,361	-	325
Girls Cross Country	6,954	3,090	5,076	-	4,968
	<u>76,157</u>	<u>202,243</u>	<u>211,480</u>	<u>4,511</u>	<u>71,431</u>
<u>Boys Athletics:</u>					
Baseball	-	8,565	10,998	2,433	-
Boys Basketball	-	9,967	6,742	(3,225)	-
Boys Cross Country	-	975	1,627	652	-
Boys Golf	-	390	1,034	644	-
Boys Soccer	-	3,086	5,580	2,494	-
Boys Tennis	261	1,669	2,467	615	78
Boys Track	-	10,140	11,311	1,171	-
Football	-	27,545	21,715	(5,830)	-
Wrestling	-	4,340	5,553	1,213	-
	<u>261</u>	<u>66,677</u>	<u>67,027</u>	<u>167</u>	<u>78</u>
<u>Classes:</u>					
Junior Class	6,005	11,647	9,489	-	8,163
Senior Class	2,077	250	2,065	-	262
	<u>8,082</u>	<u>11,897</u>	<u>11,554</u>	<u>-</u>	<u>8,425</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## Schedule 5

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
<u>General Athletics:</u>					
Cheerleading	-	19,121	17,990	-	1,131
Drill Team	(9,870)	26,166	18,961	6,065	3,400
	(9,870)	45,287	36,951	6,065	4,531
<u>Girls Athletics:</u>					
Girls Basketball	-	8,602	7,798	(804)	-
Girls Cross Country	-	780	1,625	845	-
Girls Golf	-	505	708	203	-
Girls Soccer	-	3,968	3,566	(402)	-
Girls Tennis	-	260	1,392	1,132	-
Girls Track	-	3,120	4,098	978	-
Softball	-	5,378	7,178	1,800	-
Volleyball	-	6,392	8,348	1,956	-
Bowling	-	396	224	(172)	-
	-	29,401	34,937	5,536	-
<u>Northstar Elementary Activities:</u>					
Northstar Activity	11,250	17,626	15,652	-	13,224
<u>Other Activities:</u>					
Activity Interest	-	9	801	792	-
Middle School Activity	10,000	90,279	89,202	725	11,802
High School Activity	10,000	21,851	22,814	(3,231)	5,806
Collins Fund	38,368	-	5,700	(14,888)	17,780
K-Fund Yearbook	-	5,620	7,266	3,500	1,854
National Honor Society	1,427	471	861	-	1,037
Panther Club Scholarship	12,278	18	-	(12,296)	-
Student Senate	-	10,989	7,388	4,000	7,601
Student Senate Scholarship	1,936	3	-	-	1,939
Team Nutrition Club	3,980	1,850	1,408	-	4,422
	77,989	131,090	135,440	(21,398)	52,241
<u>Vocational Clubs:</u>					
FCCLA Account	2,398	639	57	-	2,980
FFA Account	10,000	15,988	17,894	5,119	13,213
	12,398	16,627	17,951	5,119	16,193
<u>West Elementary Activities:</u>					
West Activity	11,250	9,382	10,924	-	9,708
Total	\$ 210,460	581,633	579,773	-	212,320

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST SCHOLARSHIP ACCOUNTS  
 JUNE 30, 2016

	Private Purpose Trust - Scholarship Accounts				
	Tunnie Memorial	Cox Scholarship	Norton Scholarship	Auditorium Project	Total
ASSETS:					
Cash and pooled investments	\$ 584	3,608	65	5,423	9,680
LIABILITIES	-	-	-	-	-
NET POSITION:					
Held in trust for scholarships	\$ 584	3,608	65	5,423	9,680

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST SCHOLARSHIP ACCOUNTS  
 YEAR ENDED JUNE 30, 2016

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2016

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b><u>KCSD EMPLOYEE FLEX SPENDING</u></b>				
<b>ASSETS</b>				
Cash and pooled investments	\$ 1,653	44,795	45,046	1,402
<b>LIABILITIES</b>				
Due to other groups	\$ 1,653	44,795	45,046	1,402

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET POSITION  
JUNE 30, 2016

	Governmental Activities:		
	Internal Service Funds		
	Health Insurance	Self-funded Dental Insurance	Total
<b>ASSETS:</b>			
Cash and pooled investments	\$ -	138,206	138,206
Accounts receivable	704	-	704
Prepaid expenses	186,178	-	186,178
<b>TOTAL ASSETS</b>	<b>186,882</b>	<b>138,206</b>	<b>325,088</b>
<b>LIABILITIES:</b>			
Due to other funds	114,258	-	114,258
<b>NET POSITION</b>			
Unrestricted	\$ 72,624	138,206	210,830

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2016

	Governmental Activities:		
	Internal Service Funds		
	Health Insurance	Self-funded Dental Insurance	Total
OPERATING REVENUES:			
Local sources:			
Miscellaneous	\$ 2,407,874	176,115	2,583,989
OPERATING EXPENSES:			
Support services:			
Administration:			
Benefits	2,478,183	143,342	2,621,525
Change in net position	(70,309)	32,773	(37,536)
Fund balances beginning of year	142,933	105,433	248,366
Fund balances end of year	\$ 72,624	138,206	210,830

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2016

	Governmental Activities: Internal Service Funds		
	Health Insurance	Self-funded Dental Insurance	Total
Cash flows from operating activities:			
Cash received from miscellaneous	\$ 2,407,170	176,115	2,583,285
Cash payments to suppliers for goods or services	(2,468,332)	(143,342)	(2,611,674)
Net cash provided by(used in) operating activities	(61,162)	32,773	(28,389)
Cash flows from non-capital financing activities:			
Interfund loan borrowings	61,162	-	61,162
Net increase in cash and pooled investments	-	32,773	32,773
Cash and pooled investments at beginning of year	-	105,433	105,433
Cash and pooled investments at end of year	\$ -	138,206	138,206
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ (70,309)	32,773	(37,536)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Decrease in prepaid expenses	9,851	-	9,851
Increase in accounts receivable	(704)	-	(704)
Net cash provided by(used in) operating activities	\$ (61,162)	32,773	(28,389)

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,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues:										
Local sources:										
Local tax	\$ 6,546,147	6,233,495	6,012,456	7,839,881	8,003,647	7,437,632	6,974,671	7,070,071	6,370,480	6,373,520
Tuition	398,876	387,580	463,945	471,837	425,964	401,044	412,384	411,511	352,774	444,933
Other	1,111,970	889,249	928,765	917,502	838,720	1,127,701	817,801	1,105,747	817,629	951,118
Intermediate sources	-	-	-	-	-	-	-	-	22,141	-
State sources	13,880,960	13,459,768	13,320,846	11,805,939	11,595,516	11,277,768	9,422,841	10,973,173	10,996,970	10,383,090
Federal sources	542,424	520,024	555,610	539,245	865,647	942,998	1,563,222	700,204	499,102	483,871
<b>Total</b>	<b>\$ 22,480,377</b>	<b>21,490,116</b>	<b>21,281,622</b>	<b>21,574,404</b>	<b>21,729,494</b>	<b>21,187,143</b>	<b>19,190,919</b>	<b>20,260,706</b>	<b>19,059,096</b>	<b>18,636,532</b>
Expenditures:										
Instruction:										
Regular	\$ 8,271,561	8,851,692	8,013,542	7,625,345	7,569,159	7,570,307	7,723,702	7,783,173	7,274,840	6,805,524
Special	2,601,995	2,584,678	2,630,761	2,534,657	2,331,981	2,160,310	2,163,846	2,303,370	2,282,564	2,192,323
Other	2,834,515	2,996,976	2,649,923	2,572,059	2,622,649	2,473,256	2,416,091	2,331,357	2,280,792	2,223,187
Support services:										
Student	376,523	415,557	421,716	316,029	323,044	316,474	358,266	434,005	433,321	429,610
Instructional staff	400,907	607,582	345,592	357,123	327,500	1,647,901	319,171	394,561	415,359	396,764
Administration	2,306,678	2,127,248	2,035,600	1,928,285	1,886,323	2,256,071	1,934,984	2,050,703	2,130,779	1,928,616
Operation and maintenance of plant	1,758,005	1,816,579	1,876,391	1,748,813	1,635,693	1,610,774	1,655,546	1,738,269	1,581,508	1,551,750
Transportation	829,082	705,681	789,194	748,179	757,547	581,519	609,703	676,125	644,203	612,541
Capital outlay	4,121,762	834,874	1,424,851	6,053,814	1,668,885	1,075,786	548,370	617,586	764,091	2,086,702
Long-term debt:										
Principal	809,228	687,592	722,131	1,151,930	3,817,002	1,365,000	1,295,000	1,250,000	1,200,000	625,000
Interest and fiscal charges	285,577	248,148	268,525	231,505	169,736	138,822	246,516	305,731	351,292	429,800
Other expenditures:										
AEA flow-through	727,867	711,880	704,814	686,596	687,382	760,660	734,903	686,326	663,042	632,385
<b>Total</b>	<b>\$ 25,323,700</b>	<b>22,588,487</b>	<b>21,883,040</b>	<b>25,954,335</b>	<b>23,796,901</b>	<b>21,956,880</b>	<b>20,006,098</b>	<b>20,571,406</b>	<b>20,021,791</b>	<b>19,914,202</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2016

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 16	\$ 63,035
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 16	378,474 *
			<u>441,509</u>
TEAM NUTRITION GRANT	10.574	FY 16	<u>468</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 16	<u>309,578</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 16	<u>18,772</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 16	<u>61,622</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 16	<u>6,912</u>
HEARTLAND AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES	84.027	FY 16	<u>85,433</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
IOWA DEPARTMENT OF EDUCATION:			
COOPERATIVE AGREEMENTS TO SUPPORT COMPREHENSIVE SCHOOL HEALTH PROGRAMS TO PREVENT THE SPREAD OF HIV AND OTHER IMPORTANT HEALTH PROBLEMS	93.938	FY 16	<u>397</u>
TOTAL			<u>\$ 924,691</u>

\* - Includes \$62,840 of non-cash awards

**Basis of Presentation** – The accompanying Schedule of Expenditures of Federal Awards(Schedule) includes the federal award activity of Knoxville Community School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Knoxville Community School District, it is not intended to and does not present the financial position, changes in financial position or cash flows of Knoxville Community School District.

**Summary of Significant Accounting Policies** – Expenditures reported in the Schedule are reported on the accrual or modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Knoxville Community School District did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
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**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 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, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 13, 2017.

**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 a deficiency in internal control we consider to be a significant deficiency.

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 deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-16 to be a significant deficiency.

## **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, 2016 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.

January 13, 2017  
Newton, Iowa

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**Independent Auditor's Report on Compliance for Each Major Federal Program  
and on Internal Control over Compliance Required by the Uniform Guidance**

**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) Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

## 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 the Uniform Guidance, 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 the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



NOLTE, CORNMAN & JOHNSON, P.C.

January 13, 2017  
Newton, Iowa

KNOXVILLE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016

Part I: Summary of the Independent Auditor's Report

- (a) Unmodified opinions were issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (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 the Uniform Guidance, Section 200.515.
- (g) Major program was as follows:
  - CFDA Number 84.010 – Title I Grants to local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (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, 2016

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-16 Booster Club Accounts - We noted during our audit that the Booster Club uses the District's Federal Identification Number for its bank accounts. Because these accounts are using the District's Federal Identification Number, the District should be accounting for the Booster Club within the District's Student Activity Fund and the District Uniform financial Accounting System. These accounts and related transactions should be included in the District's financial statements and subjected to the same Code of Iowa requirements as well as internal controls that the District follows.

Recommendation - The District should contact officials of the club and request the accounts to be turned over to the District. The club may establish a 501(c)(3) organization with a federal identification number separate from that of the District, however the current accounts are District assets and should be turned over to the District for proper recording.

In addition, the Board of Directors should consider contacting local banks and request listings of accounts utilizing the District's Federal Identification Number. The District should research any unfamiliar accounts and take the appropriate action.

Response - The Administration met with the Booster Club which is in the process of acquiring their own tax ID number and establishing their own 501C3 organization.

Conclusion - Response accepted.

OTHER MATTERS:

II-B-16 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 to discourage deficit accounts from becoming excessive. The District should try various collection techniques to collect the balances.

Response - The District has established a policy to prevent students from becoming excessively deficit on their account balances

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-16 Certified Budget - Expenditures for the year ended June 30, 2016 did not exceed the amounts budgeted.

IV-B-16 Questionable Disbursements - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-16 Travel Expense - We noted during our audit that the District paid for a coach's spouse to attend a coach of the year banquet and honors luncheon.

Recommendation - The District should review its procedures to ensure travel expenses are limited to direct and necessary costs to the District and its employees. Any costs which may be personal or optional should be paid by the employee on their own instead of by the District.

Response - The District has communicated to all coaches District policies on meal reimbursements and expenses.

Conclusion - Response accepted.

IV-D-16 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-E-16 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-16 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-16 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Iowa Department of Education. The number of resident students was understated by 0.5 for the fall 2015 count.

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

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

Conclusion - Response accepted.

IV-H-16 Supplementary Weighting - We noted the supplementary weighting data certified to the Iowa Department of Education was understated by 0.043 for the fall 2015 count.

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

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

Conclusion - Response accepted.

IV-I-16 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-16 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-16 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-16 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, 2016, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 1,019,961
Revenues:		
Sales tax revenues	\$ 1,724,920	
Other local revenues	36,014	
Sale of long-term debt	7,530,000	9,290,934
		<u>10,310,895</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 3,178,918	
Equipment	113,895	
Other	675,882	
Transfers to other funds:		
Debt service fund	1,653,871	5,622,566
		<u>5,622,566</u>
Ending balance		<u>\$ 4,688,329</u>

For the year ended June 30, 2016, 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-16 Financial Condition - The District has a deficit unrestricted net position of \$7,102,887 in the governmental activities at year end. The primary reason for the deficit net position is due to the impact of GASB Statements No. 68 and No. 71 reporting requirements and corresponding adjustments made during the year.

Recommendation - The District should take steps to ensure the District's administration and Board of Education continue to understand how GASB Statements No. 68 and 71 will affect the District's financials moving forward.

Response - The District will ensure that the Board of Education and Administration

understand the effects of GASB Statements No. 68 and No. 71 going forward.

Conclusion - Response accepted.

IV-N-16 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 Student Activity Fund maintains a Team Nutrition account which appears to be administratively maintained. This account does not appear to be cocurricular or extracurricular in nature.

Recommendation - The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. The Team Nutrition account appears to be more administratively maintained in nature, rather than maintained by a club or organization. This account does not appear to be a student run organization accounts and should be closed and transferred to the General Fund.

Response - The District will review accounts in the Student Activity Fund and determine the appropriate way to account for revenues and expenditures.

Conclusion - Response accepted.

**Instructional Items:** It was noted during our audit that revenues and expenses for Scholastic Book Fairs which were used to earn the District "Scholastic Dollars" were recorded in the Student Activity fund. Scholastic dollars were used to purchase books for the school library, which would be considered an instructional purchase and would thus be more appropriate to the General Fund.

Recommendation - The District should review its coding procedures to ensure that revenues and expenses are coded appropriately during the year. Scholastic book fair revenues and expenses for the purchase of library or instructional items should be recorded in the General Fund.

Response - The District will review expenditures to ensure they are coded to an appropriate fund.

Conclusion - Response accepted.